



Office of Inspector General

U.S. Department of Labor

**Fiscal Year 2005 Budget Request
Statement for the Record
of
Gordon S. Heddell
Inspector General**

**For the
Subcommittee on Labor, Health and Human Services, Education
and Related Agencies
Committee on Appropriations
U.S. House of Representatives**

February 26, 2004

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Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to provide a statement for the record on the Office of Inspector General's (OIG) fiscal year (FY) 2005 budget request. The OIG's mission is to serve the American worker and taxpayer by identifying ways to detect and prevent fraud, waste, and abuse in DOL programs and operations. To carry out this mission, we conduct audits, investigations, and evaluations to identify potential problems or abuses; make recommendations for corrective action; review legislative and regulatory initiatives; and inform the Secretary and the Congress of problems or concerns.

In addition, the OIG at DOL is unique among inspectors general because of our external program function to conduct criminal investigations to reduce the influence of labor racketeering and organized crime in employee benefit plans, internal union affairs, and labor-management relations.

OIG Accomplishments in FY 2003

Mr. Chairman, in order to maximize our impact on DOL programs, the OIG targets its available resources on those areas where the risk of fraud, waste, and abuse is greatest. I am proud of the fact that historically, the results have been greater efficiency, integrity, and savings for DOL programs and operations.

In FY 2003, the OIG issued 103 audit and evaluation reports and closed 496 investigations. OIG audits and evaluations resulted in nearly \$190 million in questioned costs and recommended that \$428 million in funds be put to better use. OIG investigations resulted in 548 indictments, 344 convictions, and \$108 million in monetary accomplishments. A detailed list of our accomplishments for FY 2003 is attached, which illustrates how we are working to achieve our mission.

OIG FY 2005 Budget Request

For FY 2005, the OIG is requesting \$69,932,000 and 480 FTE. This request includes \$2,500,000 and 10 FTE for an initiative to expand our efforts to combat labor racketeering and organized crime fraud through audits and investigations, which are detailed below. At the request level, we will continue or initiate audits, investigations, and evaluations that support OIG goals as outlined in our strategic plan. We will assist DOL in maintaining an effective strategic management process to include auditing the financial statements of the Department, as required by the Chief Financial Officers Act, and well as its information systems and related security programs in accordance with the Federal Information Security Management Act. We will also perform work related to DOL employment and training programs and grants, worker benefit programs, and worker protections and safety. Our work is carried out by three primary components: the Office of Audit, the Office of Labor Racketeering and Fraud Investigations, and the Office of Management and Policy. Each of these components plays a vital role in ensuring the OIG is pursuing its mission as mandated by the Inspector General Act.

Labor Racketeering and Organized Crime Fraud Initiative

Traditional labor racketeering is the infiltration and/or control of a union or employee benefit plan for personal benefit through illegal, violent, or fraudulent means by organized crime families or those in positions of power. However, we are seeing labor racketeering evolve due to the rapid rise of transnational organized crime groups such as Eastern Block and Asian groups. These groups are engaging in a wide range of activities usually associated with organized crime such as extortion, money laundering, and insurance fraud in order to exploit and abuse government programs, including DOL programs, rather than unions. This type of criminal activity is non-traditional labor racketeering. Such labor racketeering activities, whether traditional or non-traditional, adversely impact American workers, employers, and the public through reduced wages and benefits, diminished competitive opportunities, and increased costs for goods and services.

Given labor racketeering's expansion and the FBI's shift of its white-collar crime and labor racketeering resources toward its counter-terrorism activities, our proposed initiative would fund an increase to support our fight against labor racketeering and organized crime activities. With additional funding, we will continue the expansion of our labor racketeering program by conducting 2-3 comprehensive, national-scope audits and increasing our investigative case inventory by 30 cases in FY 2005.

This initiative has two tracks: traditional and non-traditional labor racketeering. The first track of our initiative will expand our efforts to protect employee benefits such as pensions and health insurance plans from fraud and abuse. We will also continue our

efforts to combat corruption affecting industries and union leadership where labor racketeering and organized crime activity have traditionally been found. Under the second track of our initiative, we will investigate non-traditional labor racketeering activities, particularly activities through which transnational groups abuse government programs, including DOL's Foreign Labor Certification and Unemployment Insurance (UI) programs.

Traditional Labor Racketeering

Regarding employee benefits, we will continue to concentrate our enforcement program on pension plans that are jointly administered by union and company trustees. These plans comprise \$400 billion in assets. Specifically, we will continue to focus on abuses by pension plan service providers such as plan administrators, managers, and others who have the ability to conceal their fraudulent activity through complex financial schemes, which can affect the solvency of multiple benefit plans. We will also expand our program to investigate defined contribution 401(k) pension plans that were established pursuant to collective bargaining agreements between labor organizations and employers. We will refocus our efforts on investigating fraudulent multiple employer welfare arrangements (MEWAs), which are health insurance plans that offer an attractive package of benefits to small businesses and self-employed people. MEWA fraud typically involves draining plan assets through excessive administrative fees or outright embezzlement with tragic consequences for workers. Finally, from an audit perspective we will conduct audits aimed at improving DOL oversight of pension plans and other worker benefits.

Under this track, we will also continue our investigations of industries that are historically vulnerable to organized crime influence as well as focus on union leadership corruption at the national and local levels. Specifically, we will expand our industry probes into the maritime and construction industries, among others, and we will focus on labor racketeering carried out by high-level union leadership within the larger international unions. The OIG continues to receive specific allegations and intelligence of possible criminal activity involving high-ranking national union officials and other key officials.

Non-Traditional Labor Racketeering

In the Foreign Labor Certification program, we will combat labor certification and visa fraud and related schemes. We are concerned that transnational organized crime groups are able to file false labor certifications, which may have national security implications. Through this initiative, we will focus law enforcement attention on attorneys, labor brokers, and those who use the program to enter the United States illegally.

Finally, over the years the OIG has conducted significant investigations of UI fraud schemes resulting in millions of dollars in program savings and recoveries. Recent OIG casework is showing a new trend that must be addressed. Namely, transnational organized crime groups are exploiting the UI program through identity theft schemes or other fraudulent means that result in millions of dollars in losses to the UI program each year. Under this initiative, we will identify and investigate these types of non-traditional UI fraud schemes. We will also continue to provide training to state UI program

administrators on effective fraud detection methods, including how to prevent potential abuses of the program, and how to help prevent UI overpayments early on.

Conclusion

Mr. Chairman, I appreciate the opportunity to present our FY 2005 budget request. With this request we can continue our efforts to ensure that DOL programs and operations are operating efficiently and effectively, while enabling us to expand our labor racketeering program so that workers' benefits are protected from criminal activities.

Attachment 1

U.S. Department of Labor Office of Inspector General FY 2003 Accomplishments

OIG Goal #1: Optimize performance and accountability of DOL employment and training programs

In FY 2003, the OIG worked to optimize the use of funds appropriated for DOL training and employment programs by enhancing program performance and accountability.

An OIG closeout audit of a Welfare-to-Work competitive grant identified \$2.6 million in questioned costs.

OIG WIA audits recommended 1) more education and training opportunities to strengthen WIA's youth opportunity program 2) improvements to the WIA dislocated worker program and 3) modifying WIA to encourage participation of training providers in adult and dislocated worker training activities.

OIG examined the status of WIA obligations and expenditures in nine states and Puerto Rico. We found that obligations are the more useful measure for assessing states' current WIA funding availability and we concluded that ETA should work with states to improve their reporting.

OIG work resulted in an 18 month prison sentence for the director of the Senior Texas Employment Program on embezzlement charges and the identification of nearly \$570,000 in questioned costs.

An OIG audit of Turner Job Corps Center questioned \$645,945 in costs charged for a security services subcontract and identified a need to improve controls over property and equipment.

Based on a congressional inquiry, the OIG evaluated the status of Pennsylvania's Trade Adjustment Assistance program funding and concluded that the funds were spent in accordance with requirements. However, we found that Pennsylvania still had a deficit for FY 2002 and continues to face shortages that will have to be met with additional WIA National Emergency Grants.

An OIG review of DOL's foreign labor certification programs showed that long-standing concerns about the program's vulnerability to fraud remain. OIG investigations also continue to detect such fraud, as in the case of a Virginia attorney sentenced to 10 years' imprisonment and ordered to forfeit \$2.3 million after submitting thousands of false labor certification applications.

OIG Goal #2: Safeguard and improve worker and retiree benefits programs

The OIG works to improve accountability in benefit programs such as unemployment insurance and disability compensation benefits, and to help safeguard the nation's pension system.

The OIG recommended improvements to reduce Unemployment Insurance overpayments by \$428 million annually in an audit of the DOL Benefit Accuracy Measurement (BAM) system. The audit found that BAM accurately detected and projected overpayments, but was not being used to reduce overpayments.

An OIG audit estimated that the IRS overcharged the Unemployment Trust Fund \$174 million for administering the fund in FYs 1999-2002. The OIG has reported on similar overcharges for years, and recommended ETA work with the IRS to adopt an acceptable methodology to capture administrative costs.

In FY 2003, nine defendants were sentenced in a fictitious employer unemployment fraud scheme involving four bogus companies in Pennsylvania. Their scheme caused Pennsylvania to issue 263 UI checks totaling about \$210,000.

Nine members of a Mexican family living in California were indicted on charges of conspiracy, mail fraud, identity theft, and money laundering for defrauding the State of California UI program. They allegedly laundered more than \$6 million obtained from fraudulent UI checks.

Thirteen members of a Mexican nontraditional organized crime group were indicted on charges of conspiracy, mail fraud, identity theft, and money laundering in connection with more than \$2.8 million in fraudulent UI claims. They defrauded four states' UI programs using at least 3,000 stolen identities.

Goal #3: Optimize the performance and accountability of worker protection and workplace safety programs

The OIG works to optimize the Department's efforts to foster workers' safety, health and workplace rights by enhancing program efficiency and accountability. The OIG also investigated violations of the Davis-Bacon Act by contractors who work on Federal construction projects.

An OIG evaluation conducted in response to a congressional request of OSHA's handling of immigrant workplace fatalities recommended that OSHA take steps to improve how it prevents workplace fatalities and manages workplace fatality investigations.

A joint investigation found that a nonunion New York City Housing Authority contractor used payroll and tax schemes to pay workers far below the prevailing wage. Owners of the contracting company pled guilty to money laundering and agreed to forfeit \$1.5 million. The Housing Authority cancelled \$7.8 million in contracts with the company.

OIG Goal #4: Assist DOL in maintaining an effective strategic management process

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

The OIG issued an unqualified audit opinion on DOL's consolidated financial statements. However, the audit found DOL was not in substantial compliance with the Federal Financial Management Improvement Act because DOL had not complied with managerial cost accounting requirements in Federal accounting standards. We also noted reportable conditions that require DOL's attention.

OIG audits of information security programs and practices of several DOL agencies reported high-risk control findings that needed corrective action. In several cases, DOL agencies took corrective actions in response to our findings prior to the issuance of our report.

The OIG reported that DOL's electronic media disposal policies were inadequate after finding that 85% of the surplus computers in our sample contained licensed software and/or sensitive,

personal, or confidential information. The OIG recommended, and DOL agreed to, placing an immediate moratorium on the release of surplus electronic media until it can be properly sanitized.

OIG Goal #5: Combat the influence of organized crime and labor racketeering in the workplace

In FY 2003, OIG labor racketeering investigations resulted in 182 indictments, 123 convictions, and \$27.9 million in fines, restitutions, forfeitures, and civil monetary actions. Examples of OIG investigations are outlined below.

Gambino LCN Family boss Peter Gotti and six associates were found guilty of racketeering, conspiracy, extortion, money laundering, and gambling. In addition, a former president ILA Local 1814 pled guilty to Racketeer Influenced and Corrupt Organizations (RICO) Act violations. These individuals corruptly influenced unions and businesses on the New York and New Jersey waterfronts.

A reputed member of the Genovese Organized Crime Family was sentenced to nearly six months' imprisonment plus probation and was ordered to pay more than \$820,000 in restitution. He was convicted of embezzling more than \$900,000 from ILA Local 1588, mostly through a salary diversion scheme. He controlled the selection of four union officials, who gave him half of their paychecks.

A Boston man was sentenced to more than nine years' imprisonment after pleading guilty to charges under the RICO statute using predicate acts of extortion and embezzlement from the Teamsters Health Fund and interstate transportation of stolen property. At trial, it was revealed that he was one of the top Irish organized crime figures who controlled the Charlestown area of Boston and Teamsters Local 25.

The president of Teamsters Union Local 25 who was also a health plan and pension fund trustee pled guilty to Hobbs Act extortion, violating the Taft-Hartley Act, conspiracy to steal and embezzle from an employee benefit program, filing false documents under the Employee Retirement Income Security Act, and committing mail fraud.

A former investment advisor for Indiana-based Local 1969 of the ILA Pension Fund was sentenced to 18 months' incarceration and was ordered to pay more than \$2 million in restitution. He converted more than \$500,000 of pension fund monies for his own use through real estate investments and laundered converted pension funds.

A former state director of the United Public Workers Union was sentenced to five years' imprisonment and was ordered to pay \$428,000 after defrauding union dental and health benefit programs. He was also found guilty of embezzling union assets and receiving kickbacks in connection with a union benefit plan.

Three Michigan contracting companies pled guilty to making a prohibited payment to a union official. They improperly delivered nearly \$116,000 worth of building materials, for which they were not reimbursed, to Michigan Regional Council of Carpenters (MRCC) officials for use in building a MRCC official's home.