

DEPARTMENT OF LABOR: Wage and Hour Division's Complaint Intake and Investigative Processes Leave Low Wage Workers Vulnerable to Wage Theft

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss findings related to our investigation of the Department of Labor's (Labor) Wage and Hour Division (WHD) processes for investigating and resolving wage theft complaints. In a hearing held in July 2008 before this committee, we testified that WHD had inadequately responded to complaints from low-wage workers who alleged that employers failed to pay the federal minimum wage and required overtime<sup>[1]</sup>. Specifically, we found cases where WHD inappropriately rejected complaints based on incorrect information provided by employers, failed to make adequate attempts to locate employers, did not thoroughly investigate and resolve complaints, and delayed the initiation of investigations. We also reported that WHD's investigation database contained thousands of cases with characteristics similar to cases identified in our testimony. At the request of this committee, subsequent to the hearing, we performed additional audit and investigative work to determine the magnitude of these issues. This testimony reflects findings from the work we have performed since July 2008. We plan to issue a report containing recommendations to Labor to improve their complaint intake and investigation processes.

---

<sup>[1]</sup> GAO, Department of Labor: Case Studies from Ongoing Work Show Examples in Which Wage and Hour Division Did Not Adequately Pursue Labor Violations, GAO-08-973T, (Washington, D.C.: July 15, 2008)

As we previously reported, over 100 million workers are covered under labor laws enforced by WHD, including the Fair Labor Standards Act (FLSA), the Migrant and Seasonal Agricultural Worker Protection Act (MSPA), the Family and Medical Leave Act (FMLA), the Davis Bacon and Related Acts (DBRA), and other federal labor laws. By law, WHD investigators and technicians<sup>[2]</sup> enforce labor laws governing issues such as minimum wage, overtime pay, child labor, and family medical leave. WHD uses a number of strategies, including investigations and partnerships with external groups – such as states, foreign consulates, and employee and employer associations. However, conducting investigations based on complaints is WHD’s first priority.

WHD investigators can take actions ranging from making phone calls to the complainant’s employer (known as conciliations) to taking other, more resource-intensive actions such as interviewing the employer and related witnesses, reviewing employer payroll records, and requesting copies of self audits<sup>[3]</sup> conducted by the employer. In this report, we refer to these more in-depth investigations collectively as “non-conciliations.” Conciliations are generally limited to a single, minor violation, such as a missed paycheck, or an issue affecting a single worker. A conciliation is used to resolve a complaint quickly and with minimal resources on the part of WHD. Investigative work for conciliations is generally limited to a telephone conversation in which the WHD investigator explains the specific complaint against the employer, describes applicable

---

<sup>[2]</sup> In general, technicians focus primarily on conciliations but may also work on self audits and limited investigations in some offices. Investigators work on non-conciliations, including full and limited investigations and self audits, but may also work on conciliations in some offices. Unlike law enforcement officers, WHD investigators do not have arrest authority. In this report, we use the term investigator to refer to both investigators and technicians.

<sup>[3]</sup> Self audits allow the employers under investigation to conduct their own review of records and calculate the back wages due to employees with the assistance of WHD personnel.

laws, and requests that the employer comply with the law and pay any back wages due. WHD staff generally do not visit the employer's establishment or verify statements made during the telephone call unless they have reason to believe that the employer is committing widespread violations of labor law. When WHD determines that violations have occurred and computes back wages owed to workers, it can assess back wages to be paid to employees and can impose civil money penalties against employers with repeated or willful violations. If an employer signs an agreement to pay back wages and/or civil money penalties but reneges on his commitment, WHD can refer the case to the Department of Treasury for debt collection or to Labor's Office of the Solicitor for litigation. If the employer has not agreed to pay, WHD can only refer the case to the Solicitor for litigation. According to the Solicitor's office, they consider various factors including the merits of the case, number of employees affected, difficulties of proof and whether the employer is in current compliance, when deciding whether to litigate a case.

Today's testimony summarizes the results of our forensic audit and investigative work reviewing investigations conducted by WHD. As requested, this testimony will highlight our findings related to (1) undercover testing of WHD's complaint intake and conciliation processes (2) additional case study examples of inadequate WHD responses to wage complaints and (3) the effectiveness of WHD's complaint intake process, conciliations and other investigative tools.

To test the effectiveness of WHD's complaint intake process and conciliations, undercover GAO investigators posed both as complainants and employers. Using 10

fictitious scenarios including minimum wage, last paycheck, and overtime violations, investigators called WHD offices in Alabama, California, Florida, Maryland, and Texas posing as complainants. These field offices handled 15 percent of all cases investigated by WHD in fiscal year 2007. When WHD investigators attempted to follow up on the complaints, different undercover investigators posed as the employers and followed a variety of scripted scenarios to test how WHD investigators would respond. Complaints and employer responses to the WHD investigations were based on actual situations we encountered in our work. For more information, see [<link to recorded clips video>](#).

To identify case studies of inadequate investigations conducted in response to actual employees' allegations of wage theft, we obtained Labor's Wage and Hour Investigative Support and Reporting Database (WHISARD) and data-mined for closed cases in which it took WHD more than one year to complete an investigation, an employer could not be located, or the case was dropped when an employer refused to pay. We analyzed WHD's WHISARD database and determined it was sufficiently reliable for purposes of our audit and investigative work. We also obtained and analyzed WHD case files, interviewed WHD officials, and reviewed publicly available data to gather additional information about these cases.

To determine the effectiveness of WHD's complaint intake process, conciliations and other investigative tools, we used the results of our undercover tests, case studies, interviews and walk-throughs of the processes with management, and two statistical samples. We selected a random statistical sample of 115 cases from 10,855 conciliations

and 115 cases from 21,468 non-conciliations recorded by WHD in WHISARD that were concluded between October 1, 2006 and September 30, 2007. We obtained and reviewed WHD's case files for the selected cases and performed tests to determine whether the investigations conducted were adequate. Inadequate cases were those in which WHD did not initiate an investigation within 6 months, did not complete investigative work within 1 year, did not contact the employer, did not correctly determine coverage under federal law, did not review employer records, did not assess back wages when violations were identified, or did not refer cases to Labor's Office of the Solicitor, when appropriate.

We subsequently determined through our interviews that the population of conciliations sampled was substantially incomplete. Therefore, we were only able to project sample results to conciliations that WHD chose to enter into their database rather than the entire population of conciliations.

We conducted our forensic audit and related investigations from July 2008 through March 2009. We conducted our audit work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted our investigative work in accordance with the standards prescribed by the President's Council on Integrity and Efficiency.

## Undercover Tests Reveal Inadequate Investigations and Poor Complaint Intake Process

The results of our undercover tests illustrate flaws in WHD’s responses to wage theft complaints, including delays in investigating complaints, complaints not recorded in the WHD database, failure to use all available enforcement tools due to a lack of resources, failure to follow up on employers who agreed to pay, and a poor complaint intake process. For example, WHD failed to investigate a child labor complaint alleging that underage children were operating hazardous machinery and working during school hours. In another case, a WHD investigator lied to our undercover investigator about confirming the fictitious businesses’ sales volume with the Internal Revenue Service (IRS), and did not investigate our complaint any further. WHD successfully investigated 1 of GAO’s 10 fictitious cases, correctly identifying and investigating a business that had multiple complaints filed against it by GAO’s fictitious complainants. Five of our 10 complaints were not recorded in WHD’s database and 2 of 10 were recorded as successfully paid when in fact the fictitious complainants reported to WHD they had not been paid. To hear selected audio clips of these undercover calls, go to <insert link>. Table 3 provides a summary of the 10 complaints that GAO filed or attempted to file with WHD.

Table 1: Results of Undercover Testing by GAO

	<b>Complainant</b>	<b>Location</b>	<b>Complaint</b>	<b>Result</b>
1	Dry Cleaners Clerk	Birmingham, AL	Employee did not receive last	Fictitious employer refused to pay and WHD did not record the failed conciliation in the

			paycheck.	<p>database.</p> <ul style="list-style-type: none"> <li>• WHD attempted to conciliate the case but never recorded the work done in the database.</li> <li>• WHD did not inform the employee of the result of the conciliation.</li> </ul>
2	Meat Packer	Modesto, CA	Underage children working during school hours on heavy machinery.	<p>WHD failed to investigate a complaint alleging that children were working too many hours under hazardous conditions.</p> <ul style="list-style-type: none"> <li>• WHD claims that child labor complaints are its top priority, but four months after GAO left an anonymous child labor complaint, WHD had not conducted any investigative work.</li> <li>• Complaint was never recorded in the database.</li> </ul>
3	Siding Installer	Montebello, CA	Two separate complaints filed by employees who did not receive their last paycheck.	<p>WHD successfully identified our fictitious employer with repeat violations and attempted to make a site visit to the fictitious employer when he failed to return phone calls.</p> <ul style="list-style-type: none"> <li>• WHD accepted two complaints about the same business. One investigator working on the first complaint took 5 weeks to contact the fictitious employer but another investigator working on the second complaint contacted the fictitious employer immediately.</li> <li>• When our fictitious employer refused to pay in both cases, WHD correctly determined that the problem affected multiple employees and opened an investigation.</li> <li>• Investigator made multiple attempts to contact the fictitious employer after he stopped returning phone calls, including making a site visit to the bogus address. The case was appropriately closed when the fictitious employer could not be located.</li> </ul>
4	Laundromat Clerk	Monterey Park, CA	Employee was a Spanish-speaking, illegal immigrant paid less than minimum wage for over a year.	<p>WHD delayed investigating the complaint and inaccurately recorded that the fictitious employee received back wages.</p> <ul style="list-style-type: none"> <li>• Two weeks after we first contacted WHD, a Spanish-speaking investigator called our fictitious employee.</li> <li>• 7 weeks after the complaint was faxed to WHD, an investigator contacted our fictitious employer, who agreed to pay.</li> <li>• The fictitious employee called WHD to report that she hadn't been paid, but the complaint was recorded as "agreed to pay" in WHD's database.</li> </ul>
5	Convenience Store Clerk	Miami, FL	Employee did not receive last paycheck.	<p>WHD did not return phone calls and failed to record our complaint in its database.</p> <ul style="list-style-type: none"> <li>• WHD failed to return 7 messages from our fictitious employee attempting to file a complaint.</li> </ul>

				<ul style="list-style-type: none"> <li>• In two cases during regular business hours, calls were routed to a voicemail message stating that the office was closed.</li> <li>• Complaint was never recorded in the database.</li> </ul>
6	Dishwasher	Miami, FL	Employee did not receive overtime for 4 hours per week for 19 weeks.	<p>The WHD office's large backlog prevented it from investigating our case in a timely manner.</p> <ul style="list-style-type: none"> <li>• Investigator told our fictitious employee that it would take "8 to 10 months" to begin investigating his complaint.</li> <li>• WHD failed to return 4 calls over four months from our fictitious employee attempting to determine the status of his complaint.</li> <li>• Complaint was never recorded in the database.</li> </ul>
7	Janitor	Frederick, MD	Employee was not paid minimum wage.	<p>WHD failed to record initial complaint and never returned calls from our fictitious employer.</p> <ul style="list-style-type: none"> <li>• WHD investigator accepted the complaint but did not attempt to contact our fictitious employer to initiate conciliation.</li> <li>• Between September 24, 2008 and January 12, 2009, WHD failed to return 5 calls from our fictitious employee attempting to determine the status of his complaint.</li> <li>• When the fictitious employee reached the same investigator, she had no record of his initial call and suggested the employee look for another job before filing a complaint against his employer.</li> <li>• Investigator finally accepted the complaint and left a message for the fictitious employer, but did not return his two subsequent calls.</li> <li>• Complaint was never recorded in the database.</li> </ul>
8	House Painter	Dallas, TX	Employee did not receive last paycheck.	<p>WHD inaccurately recorded that our fictitious employee received back wages.</p> <ul style="list-style-type: none"> <li>• Our fictitious employer told the WHD investigator he would pay, but failed to fax proof of payment to WHD as requested. WHD investigator never followed up to confirm payment and closed the case as "agreed to pay."</li> <li>• After 3 weeks, our fictitious employee called back and reported that he hadn't been paid. The WHD investigator contacted our fictitious employer and, when asked, stated "there is no penalty" for failure to pay.</li> <li>• After our fictitious employer refused to pay, WHD informed our fictitious complainant of his right to take private action.</li> <li>• Complaint was still recorded as "agreed to pay" in WHD's database despite WHD's knowledge that the fictitious employer had</li> </ul>



				failed to pay the back wages.
9	Lawn Mower	Dallas, TX	Employee was not paid minimum wage.	<p>Investigator lied to our fictitious employee about investigative work performed and did not investigate the complaint.</p> <ul style="list-style-type: none"> <li>Investigator told the fictitious employee that WHD had no jurisdiction because the gross revenues of the fictitious employer did not meet the minimum standard for coverage, even though the fictitious employee stated that his boss had told him the company's gross revenues were three times greater than the minimum standard.</li> <li>Investigator claimed that he had obtained information on the fictitious employer's revenue from an IRS database</li> <li>However, our fictitious employer had never filed taxes, WHD officials told us they do not have access to IRS databases, and the case file shows that no contact was made with IRS.</li> </ul>
10	Receptionist	Clifton, VA	Employee was not paid minimum wage.	<p>WHD readily accepted our fictitious employer's refusal to pay and stated that it could not assist the fictitious employee further.</p> <ul style="list-style-type: none"> <li>WHD investigator accepted this complaint and promptly called our fictitious employer.</li> <li>Our fictitious employer agreed that she had failed to pay the minimum wage but refused to pay back wages due.</li> <li>WHD investigator accepted the refusal without question and informed our fictitious employee of his right to file a lawsuit.</li> <li>When our fictitious employee asked why WHD could not offer more help, the WHD investigator said she was "bound by the laws I'm able to enforce, the money the Congress gives us" and told our fictitious employee to contact his Congressman to request more resources for WHD.</li> </ul>

Source: GAO

We identified numerous problems with WHD's response to our undercover wage theft complaints. Key areas where WHD failed to take appropriate action included delays in investigating complaints, complaints not recorded in the WHD database, failure to use available enforcement tools, failure to follow up on employers who agreed to pay, and a poor complaint intake process.

**Delays Investigating Complaints.** WHD took more than a month to begin investigating 5 of our fictitious complaints, including 3 that were never investigated. In one case, the fictitious complainant spoke to an investigator who said she would contact the employer. Over the next four months, the complainant left four messages asking about the status of his case. When he reached the investigator, she had taken no action on the complaint, did not recall speaking with him and had not entered the complaint in the WHD database.

**Complaints Not Recorded in Database.** Five of our complaints were never recorded in WHD's database. These complaints were filed with 4 different field offices and included 3 complaints in which WHD performed no investigative work and 2 complaints in which WHD failed to record the investigative work performed. For example, GAO left a message at one WHD office alleging that 15 and 16-year-old children were working at a meat packing plant during school hours and operating heavy machinery, such as meat grinders and circular saws. With respect to complaints, WHD policy states that those involving hazardous conditions and child labor are its top priority, but a review of WHD records at the end of our work showed that the case was not investigated or entered into WHD's database. In another case, an investigator spoke to the fictitious employer, who refused to pay the complainant the back wages due. The investigator closed the conciliation without entering the case information or outcome into WHD's database. This is consistent with the WHD Southeast regional policy of not recording unsuccessful conciliations. The effect of not recording unsuccessful conciliations is to make the conciliation success rate for the regional office appear better than it actually is.. The

number of complaints that are not entered into WHD's database is unknown, but this problem is potentially significant since 5 out of our 10 bogus complaints were not recorded in the database.

**Failure to Use All Enforcement Tools.** According to WHD staff, WHD lacks the resources to use all enforcement tools in conciliations where the employer refuses to pay. According to WHD policy, when an employer refuses to pay, the investigator may recommend to WHD management that the case be elevated to a full investigation. However, only one of our three fictitious employers who refused to pay was placed under investigation. In one case, our fictitious employer refused to pay and the investigator accepted this refusal without question, informing the complainant that he could file a private lawsuit to recover the \$262 due to him. When the complainant asked why WHD couldn't provide him more assistance, the investigator replied, "I've done what I can do, I've asked her to pay you and she can't...I can't wring blood from a stone," and then suggested the complainant contact his Congressman to ask for more resources for WHD to do their work. According to WHD policy and interviews with staff, WHD doesn't have the resources to conduct an investigation of every complaint and prefers to investigate complaints affecting large numbers of employees or resulting in large dollar amounts of back wages. One district director told us that conciliations result from "a mistake" on the part of the employer and he does not like his investigators spending time on them. However, when WHD cannot obtain back wages in a conciliation, the employee's only recourse is to file private litigation. Low wage workers may be unable

to afford attorney's fees or may be unwilling to argue their own case in small claims court, leaving them with no other options to obtain their back wages.

**Failure to Follow Up on Employers Who Agree to Pay.** In 2 of our cases, the fictitious employer agreed to pay the back wages due and WHD recorded the conciliation as successful, even when the complainant notified the investigator that he had not been paid. In both cases, the investigator told the employer he was required to submit proof of payment, but did not follow up when the employer failed to provide the required proof. The complainant in both cases later contacted the investigator to report he had not been paid. The investigator attempted to negotiate with the employer, but did not update the case entry in WHD's database to indicate that the complainant never received back wages, making it appear as though both cases were successfully resolved. These two cases cast doubt on whether complainants whose conciliations are marked "agreed to pay" in the WHD database actually received their back wages.

**Poor Complaint Intake Process.** We found that WHD's complaint intake process is time-consuming and confusing, potentially discouraging complainants from filing a complaint. Of the 115 phone calls we made to WHD field offices, 87 (76 percent) went directly to voicemail. While some offices have a policy of screening complainant calls using voicemail, other offices have only one staff member assigned to phone duty each day and cannot answer all the phone calls they receive. In one case, WHD failed to respond to 7 messages from our fictitious complainant, including 4 messages left in a single week. In other cases, WHD delayed over 2 weeks in responding to phone calls or

failed to return phone calls from our fictitious employers. At least two WHD offices have no voice mailbox for the office's main phone number, preventing complainants from leaving a message when the office is closed or investigators are unavailable to take calls. One of our complainants received conflicting information about how to file a complaint from two investigators in the same office, and one investigator provided misinformation about the statute of limitations in minimum wage cases. At one office, investigators told our fictitious employee that they only accept complaints in writing by mail or fax, a requirement that delays the start of a case and is potentially discouraging to complainants. In addition, an investigator lied about contacting IRS to determine the annual sales for our fictitious employer, and then told our complainant that his employer was not covered by the Fair Labor Standards Act (FLSA). FLSA applies to employees of enterprises that have at least \$500,000 in annual sales or business.<sup>[4]</sup> Our complainant in this case told the investigator that his employer had sales of \$1.5 million in 2007, but the investigator claimed that he had obtained information about the business from an IRS database showing that the fictitious business did not meet the gross revenue threshold for coverage under federal law. Our fictitious business had not filed tax returns and WHD officials told us that their investigators do not have access to IRS databases. A review of the case file also shows that no information from IRS was reviewed by the investigator.

---

<sup>[4]</sup> The protections of the Fair Labor Standards Act apply to employees engaged in interstate commerce or in the production of goods for interstate commerce. The act also applies to all employees of an enterprise that has at least \$500,000 in annual sales or business and has employees engaged in interstate commerce or in the production of goods for interstate commerce, or that has employees handling, selling, or otherwise working on goods or materials that have been moved in or produced for interstate commerce by any person. 29 U.S.C. § 203. Even though an enterprise may have separate locations, it is considered a single enterprise for the \$500,000 coverage determination if related activities are performed through unified operation or common control by any person or persons for a common business purpose.

WHD successfully investigated a business that had multiple complaints filed against it by GAO's fictitious complainants. WHD identified two separate conciliations ongoing against the same fictitious business, both originating from complaints filed by GAO's fictitious complainants. These conciliations were combined into an investigation, the correct procedure for handling complaints affecting multiple employees. The investigator continued the investigation after the fictitious employer claimed that the business had filed for bankruptcy and attempted to visit the business when the employer stopped returning phone calls. The investigator did not use public records to verify that the employer had filed for bankruptcy but otherwise made reasonable efforts to locate and investigate the business.

### **Case Studies Show That WHD Inadequately Investigated and Resolved Complaints**

Similar to our 10 fictitious scenarios, GAO identified 20 cases affecting at least 890 workers whose employer was inadequately investigated by WHD. We performed data mining on the WHISARD database to identify 20 cases closed during fiscal year 2007 in which WHD delayed responding to a complaint for over a year, cases closed based on unverified information provided by the employer, businesses with repeat violations that were not fully investigated, and cases dropped because the employer did not return telephone calls. Ten of these case studies are presented in appendix II. Table 2 provides a summary of 10 case studies closed by WHD between October 1, 2006 and September 31, 2007.

Table 2: Case Studies of Inadequate WHD Investigations

Case	Type of business/ employee occupation	Type of alleged violation	Employer location	Investigative Tool	WHD actions, conclusions, and additional details
1	Boarding School / Teen Counselor	Overtime (FLSA)	Thompson Falls, MT	Self audit	<ul style="list-style-type: none"> <li>Investigator assigned to case over nine months after complaint was received</li> <li>Complaint handled as a self-audit, allowing the employer to review its own records for violations</li> <li>WHD determined that the employer had begun paying correct overtime based on the employer's verbal statements; no updated records were reviewed</li> <li>The employer found that it owed over \$200,000 to 93 employees, but delayed until the statute of limitations had almost expired before offering to pay a total of only \$1,000 in back wages</li> <li>WHD did not accept this amount, closed the case, and informed the complainant of the outcome</li> </ul>
2	Construction /Day Laborer	Minimum Wage and Overtime(FLSA)	Miami, FL	Conciliation	<ul style="list-style-type: none"> <li>Employer denied knowing employee and stated that the employee worked for a subcontractor, but refused to provide the name of the company</li> <li>WHD closed the case, recorded that the employer was in compliance with labor laws, and informed the employee of his right to file a civil lawsuit</li> <li>Employee filed a civil suit, during which the employer agreed he owed back wages</li> <li>The court ruled that the employee was due \$1,500, the same amount cited in the original complaint to WHD</li> </ul>

3	Construction/ Anonymous	Child Labor/ Minimum Wage (FLSA)	Baltimore, MD	Full Investigation	<ul style="list-style-type: none"> <li>• The complainant alleged that the company employed 15-year-old children, failed to pay its employees minimum wage, and did not properly report income to the Internal Revenue Service</li> <li>• The employer alleged that the company did not meet the income requirement to be covered under federal law, but did not provide documentary evidence</li> <li>• The employer failed to return WHD's telephone calls or attend the the initial conference</li> <li>• WHD concluded this case with no further investigative actions</li> </ul>
4	Restaurant/ Waitress	Child Labor/Minimum Wage/Overtime (FLSA)	Pulaski, TN	Full Investigation	<ul style="list-style-type: none"> <li>• Case assigned to an investigator over 22 months after the complaint was received</li> <li>• WHD determined that the restaurant and related enterprises owed over \$230,000 to 438 employees for minimum wage and overtime violations, and for depositing a percentage of employee tips into a business account</li> <li>• Employer agreed to pay back wages for minimum wage and overtime violations, but did not agree to pay back the collected tips</li> <li>• WHD did not accept partial back wage offer and closed the case with no collection of back wages</li> </ul>



5	Lawn Care Service/ Laborer	Minimum Wage and Overtime(FLSA)	Lakeview, MI	Full Investigation	<ul style="list-style-type: none"> <li>• WHD attempted to meet with the employer to discuss allegations from two employees, but the employer repeatedly postponed the meeting, one time to go deer hunting. Subsequent calls from WHD were not answered</li> <li>• Almost eight months later, WHD conducted an announced site visit and closed the case, citing that the employer appeared to be out of business because phone calls were unanswered and no employees were on site during the visit .</li> <li>• Public records show that the employer signed and later submitted an annual report two months after the case was closed</li> <li>• GAO successfully contacted the employer in November 2008, who confirmed the business was located at the same address visited by WHD</li> </ul>
6	County Sheriff's Office /Corrections Officer	Minimum Wage (FLSA)	Key West, FL	Conciliation	<ul style="list-style-type: none"> <li>• WHD attempted to contact the employer two times over a period of two days to discuss allegations</li> <li>• Case was dropped when no one from the employer, which was a sheriff's office, returned WHD's telephone calls</li> <li>• The employee was informed of his right to file private litigation in order to recover back wages.</li> </ul>
7	Restaurant/ Waitress	Minimum Wage (FLSA)	Hollywood, FL	Conciliation	<ul style="list-style-type: none"> <li>• Employee alleged she was owed minimum wage for 145 hours of work.</li> <li>• Employer agreed that wages were due, but did not return subsequent telephone calls</li> <li>• WHD dropped the case and advised the employee of her right to file private litigation.</li> </ul>

8	Garment Manufacturer/Garment Workers	Minimum Wage and Overtime (FLSA)	Whittier, CA / South El Monte, CA	Full Investigation	<ul style="list-style-type: none"><li>• Two former employees alleged that the firm was not paying minimum wage or overtime to all of its employees</li><li>• One WHD investigator visited the establishment and took surveillance photographs but did not speak with the employer</li><li>• Seven weeks later, another WHD investigator visited the establishment and found that the employer had vacated the premises. A realty broker informed WHD that he believed the employer had closed, not relocated, and WHD closed the case</li><li>• Using public data, we confirmed that the employer was still active and made contact with the firm's accountant who told us that the employer had moved from the location WHD visited</li></ul>
---	--------------------------------------	----------------------------------	-----------------------------------	--------------------	--

9	Fuel Tank /Mechanic	Last Paycheck - Minimum Wage (FLSA)	Fort Lauderdale, FL	Conciliation	<ul style="list-style-type: none"> <li>• Employee was due \$800 in back wages, but commented to WHD investigator that he thought his employer was filing for bankruptcy</li> <li>• Investigator closed the case stating that he had confirmed the employer was out of business because the phone number no longer worked</li> <li>• The employee was informed of his right to file a private lawsuit to recover back wages</li> <li>• WHD received a fax from this employer after the case had been concluded stating that the employee had been paid correctly, however the documentation did not support the claim</li> <li>• The case file was not reopened and no further action was taken</li> <li>• Bankruptcy court records show that the employer had not filed for bankruptcy. We confirmed that employer was still in business in December 2008</li> </ul>
---	---------------------	-------------------------------------	---------------------	--------------	--

10	Ambulance Company / Paramedic	Overtime (FLSA)	Pawhuska, OK	Full Investigation	<ul style="list-style-type: none"> <li>• Employer refused to comply with the law throughout most of WHD's investigation and took months to produce payroll records.</li> <li>• WHD determined that over \$66,000 in back wages was due to 21 employees and stated that this estimate was "probably low."</li> <li>• 7 months after the investigation began, the employer agreed with WHD's findings and agreed to pay back wages, but then refused to respond to WHD or change his payroll practices.</li> <li>• Over a year later, WHD decided not to pursue litigation or any other action in part, because the case was considered "significantly old."</li> <li>• Employees were notified of their right to file private litigation.</li> </ul>
----	-------------------------------	-----------------	--------------	--------------------	---

Source: GAO, WHD.

- Case Study 1: In November 2005, WHD's Salt Lake City District Office received a complaint alleging that a boarding school in Montana was not paying its employees proper overtime. Nine months after the complaint was received, the case was assigned to an investigator and conducted as an over the phone self audit. According to the investigator assigned to the case, WHD was unable to conduct a full investigation because the boarding school was located over 600 miles from Salt Lake City and WHD did not have the resources to conduct an on-site investigation. The employer's self audit found that 93 employees were owed over \$200,000 in overtime back wages for hours worked between September 2004 and June 2005. WHD recorded that the firm began paying overtime correctly in

June 2006 based on statements made by the employer but did not verify the statements through document review. After obtaining a commitment from the employer to pay the over \$200,000 in back wages, WHD was unable to make contact with the business for four months. WHD records indicate that the investigator believed that the firm was trying to find a loophole to avoid paying back wages. In June 2007, one week before the 2-year statute of limitations on the entire back wage amount was to expire, the employer agreed to pay \$1,000 out of the \$10,800 that had not yet expired. The investigator refused to accept the \$1,000 saying that it would have been “like settling the case.” WHD recorded the back wages computed as \$10,800 rather than \$200,000, greatly understating the true amount owed to employees. WHD noted in the case file that the firm had refused to pay the \$10,800, but did not recommend assessing penalties because they felt the firm was not a repeat offender. No further action was taken and the complainant was informed of the outcome of the case.

- Case Study 2: In May 2007, a non-profit community worker center contacted WHD on behalf of a construction worker alleging that his employer owed him \$1,500 for the previous three pay periods. WHD contacted the employer, who stated that the complainant was actually an employee of a subcontractor but refused to provide the name of the subcontractor. WHD closed the case without verifying the employer’s statements and informed the community worker center of the employee’s right to file private litigation. WHD’s case file indicates that no violations were found and the employer was in compliance with applicable

labor laws. According to the case file, less than a week later, WHD contacted the Executive Director of the community worker center and claimed that the employer in the complaint had agreed to pay the back wages. When the employer did not pay, the complainant and the community worker center sued the employer in small claims court. During the course of the lawsuit the employer admitted that he owed the employee back wages. The court ruled that the employer owed the employee \$1,500 for unpaid wages, the same amount in the original complaint to WHD.

- Case Study 4: In June 2003, WHD received two complaints against two restaurants owned by the same enterprise. One complaint alleged that employees were working “off the clock” and servers were being forced to give 2.25 percent of their tips to the employer. The other complaint alleged off the clock work, illegal deductions, and minimum wage violations. This case was not assigned to an investigator until May 2005, over 22 months after the complaints were received. WHD stated that the delay in the case assignment was due to a backlog at the Nashville District Office that has since been resolved. WHD conducted a full investigation and found that 438 employees were due over \$230,000 in back wages for minimum wage and overtime violations and the required tip pool. Although tip pools are not illegal, WHD determined that the employer’s tip pool was illegal because the company deposited the money into its business account. Further, the firm violated child labor laws by allowing a minor under 16 years of age to work more than three hours on school days. The employer disagreed that the tip pool was illegal and stated that a previous WHD investigator had told him

that it was acceptable. The employer agreed to pay back wages due for the minimum wage and overtime violations, but not the wages that were collected for the tip pool. WHD informed the employer that partial back wages would not be accepted and this case was closed, citing the employer's refusal to pay.

- Case Study 5: In October 2006, WHD received a complaint that two laborers at a lawn care company had not been paid overtime for 81 hours of work. WHD attempted to set up an initial conference with the employer, who repeatedly postponed the appointment. For example, the owner initially told WHD he was going deer hunting and later in the month told WHD that no one would be at the firm on a full-time basis from late November 2006 until early 2007. In January 2007, the investigator confirmed an appointment with the owner and traveled to the business, but the employer did not show up. Eight months later, another investigator sent a letter to the employer informing him of a planned site visit. When the investigator visited the establishment, he observed two trucks in the yard but no employees in the office. Based on the site visit and unreturned phone calls, the investigator concluded that the employer was no longer in business and recommended that the investigation be closed. Public documentation from the Office of the Secretary of State of Michigan shows that the business is active at the same address and filed an annual statement several months after the case was concluded. In November 2008, GAO contacted the employer and confirmed that it is still in business and operating at the address listed in WHD's database.

- Case Study 6: In July 2007, WHD received a complaint from a former corrections officer who alleged that a county sheriff's office owed her \$766 in back wages for minimum wage violations. The WHD investigator assigned to work on this case made two calls to the sheriff's office over a period of two days. Two days after the second call, WHD closed this case because no one from the employer had returned the calls. WHD did not make additional efforts to contact the employer or validate the allegations. The complainant was informed of her right to file private litigation to recover back wages. GAO successfully contacted the sheriff's office in November 2008.
- Case Study 8: Two garment factory workers filed complaints alleging that their former employer did not pay minimum wage or pay overtime to its workers. In early August 2006, the complainants informed WHD that the company was forcing employees to sign a document stating that they had been paid in compliance with the law before they could receive their paychecks. The next day, an investigator traveled to the establishment to conduct surveillance. The investigator took pictures of the establishment but did not speak with anyone from the company. No additional work was done on this case until seven weeks later when another investigator visited the establishment and found that the company had vacated the premises. A realty broker at the site informed the investigator that he did not believe the firm had relocated. As a result, WHD closed the investigation. Using publicly available information, we found that the business was active and located at a different address approximately 10 miles away from



its old location. We contacted the factory and spoke with its registered agent, who told us that the business had moved from the address WHD visited.

Information on ten additional case studies can be found in appendix II.

### **WHD's Complaint Intake Process, Conciliations, and other Investigative Tools Do Not Provide Assurance of a Timely and Thorough Response to Wage Theft Complaints**

WHD's complaint intake processes, conciliations, and other investigative tools are ineffective and often prevent WHD from responding to wage theft complaints in a timely and thorough manner, leaving thousands of low-wage workers vulnerable to wage theft. Specifically, we found that WHD often fails to record complaints in its database and its poor complaint intake process discourages employees from filing complaints. For example, 5 of our 10 undercover wage theft complaints submitted to WHD were never recorded in its database, including a complaint alleging that underage children were operating hazardous machinery during school hours. WHD's conciliation process is ineffective because in many cases, if the employer does not immediately agree to pay, WHD does not investigate complaints further or compel payment. In addition, WHD's poor recordkeeping makes WHD appear better at resolving conciliations than it actually is. For example, WHD's southeast region, which handled 56 percent of conciliations recorded by the agency in FY2007, has a policy of not recording unsuccessful conciliations in WHD's database. Finally, we found WHD's processes for handling investigations and other non-conciliations were frequently ineffective because of significant delays. However, once a complaint was recorded in WHD's database and quickly assigned as a case to an investigator, it was often adequately investigated.

## WHD's Complaint Intake Process is Ineffective

WHD's complaint intake process is seriously flawed, with both customer service and record-keeping issues. With respect to customer service, wage theft victims may file complaints with WHD in writing, over the phone, or in person. However, our undercover tests showed that wage theft victims can be discouraged to the extent that WHD never even accepts their complaints. We found that in their efforts to screen complaints some WHD staff actually deter callers from filing a complaint by encouraging employees to resolve the issue themselves, directing most calls to voicemail, not returning phone calls, accepting only written complaints at some offices, and providing conflicting or misleading information about how to file a complaint. For example, the pre-recorded voice message at one office gives callers information on the laws WHD enforces, but when the message ends there are 23 seconds of silence before the call is directed to the voice message system that allows callers to file complaints, creating the impression that the phone call has been disconnected. WHD requires an investigator to speak with the employee before a conciliation can be initiated, but a real low-wage worker may not have the time to make multiple phone calls to WHD to file a complaint and may give up when call after call is directed to voicemail and not returned. It is impossible to know how many complainants attempt to file a complaint but are discouraged by WHD's complaint intake process and eventually give up.

Regarding WHD's recordkeeping failures, we found that WHD does not have a consistent process for documenting and tracking complaints. This has resulted in situations where

WHD investigators lose track of the complaints they have received. According to WHD policies, investigators should enter complaints into WHD's database and either handle them immediately as conciliations or refer them to management for possible investigation. However, several of our undercover complaints were not recorded in the database, even after the employee had spoken to an investigator or filed a written complaint. Employees may believe that WHD is investigating their case, when in fact the information they provided over the phone or even in writing was never recorded. This is particularly troubling in the case of our child labor complaint, because it raises the possibility that WHD is not recording or investigating complaints concerning the well-being and safety of the most vulnerable employees. Since there is no record of these cases in WHD's database, it is impossible to know how many complaints are reported but never investigated.

#### WHD's Conciliation Process is Ineffective

According to several WHD District Directors, in conciliations where the employer refuses to pay, their offices lack the resources to investigate further or compel payment, contributing to the failures we identified in our undercover tests, case studies, and statistical sample. When an employer refuses to pay, investigators may recommend that the case be elevated to a full investigation, but several WHD District Directors and field staff told us WHD lacks the resources to conduct an investigation of every complaint and focuses resources on investigating complaints affecting large numbers of employees or resulting in large dollar amounts of back wages. Conducting a full investigation allows

WHD to identify other violations or other affected employees, attempt to negotiate back wage payment with the employer and, if the employer continues to refuse, refer the case to the Solicitor's Office for litigation. However, in many conciliations, the employer is able to avoid paying back wages simply by refusing. While WHD informs complainants of their right to file a lawsuit against their employers to recover back wages, it is unlikely that most low-wage workers have the means to hire an attorney, leaving them with little recourse to obtain their back wages.

WHD's conciliation policy also limits the actions staff may take to resolve these cases. For example, complaints handled as conciliations must be completed in under 15 days from the time the complaint is assigned to an investigator, and at least one office allows investigators only 10 days to resolve conciliations, which may not allow time for additional follow-up work to be performed. WHD staff in one field office told us they are limited to three unanswered telephone calls to the employer before they are required to drop the case and staff in several field offices told us that they are not permitted to make site visits to employers for conciliations. WHD investigators are allowed to drop conciliations when the employer denies the allegations and WHD policy does not require that investigators review employer records in conciliations. In one case study, the employee stated that he thought the business was going bankrupt. The investigator closed the case, stating that he had confirmed the employer was out of business because the firm's phone number no longer worked. However, the investigator did not conduct research to verify that the employer had filed for bankruptcy and GAO confirmed that employer was still in business in December 2008. One WHD investigator told us that it

is not necessary to verify bankruptcy records because conciliations are dropped when the employer refuses to pay, regardless of the reason for the refusal.

Our undercover tests and interviews with field staff also identified serious recordkeeping flaws which make WHD appear better at resolving conciliations than it actually is. For example, WHD's southeast region, which handled 56 percent of conciliations recorded by WHD in FY2007, has a policy of not recording unsuccessful conciliations in the database. WHD staff told us that if employers do not agree to pay back wages, cannot be located, or do not return telephone calls, the conciliation work performed will not be recorded in the database<sup>[5]</sup>, making it appear as though these offices are able to resolve nearly all conciliations successfully. Through data analysis and interviews, we confirmed that at least 6 district offices had this policy in fiscal year 2007 and the number may be greater. Inflated conciliation success rates are problematic for WHD management, which uses this information to determine the effectiveness of WHD's investigative efforts.

Our undercover tests and interviews with WHD staff also raise questions about the reliability of conciliation information recorded in WHD's database. As illustrated by our undercover tests, when an employer initially agrees to pay in a conciliation but reneges on his promise, WHD investigators do not change the outcome of the closed case in the WHD database to show that the employee did not receive back wages. While some investigators wait for proof of payment before closing the conciliation, others told us that

---

<sup>[5]</sup> In some offices with this policy, the complaint that the conciliation was based on would be recorded in WHD's database. However, the complaint would appear as though it had never been investigated, because the investigative work and the outcome of the conciliation would not be recorded in the database. Other offices do not enter any information about the complaint into the database.

they close conciliations as soon as the employer agrees to pay. Even if the employee later tells the investigator that he has not been paid, the investigator cannot change the outcome of a closed case in WHISARD. WHD publicly reports on the total back wages collected and the number of employees receiving back wages, but these statistics are overstated because an unknown number of conciliations recorded as successfully resolved in the WHD database did not actually result in the complainant receiving the back wages due.

These poor recordkeeping practices represent a significant limitation of the population we used to select our statistical sample because the number of conciliations actually performed by WHD cannot be determined and conciliations recorded as successfully resolved may not have resulted in back wages for the employees. As a result, the percentage of inadequate conciliations is likely higher than the failure rate identified in our sample. We found that 5.2 percent<sup>[6]</sup> of conciliations in our sample were inadequately conciliated because WHD failed to verify the employer's claim that no violation occurred, closed the case after the employer did not return phone calls, or closed the case after the employer refused to pay back wages. However, we found that many of the conciliations recorded in WHD's database were adequately investigated. One example of a successful investigation involved a complaint alleging that a firm was not paying proper overtime was assigned to an investigator the same day it was filed in May

---

<sup>[6]</sup> Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval (e.g., plus or minus 5 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. The 95 percent confidence interval surrounding our sample of inadequate investigations ranges from 206 to 1,195 failures in the population.

2005. The WHD investigator reviewed payroll records to determine that the firm owed the complainant back wages. The case was concluded within 3 months when the investigator obtained a copy of the complainant’s cashed check, proving that he had been paid his back wages.

WHD’s Investigation and Other Non-conciliation Processes Were Often Ineffective, But Complaints Investigated Quickly Were Usually Resolved Successfully

We found WHD’s process for handling investigations and other non-conciliations was frequently ineffective because of significant delays. However, once complaints were recorded in WHD’s database and assigned as a case to an investigator, they were often successfully investigated. Almost 19 percent<sup>[7]</sup> of non-conciliations in our sample were inadequately investigated, including cases that were not initiated until more than 6 months after the complaint was received, cases closed after an employer refused to pay, and cases that took over one year to complete. In addition, one case failed two of our tests.

Table 4: Number of Failures by Test for Sample of Non-conciliations

<b>Confidence</b> <b>Reason why non-conciliation was inadequate</b>	<b>Percent</b>	<b>95 %</b>
	<b>Point</b>	<b>Interval</b>
Cases not initiated within 6 months of complaint	5.2	[1.9, 11.1]
Case closed due to employer’s refusal to pay	6.2	[2.5, 12.3]

<sup>[7]</sup> Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample’s results as a 95 percent confidence interval (e.g., plus or minus 5 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. The 95 percent confidence interval surrounding our sample of inadequate investigations ranges from 2,595 to 5,827 failures in the population.

Cases with violations found that were not referred to Labor's Office of the Solicitor for litigation	4.6	[1.5, 10.5]
Cases taking more than one year to complete	6.6	[2.8, 12.7]
Cases where WHD failed to review employer records	3.1	[.75, 8.1]
<b>Estimate of Inadequate Non-Conciliations</b>	18.8	[12.1, 27.1]

Source: GAO.

Six of the cases in our sample failed because they were not initiated until over 6 months after the complaint was received. According to WHD officials, non-conciliations should be initiated within 6 months of the date the complaint is filed. Timely completion of investigations by WHD is important because the statute of limitations for recovery of wages under the FLSA is 2 years from the date of the employer's failure to pay the correct wages.<sup>[8]</sup> Specifically, this means that every day that WHD delays an investigation, the complainant's risk of becoming ineligible to collect back wages increases. In one of our sample cases, WHD sent a letter to a complainant 6 months after his overtime complaint was filed stating that, due to a backlog, no action had been taken on his behalf. The letter requested that the complainant inform WHD within 2 business days of whether he intended to take private action. The case file shows no indication that the complainant responded to WHD. One month later, WHD assigned the complaint to an investigator and sent the complainant another letter stating that if he did not respond

---

<sup>[8]</sup> The statute of limitations for recovery of wages under FLSA and the Davis Bacon Act is 2 years from the employer's failure to pay the correct wages. 29 U.S.C. § 255. For willful violations, in which the employer knew its actions were illegal or acted recklessly in determining the legality of its actions, the statute of limitations is 3 years. Federal courts have enforced the statute of limitations even if Labor is investigating a complaint. *Shandelman v. Schuman*, 92 F. Supp. 334 (E.D.Pa. 1950).



within 9 business days, the case would be closed. WHD ultimately took no action to investigate the complaint.

Our case studies discussed above and in appendix II also include examples of complaints not investigated for over a year, cases closed based on unverified information provided by the employer, businesses with repeat violations that were not fully investigated, and cases dropped because the employer did not return telephone calls. For example, in one case study, WHD found that 21 employees were due at least \$66,000 in back wages for overtime violations. Throughout the investigation, the employer was uncooperative and resisted providing payroll records to WHD. At the end of the investigation, the firm agreed with WHD's findings and promised to pay back wages, but then stopped responding to WHD. The employees were never paid back wages and over a year later, WHD decided not to pursue litigation or any other action in part because the case was considered "significantly old."

The failures we identified resulted, in part, from the large backlog of cases in several WHD offices, investigators' failure to compel cooperation from employers, and a lack of certain tools that would facilitate verification of employer statements. In several district offices, a large backlog prevents investigators from initiating cases within 6 months. One office we visited has a backlog of 7 to 8 months, while another office has a backlog of 13 months. Additionally, our analysis of WHD's database shows that one district office did not initiate an investigation of 11 percent of complaints until over one year after the complaint was received, including a child labor complaint affecting over 50 minors.

Because the statute of limitations to collect back wages under FLSA is 2 years, WHD is placing complainants at risk of collecting only a fraction of the back wages they would have been able to collect at the time of the complaint. WHD also failed to compel records and other information from employers. While WHD Regional Administrators are legally able to issue subpoenas, WHD has not extended this ability to individual investigators, who therefore depend on employers to provide records and other documentation voluntarily. In cases where public records are available to verify employer statements, WHD investigators do not have certain tools that would facilitate access to these documents. For example, we used a publicly-available subscription to an online database, LexisNexis, to determine that an employer who claimed to have filed for bankruptcy had not actually done so. However, there is no evidence in the case file that the WHD investigator performed this check. WHD officials told us that its investigators do not receive training on how to use public document searches and do not have access to databases containing this information such as LexisNexis.

We found that, once complaints were recorded in WHD's database and assigned as a case to an investigator in a timely manner, they were often successfully investigated. As discussed above, WHD does not record all complaints in its database and discourages employees from filing complaints, some of which may be significant labor violations suitable for investigation. In addition, many cases are delayed months before WHD initiates an investigation. However, our sample identified many cases that were adequately investigated once they were assigned to an investigator. Specifically, 81.2 percent of the non-conciliations in our sample were adequately investigated. One

example of a successful investigation involved a complaint alleging that a firm was not paying proper overtime was assigned to an investigator the same day it was filed in April 2007. The WHD investigator reviewed payroll records to determine that the firm owed the complainant back wages. The case was concluded within 3 months when the investigator obtained a copy of the complainant's cashed check, proving that he had been paid his gross back wages of \$184.



### Conclusions

This investigation clearly shows that Labor has left thousands of actual victims of wage theft who sought federal government assistance with nowhere to turn. Our work has shown that when WHD adequately investigates and follows through on cases they are often successful; however, far too often many of America's most vulnerable workers find themselves dealing with an agency concerned about resource limitations, with ineffective processes, and a lack of certain tools necessary to do timely and effective investigation of wage theft complaints. Unfortunately, far too often the result is unscrupulous employers taking advantage of our country's low wage workers.

Mr. Chairman and Members of the Committee, this concludes my statement. I would be pleased to answer any questions that you or other members of the committee may have at this time.

### **Contacts and Acknowledgments**

For further information about this testimony, please contact Gregory D. Kutz at (202) 512-7455 or [kutzg@gao.gov](mailto:kutzg@gao.gov) at GAO or Jonathan Meyer at (214) 777-5766 or [meyerj@gao.gov](mailto:meyerj@gao.gov). GAO individuals making key contributions to this testimony included Erika Axelson, Christopher Backley, Carl Barden, Randall Cole, Merton Hill, Jennifer Huffman, Barbara Lewis, Jeffery McDermott, Andrew McIntosh, Sandra Moore, Andrew O'Connell, Gloria Proa, Robert Rodgers, Ramon Rodriguez, Sidney Schwartz, Kira Self, and Daniel Silva. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony.

## **Appendix I: Scope and Methodology**

To review the effectiveness of WHD's complaint intake and conciliation processes, GAO investigators attempted to file 11 complaints about 10 fictitious businesses to WHD district offices in Baltimore, Maryland; Birmingham, Alabama; Dallas, Texas; Miami, Florida; San Jose, California; and West Covina, California. These field offices handle 15 percent of all cases investigated by WHD. The complaints we filed with WHD included minimum wage, last paycheck, overtime, and child labor violations. GAO investigators obtained undercover addresses and phone numbers to pose as both complainants and employers in these scenarios.

As part of our overall assessment of the effectiveness of investigations conducted by WHD, we obtained and analyzed WHD's Wage and Hour Investigative Support and Reporting Database (WHISARD), which contained 32,323 cases concluded between October 1, 2006 and September 30, 2007. We analyzed WHD's WHISARD database and determined it was sufficiently reliable for purposes of our audit and investigative work. We analyzed a random probability sample of 115 conciliations and 115 non-conciliations to contribute to our overall assessment of whether WHD's processes for investigating complaints are effective. Because we followed a probability procedure based on random selections, our samples are only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of the particular sample's results as a 95 percent confidence interval (e.g., plus or minus 5 percentage points). This is the interval that

would contain the actual population value for 95 percent of the samples we could have drawn.

To determine whether an investigation was inadequate, we reviewed case files and confirmed details of selected cases with the investigator or technician assigned to the case. In our sample tests, conciliations were determined to be inadequate if WHD did not successfully initiate and complete investigative work in a timely manner, did not contact the employer, did not correctly determine coverage under federal law, did not review employer records, or did not compute and assess back wages. Non-conciliations were determined to be inadequate if they failed any of these tests, or if WHD did not refer cases in which the employer refused to pay to Labor's Office of the Solicitor.

We gathered additional information about WHD policies and procedures by reviewing training materials and the WHD Field Office Handbook, conducting walk-throughs of investigative processes with management and interviewing WHD officials. We gathered information about district office policies and individual cases by conducting site visits at the Miami and Tampa, Florida district offices, and conducting telephone interviews with technicians, investigators and district directors in 23 field offices and headquarters officials in Washington, D.C. We also spoke with Labor's Office of the Solicitor in Atlanta, Georgia and Washington, D.C. To identify macro-level data on WHD complaints, we analyzed data for cases closed between October 1, 2004 and September 30, 2007 by region, district office and case outcome.

To identify case studies of inadequate investigations, we data-mined WHISARD to identify closed cases in which a significant delay occurred in responding to a complaint (cases taking more than 6 months to initiate or 1 year to complete), an employer could not be located, or the case was dropped when an employer refused to pay. We obtained and analyzed WHD case files, interviewed WHD officials, and reviewed publicly available data from online databases and the Department of Treasury's Financial Crimes Enforcement Network to gather additional information about these cases. We also interviewed complainants who contacted GAO directly or were referred to us by labor advocacy groups to gather information about WHD's investigation of their complaints.

## Appendix II: Additional Case Studies of Inadequate WHD Investigations

Table 5 provides a summary of ten additional case studies of inadequate Wage and Hour Division (WHD) investigations. These case studies show instances where WHD dropped cases after employers refuse to cooperate with an investigation, instances where WHD identified violations but failed to force employers to pay employees their owed wages, and instances where WHD closed cases after employers alleged they were bankrupt when in fact the employer was not.

Table 5: Additional Case Studies of Inadequate WHD Investigations

Case	Type of business/employee occupation	Type of alleged violation	Employer location	Investigative tool	WHD actions, conclusions, and additional details
11	Drywall/ Drywall Installer	Overtime (FLSA)	Biloxi, MS	Full Investigation	<ul style="list-style-type: none"> <li>• Employer admitted to WHD that employees were not paid overtime and he did not know how much they were paid per hour</li> <li>• Employees told the investigator the employer had threatened them with a machete so they would lie during WHD interviews, but the investigator still determined that the employer's violations were not willful</li> <li>• Employer told WHD he did not keep payroll records, but his attorney later said he had reviewed employer payroll records</li> <li>• Through interviews, WHD determined that over \$150,000 was due to 191 employees, but employer stated that he would be forced to file for bankruptcy if WHD insisted he pay the full amount of back wages</li> <li>• WHD agreed to reduce back wages by 30 percent and the employer paid \$78,466</li> </ul>



12	Telemarketing / Telemarketer	Last Paycheck – Minimum Wage (FLSA)	Wellington, FL	Conciliation	<ul style="list-style-type: none"> <li>• Employer would not make a commitment to the WHD investigator to pay the back wages</li> <li>• WHD closed the case and WHD recorded that the employer was in compliance with labor laws</li> </ul>
13	Plumbing/ Plumber	Last Paycheck- Minimum Wage (FLSA)	Alpharetta, GA	Conciliation	<ul style="list-style-type: none"> <li>• Employer admitted owing wages but refused to pay because the employee had been involved in a vehicular accident</li> <li>• WHD requested that the employer comply with labor laws in the future, but the employer refused</li> <li>• WHD closed the case and the employee was informed of his right to file a private lawsuit</li> </ul>
14	Construction/Anonymous Complaint	Overtime (FLSA)	Brooklyn, NY	Full Investigation	<ul style="list-style-type: none"> <li>• Employee alleged that his employer had failed to pay for overtime worked</li> <li>• The employer had annual sales of over \$2 million</li> <li>• WHD visited the employer's business address and a personal residence, but did not interview the owner</li> <li>• Employee provided construction site locations, but WHD did not visit these addresses until 6 months after the complaint was received</li> <li>• WHD investigator closed the case because the employer's accountant refused to provide payroll records</li> </ul>

15	Security Service/ Security Guard	Overtime (FLSA)	Del City, OK	Self audit	<ul style="list-style-type: none"><li>• Three previous complaints against the business were investigated, but WHD was unable to determine coverage under federal law</li><li>• In a fourth case, WHD determined that the employer failed to pay over \$47,000 in overtime owed to 98 employees</li><li>• The employer refused to pay the back wages and WHD did not refer this case to Labor's Office of the Solicitor because it believed that the employer had come into compliance, however there is no evidence to support this determination</li></ul>
----	-------------------------------------	--------------------	-----------------	------------	---

16	Foundation Repair/ Foreman	Overtime (FLSA)	Houston, TX	Full Investigation	<ul style="list-style-type: none"> <li>• Investigation took nearly two years to complete</li> <li>• WHD determined that overtime violations and employees working off the clock were systemic practices at over 20 of the firm's locations</li> <li>• The employer disagreed with WHD and insisted that he had not violated labor laws</li> <li>• WHD estimated that 241 employees were due nearly \$2 million in overtime; a precise amount could not be computed because the employer refused to provide required payroll documents</li> <li>• WHD rejected the employer's offer to pay \$50,000 in back wages, but later attempted to settle with the employer by reducing back wages. No settlement was reached</li> <li>• WHD had found similar violations two years prior to the investigation, but the employer would not agree to pay back wages or comply with labor laws at that time</li> <li>• WHD determined that the employer had a good faith defense for continuing the same pay practices because he had not been provided a formal letter stating the outcome of the previous investigation</li> <li>• WHD did not refer this case to Labor's Office of the Solicitor for litigation due to the erosion of the two year statute of limitations and did not recommend that the employer pay penalties for repeat violations</li> <li>• WHD determined that the firm had come into compliance at all locations nationwide based solely on the employer's verbal statements; no supporting documentation was reviewed.</li> <li>• WHD sent letters to the affected employees informing them that the employer had refused to pay and notifying them of their right to file private litigation</li> </ul>
----	-------------------------------	--------------------	----------------	-----------------------	---

17	Gas Station/ Manager	Overtime (FLSA)	Ooltewah, TN	Limited Investigation	<ul style="list-style-type: none"> <li>• Employee contacted WHD alleging that the employer did not pay overtime</li> <li>• Employee was notified that WHD had a very large backlog and was given information on three lawyer referral services</li> <li>• After 6 months, WHD contacted the employee, who stated that a new owner had purchased the business two weeks earlier.</li> <li>• WHD made no effort to calculate the back wages due to the employee and closed the case with no further action</li> </ul>
18	Sewing Contractor/ Worker	Minimum Wage (FLSA)	Passaic, NJ	Limited Investigation	<ul style="list-style-type: none"> <li>• Employee alleged 10 employees were due back wages for 3 to 7 days of work.</li> <li>• Employer refused to provide WHD payroll records for these employees.</li> <li>• WHD found that the complainant was owed over \$800 in back wages, but did not calculate back wages for any other employees.</li> <li>• During the limited investigation, the employer stated it had filed for Chapter 7 bankruptcy four days earlier and was no longer in business.</li> <li>• WHD closed the case and the employee was notified of his right to file private litigation</li> <li>• GAO's review of bankruptcy court documents showed no record of the employer filing for bankruptcy</li> <li>• Records show the employer operating at a different address as recently as 2008</li> </ul>

19	Trucking/ Truck Driver	Last Paycheck- Minimum Wage (FLSA)	Doniphan, NE	Conciliation	<ul style="list-style-type: none"> <li>• WHD received 4 complaints against a trucking company over a 7-month period.</li> <li>• WHD treated each complaint as a conciliation, affecting only one employee, even after violations were found in each case</li> <li>• The first three conciliations found that the employee's allegations were substantiated and the employer agreed to pay back wages</li> <li>• The employer has never been subject to a full investigation by WHD</li> </ul>
20	Employment Agency/ Carpenter	Last Paycheck - Minimum Wage (FLSA)	Miami Beach, FL	Conciliation	<ul style="list-style-type: none"> <li>• Employee alleged he was not paid minimum wage</li> <li>• WHD attempted to contact the employer to substantiate the claim, but the employer did not return WHD's calls</li> <li>• Case was closed and the employee was informed of his right to file private litigation</li> <li>• GAO was able to make contact with the employer in February 2009</li> </ul>

Source: GAO, WHD.