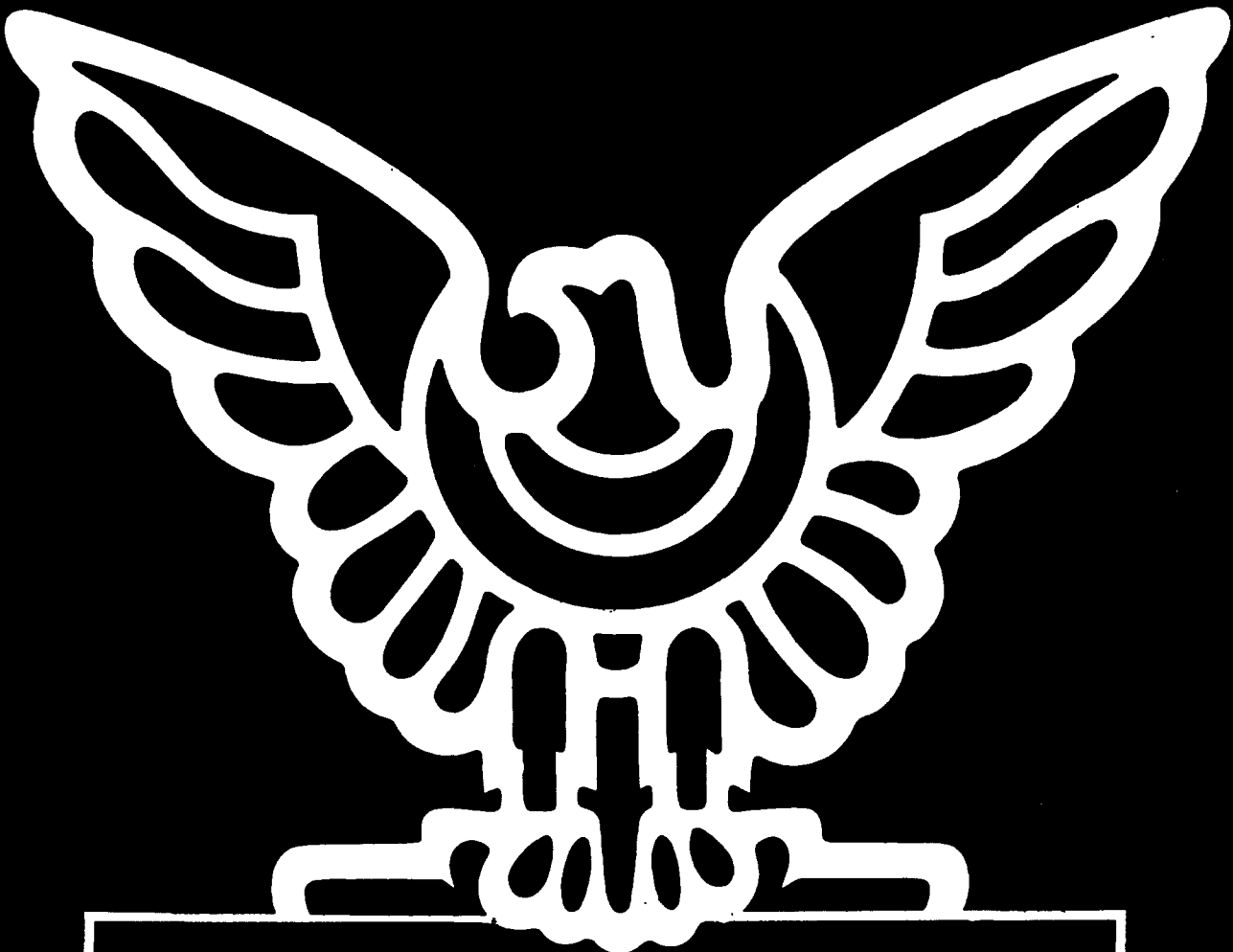


**Semiannual Report  
Office of Inspector General  
U.S. Department of Labor**

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April 1 - September 30, 1992



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# Semiannual Report Office of Inspector General U.S. Department of Labor

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U.S. Department of Labor  
Lynn Martin, Secretary

Office of Inspector General  
Julian W. De La Rosa, Inspector General

April 1 - September 30, 1992

## THE INSPECTOR GENERAL'S MESSAGE

*This Semiannual Report, covering the period April 1 - September 30, 1992, marks the close of a very productive fiscal year for the Office of Inspector General (OIG).*

*During Fiscal Year 1992, the OIG issued 500 audits of departmental programs, reporting questioned costs of \$86.3 million. An additional \$42.2 million was recommended by the OIG to be put to better use. During this period some \$70.2 million of costs were disallowed by the Department as a result of OIG audit recommendations. Comparable achievements were attained through the OIG's criminal investigations. Law enforcement activities produced 290 successful criminal prosecutions and 333 indictments; and generated almost \$58 million in fines, penalties, restitutions, settlements, forfeitures, and cost efficiencies.*

*Among the OIG's many noteworthy accomplishments in the past fiscal year is the major role the OIG played in support of the enactment of the Job Training Partnership Act amendments. The passage of these amendments demonstrates the positive results that can be achieved through the input and analysis provided by the OIG to the Congress. This new law, complemented with a comprehensive regulatory program, is designed to address many of the systemic weaknesses documented by OIG audits and investigations over the past several years. The significant accomplishments achieved by the OIG in identifying and combating fraudulent, employer-sponsored health insurance plan schemes are also worthy of special note.*

*During this reporting period, I continued to appear before congressional committees to provide testimony on matters related to Departmental programs and operations. These committees have always been receptive to my remarks and recommendations. Their interest in OIG activities is greatly appreciated.*

*I remain greatly concerned that the Department has not selected a Chief Financial Officer despite the critical need to fill this position, as demonstrated by the findings of the OIG's numerous financial management audits.*

*In addition to my responsibilities as Inspector General, I am honored to have been recently appointed to serve as Vice Chair of the President's Council on Integrity and Efficiency (PCIE). The PCIE was established by the President to coordinate and enhance efforts to promote integrity and efficiency throughout Government. I have been especially gratified to have the opportunity to work closely with Frank Hodsoll, Deputy Director for Management of the Office of Management and Budget, and my fellow Inspectors General in this important activity.*

*In conclusion, I want to commend Secretary Lynn Martin, Deputy Secretary Delbert Spurlock, and the Department of Labor executive team for their sustained efforts to improve overall management. I look forward to continuing to work closely with the Department to ensure that it continues to fulfill its responsibilities to the American worker.*

*Sincerely,*



*Julian W. De La Rosa  
Inspector General*

## REPORTING REQUIREMENTS UNDER THE INSPECTOR GENERAL ACT OF 1978

The table below cross-references the reporting requirements prescribed by the Inspector General Act of 1978, as amended, to the specific pages where they are addressed. The information requested by the Congress in Senate Report No. 96-829 relative to the 1980 Supplemental Appropriations and Rescission Bill is also cross-referenced to the appropriate page of the report.

### Requirement

<b>Inspector General Act</b>	<b>Page</b>
Section 4(a)(2)-Review of Legislation and Regulations . . . . .	90
Section 5(a)(1)-Significant Problems, Abuses, and Deficiencies . . . . .	9
Section 5(a)(2)-Recommendations With Respect to Significant Problems, Abuses, and Deficiencies . . . . .	9
Section 5(a)(3)-Prior Recommendations Not Yet Completed . . . . .	None
Section 5(a)(4)-Matters Referred to Prosecutive Authorities . . . . .	5
Section 5(a)(5) and 6(b)(2)-Summary of Instances Where Information Was Refused . . . . .	None
Section 5(a)(6)-List of Audit Reports . . . . .	126
Section 5(a)(8)-Statistical Tables on Management Decisions on Questioned Costs . . . . .	119, 120
Section 5(a)(9)-Statistical Tables on Management Decisions on Recommendations That Funds Be Put to Better Use . . . . .	121
Section 5(a)(10)-Summary of Each Audit Report Over 6 Months Old for Which No Management Decision Has Been Made . . . . .	122
Section 5(a)(11)-Description and Explanation for Any Significant Revised Management Decision . . . . .	43
Section 5(a)(12)-Information on Any Significant Management Decisions With Which the Inspector General Disagrees . . . . .	None
 <b>Senate Report No. 96-829</b>	
Resolution of Audits . . . . .	119-121
Delinquent Debts . . . . .	113

## **SIGNIFICANT CONCERNS**

### **The Department Needs to Make Pension Plan Audit and Enforcement Amendments a Legislative Priority**

Since 1984, through our semiannual reports and congressional testimony, the OIG has reported its concerns that hundreds of billions of dollars in employee pension funds are not being safeguarded by adequate audits. This results from the limited scope provision of the Employee Retirement Income Security Act (ERISA) of 1974 that exempts funds invested in federally regulated entities from the audit requirement. This is based on the inaccurate assumption that these institutions receive adequate audit coverage from other Federal agencies.

The OIG has long recommended legislative changes to improve the quality of pension plan audits and to increase the costs of unlawful behavior. Moreover, the General Accounting Office, the American Institute of Certified Public Accountants, and other organizations have expressed their support of the OIG's recommendation that the limited scope provision of ERISA be eliminated. The OIG is concerned that, despite the Department's agreement with most of our recommendations, passage of these legislative changes has not been made a Departmental priority. We urge the Department to rectify this situation.

### **Employer-Sponsored Health Insurance Still Subject to Abuse**

OIG investigations continue to reveal extensive fraud and abuse in Multiple Employer Welfare Arrangements (MEWAs). With the rising cost of health care, MEWAs have evolved into a usually legitimate, commercial alternative to traditional health insurance. All too often, however, the MEWA concept has provided an avenue for egregious frauds. Through bogus labor unions, associations, and memberships, a new breed of white collar racketeers has bilked thousands of American workers out of millions of dollars in paid premiums, leaving them with millions in unpaid claims and the threat that they will never be insured for their "pre-existing" conditions. Although numerous bills were introduced in the Congress that attempted to address various facets of the problem, the Congress adjourned before action was taken on any of them. The OIG encourages the Department and the Congress to revisit this issue early in the next Congress.

## **The Chief Financial Officer Post Remains Vacant**

The Chief Financial Officer (CFO), as established by the CFO Act, is the focal point of the Department's financial management and accountability. Although the Office of Management and Budget approved the Department's reorganization of financial management activities over a year ago and implementing guidance was issued 6 months ago, a CFO for the Department of Labor has yet to be nominated. As detailed throughout this report, OIG financial audits continue to find major internal control weaknesses in the Department's financial management. A CFO is urgently needed to provide the leadership necessary to correct these Departmentwide problems.

## **The Department Must Capture the Promise for Improved Fiscal Accountability Provided by JTPA Amendments**

The OIG is encouraged by the recently enacted amendments to the Job Training Partnership Act (JTPA) and is proud to have played an integral part in the legislative process. The amendments are designed to alleviate some of the long-standing problems that have thwarted the success of the program, as reported in previous OIG reports. Key to the effectiveness of the new amendments, however, will be developing, promulgating, monitoring, and enforcing comprehensive regulations that are needed to implement the law. The OIG is working closely with the Employment and Training Administration to ensure that these regulations are issued in a timely manner.

## **Inefficiencies Still Plague Deputation Request Process**

In our last report, we set forth the inefficiencies associated with the administrative process used by the Department of Justice (DOJ) to review and act on requests for the deputation of Office of Investigations (OI) Special Agents as special deputy U.S. Marshals. Despite meetings with DOJ officials and their agreement to handle these matters in a more timely manner, we have experienced a significant increase in the length of time required by DOJ to process these requests. For example, During the first 9 months of Calendar Year 1992, the DOJ approved almost 500 individual deputations for OI agents. These requests required an average of almost 45 days for DOJ to process but, individually ranged up to 85 days to be completed. The delays associated with the DOJ review process are so significant that they have an adverse impact on the effectiveness and efficiency of OI investigations.

## EXECUTIVE SUMMARY

### **DOL Accounting Operations Need Improvement**

A Departmentwide OIG audit of the Consolidated Financial Statements for Fiscal Year 1991 found that, although the consolidated principal statements presented fairly the financial position of the Department, significant weaknesses still exist. The OIG audit concluded that the Department of Labor needs to improve its accounting operations . . . . . page 14

### **JTPA Amendments Address Systemic Program Weaknesses**

The OIG played an integral role in the process of amending the Job Training Partnership Act (JTPA) and urges the promulgation of comprehensive and effective regulations to implement the recently enacted law. Audits and investigations detailed in this report, reveal the long-standing and systemic fiscal accountability problems that the amendments are designed to correct . . . . . page 25

An inadequate procurement system and other administrative deficiencies by the East Texas Council of Governments led to almost \$5.8 million being questioned by an OIG audit. This amount was predominantly attributable to excessive profits generated by subcontractors . . . . . page 27

The OIG continued to devote significant resources to conducting JTPA fraud investigations. OIG efforts resulted in numerous convictions, indictments, and guilty pleas. For example, four former account executives/placement counselors of the New York City-based Project Rebound and three others, pled guilty and were sentenced. Their pleas and sentences stem from their involvement in a scheme that defrauded the JTPA program of some \$632,000 in on-the-job training funds . . . . . page 97

### **Embezzlement by Health Insurance Consultants Results in \$8 Million in Unpaid Medical Claims**

An OIG Office of Labor Racketeering investigation of a Washington State insurance consulting firm led to the indictment of its president and two of his associates on charges that they cheated thousands of American workers out of about \$8 million in health insurance claims . . . . . page 81



## **Labor Racketeering Sting Operation Nabs Organized Crime Figures**

An undercover investigation, conducted jointly by the FBI and the Office of Labor Racketeering, resulted in the indictment of three reputed Patriarca organized crime family members and a Teamsters Union member on charges of conspiracy to bribe labor union officers and racketeering . . . . . page 85

## **Audiologist Guilty in FECA Fraud Scheme**

A New Hampshire audiologist was found guilty on 130 counts of a 136-count indictment which included charges of mail fraud and making false statements. The conviction stems from his involvement in a scheme in which he billed OWCP and Medicare for the same services or for services not performed . . . . . page 102

## **Significant OIG Audits Resolved With Program Agencies**

Significant audit findings were resolved during this reporting period with various Department of Labor program offices. These included previously reported audits on various JTPA grantees and SDAs; OSHA's settlement of, and followup on, egregious cases; the Solicitor's Office management of their litigation function; and two information resources management audits. For JTPA alone, audit resolutions resulted in over \$10 million in disallowed costs . . . . . pages 37, 53, 58, 62, 64

## **Atlanta Couple Pleads Guilty to Multi-State Unemployment Insurance Fraud Scheme**

An Atlanta couple pled guilty to charges of conspiracy and fraud for their involvement in an eight-state unemployment insurance fraud scheme. They had previously been indicted on 142 counts of various Federal violations . . . page 100

## **Twenty Members of the Newspaper Mail Deliverers Union and the Bonnano Organized Crime Family Indicted for Racketeering Activities**

Twenty individuals were indicted in New York for their involvement in a criminal enterprise which allegedly controlled the systemic theft and sale of *New York Post* papers and which was involved in organized crime activity. The individuals indicted included members of the Newspaper Mail Deliverers Union and the Bonnano Organized Crime Family . . . . . page 88

**SELECTED STATISTICS**  
**April 1 - September 30, 1992**

**Office of Audit**

Reports issued on DOL activities . . . . .	246
Total questioned costs . . . . .	\$ 23.0 million
Funds recommended for better use . . . . .	\$ 42.1 million
Dollars resolved . . . . .	\$ 70.5 million
Allowed . . . . .	\$ 44.0 million
Disallowed . . . . .	\$ 26.0 million
Agreed funds be put to better use . . . . .	\$ .5 million

**Office of Investigations**

Cases opened . . . . .	236
Cases closed . . . . .	362
Cases referred for prosecution . . . . .	154
Cases referred to DOL agencies for administrative action . . . . .	119
Indictments . . . . .	86
Convictions . . . . .	94
Recoveries, cost efficiencies, restitutions, fines/penalties, civil monetary actions, forfeitures, and court costs* . . . . .	\$ 5,174,901

**Office of Labor Racketeering**

Cases opened . . . . .	110
Cases closed . . . . .	44
Indictments . . . . .	85
Convictions . . . . .	62
Fines . . . . .	\$ .4 million
Restitutions . . . . .	\$ 7.2 million
Forfeitures . . . . .	\$ 3.5 million

\*For definitions of these categories and a breakdown of the total figure, please see the appendix to the Office of Investigations Section on page 106.

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## **Section I**

### **Major Problems, Abuses, or Deficiencies, and Recommendations for Corrective Action**

## FINANCIAL MANAGEMENT

The OIG has made a long-term commitment to improve financial management in the Department through audits of the Department of Labor's (DOL) annual financial statements and audits of financial and accomplishment data at the program level. Only with reliable financial and program accomplishment data, can management make valid comparisons of financial inputs and programmatic output, allowing for more informed and effective decision-making.

In order to achieve full accountability, top-level program and fiscal managers need to ensure that accurate and complete financial and program accomplishment data are maintained. Audited financial statements are a vital mechanism to demonstrate management's oversight and accountability over Federal funds. They serve as a focal point for measuring and managing the cost of Government.

The OIG audited the Department's consolidated financial statements for the first time in 1986 and continued to prepare and audit the reports for several years after. The 1986 audit found that financial operations were not integrated and controls over financial reporting were very weak. Moreover, the audit found that the accounting system, which was more than 15 years old, was barely functioning and was not meeting the needs of the Department. The audit also found that the Department did not have sufficient staff capable of preparing financial reports.

In the 6 years since that first audit, the Department has made progress toward improving its financial operations and reporting. The Department has installed a new central accounting system, established accounting practices that conform to the Standard General Ledger, and begun integrating the previously separate accounting operations of the program agencies. However, management has to make substantial additional improvements to achieve a fully integrated financial management operation in which program managers are held fully accountable for the resources allocated to them to carry out the Department's programs.

A year ago, the OIG reported that the Department had still not nominated a Chief Financial Officer (CFO). The OIG also identified the following three critical actions needed to improve the Department's financial management: (1) the Department needs to complete the implementation of an integrated financial management system, (2) it needs to improve its financial and performance reporting, and (3) it needs to implement its CFO organization. To date, progress in each of these areas has been slow. Recent audit reports demonstrate the need for faster progress in each area.

## **STATUS OF CRITICAL FINANCIAL MANAGEMENT NEEDS**

### **Appointment of a Chief Financial Officer (CFO)**

The Department's CFO, as provided by the CFO Act, is intended to serve as a focal point for financial management and accountability within the Department. Although the Office of Management and Budget approved the Department's reorganization plan over a year ago and departmental implementation guidance was issued on March 11, 1992, a CFO for the Department has never been nominated. A permanent, strong CFO is critical to make further-needed financial management progress and to improve management's accountability for its financial resources and the program results that those resources achieve.

### **Integrated Financial Management System**

In 1986, the Department began development of its new central accounting system, the Department of Labor Accounting and Related Systems (DOLAR\$). The general ledger is now fully operational and has resulted in major improvements in central accounting operations. However, this accomplishment has highlighted the need for integration of DOLAR\$ with subsidiary accounting systems. It has also demonstrated the need for continued education of the Department's staff. The FY-91 financial audits disclosed major weaknesses in how certain subsidiary systems interfaced and in the quality of the information entered into the central accounting system.

### **Financial and Performance Reporting**

Over the past several years, OIG audits have found that internal and external accounting reports contain unreliable and misleading financial information. With the implementation of DOLAR\$ and the changes in the Department's financial staff, significant improvements have been noted. Two efforts from the past year are particularly noteworthy.

First, DOL management prepared annual financial statements, for the first time, for the entire Department. While some contractor support was needed, DOL management was responsible for directing the preparation of the financial statements. However, based on OIG audits, the quality of the reports needs to be improved. FY-91 financial statements required numerous adjustments because of a lack of understanding of the makeup of certain accounts, poor controls over interfaces with subsidiary systems, and inadequate controls over data entry.

Second, the Department included program performance measures and accomplishments as part of its financial report. The Department identified performance measures for each program, with financial information also presented for each program agency. The CFO Act recognizes the importance of performance measures and the need to correlate them

with financial information. Benefits received from the resources invested are best determined by correlating meaningful program accomplishments with the financial inputs.

The Department now needs to refine these performance measures to ensure that all significant measures are included and all insignificant measures are excluded; thus, to emphasize only significant accomplishments, products, and activities. More importantly, the Department must continue to refine and improve the analysis of these measures to correlate them better with financial information and to use the results to inform its program and budget decision-making.

### **CFO Organization**

The Department has made progress toward implementing its CFO organization, although it still lacks a CFO. In the past year, additional staff have been hired and have been trained by the Department as it has sought to increase its financial management skills. These positive steps fall short of the intent of the CFO Act, however, because of the Department's continued reluctance to designate a CFO. Only a designated CFO, working effectively with the Assistant Secretaries of DOL's major programs, will ensure the integration of financial and program management and improve financial management throughout the Department.

### **FISCAL YEAR 1991 FINANCIAL AUDITS**

The Department of Labor is a designated pilot agency under the CFO Act. In addition to the required audit of the FY-91 Consolidated Financial Statements of the Department, the OIG compiled and audited the financial statements of the four largest program agencies and all trust and revolving funds of the Department. These sub-departmental audits are essential to focusing management accountability at the program level. The nine bureau/fund-level components audited were:

- 1) Employment and Training Administration
- 2) Employment Standards Administration
- 3) Occupational Safety and Health Administration
- 4) Mine Safety and Health Administration
- 5) Unemployment Trust Fund
- 6) Black Lung Disability Trust Fund
- 7) Longshore and Harbor Workers' Compensation Special Fund
- 8) District of Columbia Workmen's Compensation Special Fund
- 9) Working Capital Fund



The results of the consolidated audit are presented below. The audits of the individual components are discussed in the program agency or departmental management sections of this report.

**FY 1991 and FY 1990 Consolidated Department of Labor  
Financial Statements Audit  
Report No. 12-92-002-07-001; issued August 28, 1992**

The consolidated financial statements audit provides an overall assessment of the Department's financial management. It highlights significant Departmentwide problems and specific program or fund management problems that impact on the overall financial operations of the Department.

The OIG audited the Department's principal financial statements for Fiscal Years 1991 and 1990. The objectives of the audit were to report on (1) whether the financial statements presented fairly the Department's financial position, (2) the adequacy of the Department's internal accounting control structure, and (3) the Department's compliance with applicable laws and regulations.

The Department's financial statements for FY-91 reflect \$38.8 billion in expenses and \$33.2 billion in revenues. Nearly 90 percent of these amounts are "pass-through" funds, most of which represent State funds for unemployment insurance benefit payments administered by State government agencies (\$27.3 billion in expenses). Another large portion of the Department's resources are delivered to recipients under the authority of the Job Training Partnership Act (JTPA) grant programs (\$4.3 billion in expenses). The JTPA program delivery system includes State and local government entities that provide employment services and contract for training and related services with the private sector. The balance of the Department's expenses of \$7.2 billion relate to benefit payments and services provided directly by the Department.

**Financial Statement Opinion.** In the OIG's opinion, the consolidated principal statements presented fairly, in all material respects, the financial position of the Department, as of September 30, 1991 and 1990. The audit also found that, for the two years, the results of the Department's operations, changes in financial position, and reconciliation to budget reports were presented fairly in accordance with departmental accounting policies and procedures.

The OIG's overall opinion on these statements, however, was restricted by the following: First, the OIG was unable to ascertain precisely the fairness of the amounts recorded for coal tax revenue for the FY-91 and FY-90 financial statements. This is because, although periodic reports are provided by the Treasury on this revenue, the DOL does not have access to the detailed accounting records, nor does it receive any audit assurance on the accuracy of Treasury reporting. Second, the principal financial statements for FY-90 had

to be qualified because they lacked adequate supporting documentation for monetary advances to grantees.

**Report on Internal Control Structure.** The OIG evaluated the Department's internal control structure and identified the following six reportable conditions, the first four of which are considered to be material in relation to the financial statements:

- 1) The Department's accounting operations require improvement.
- 2) The Department's accounting and reporting for grants are inadequate.
- 3) The Unemployment Trust Fund lacks an accounting system.
- 4) Federal tax revenue data provided by the Treasury are not adequate for program management.
- 5) Supporting data for administrative assessments to the Unemployment Trust Fund are needed.
- 6) Improvements are needed in the Working Capital Fund's financial controls.

We have made recommendations to correct the six weaknesses. Departmental management has generally concurred with our recommendations and is currently developing a corrective action plan.

**Report on Compliance.** The results of our tests for compliance disclosed two potential noncompliance issues. First, the report identified an accounting practice related to the Job Training Partnership Act that may result in a noncompliance activity. The Department's practice of charging reported JTPA costs to the earliest appropriation did not provide adequate assurance of effective compliance with the Anti-Deficiency Act and the Federal Managers' Financial Integrity Act. The OIG has requested an opinion from the Comptroller General of the United States on the requirements for proper appropriation fund control. The recent enactment of the JTPA amendments, which include financial reporting specifications, may resolve this issue.

Second, the Working Capital Fund (WCF) is budgeting for, and charging DOL agencies for, activities that are not authorized by the enabling legislation. In the OIG's opinion, the WCF charged participating agencies \$7,209,194 in FY-91 for activities and services not authorized by the enabling legislation. Although the types of expenses were reasonable for the Department, they should not have been charged to the WCF.

## **FINANCIAL MANAGEMENT WEAKNESSES**

The Report on Internal Control Structure identifies the most significant weaknesses and improvements needed in the management of the Department's finances. As listed above, six reportable conditions were identified. The nature of the problems is as follows.

**Departmental Financial Accounting Operations.** In FY-90, the Department implemented DOLAR\$. The OIG found that the core general ledger system of DOLAR\$ operates as intended and has adequate accounting controls built into its automated system. However, improvements are needed in the interfaces with subsidiary systems and manual processes. Also needed are improved controls over the input of data, the use of DOLAR\$ reporting capabilities, and manual procedures. Primarily, these weaknesses reduced control over the following areas: funds with the U.S. Treasury, property, accounts payable and undelivered orders, payroll, and financial reporting.

For funds with the U.S. Treasury, the OIG found that regular comparisons were performed on amounts recorded in DOLAR\$ to payments and receipts reported to them by the U.S. Treasury. However, differences were not always analyzed for significant variances and unrecorded payments and receipts. For example, OSHA reported in DOLAR\$ that \$52.2 million in penalty collections had been received from employers and deposited in the U.S. Treasury. However, the area offices responsible for processing the penalty collections posted \$59.1 million to the OSHA tracking system.

The Departmental Property Management System (DPMS) was the Department's official property system during FY-91. In prior audits, DPMS has been criticized because of lack of integration with DOLAR\$, incomplete property listings, and lack of property accountability. These conditions continue to exist. DPMS is no longer the official property system, however, and new property systems are still being implemented. Consequently, the audit concluded that the Department continues to have incomplete property management.

The audit found numerous problems with accounts payable and undelivered orders. It estimated that accounts payable were understated by \$25 million and undelivered orders were overstated by \$37 million. It also found that accounting staff were using transaction codes that did not edit against prior obligations to speed data entry, that they were not always deobligating account balances timely, and that they had poor filing systems for transaction documentation.

The payroll amounts reported by the payroll system and those reported by DOLAR\$ did not agree. Differences were identified, but not fully analyzed to determine the reason for the difference. While the differences were not significant, this situation was symptomatic of a general lack of adequate reconciliation procedures in the Department.

Although the Department has made substantial progress to improve its financial reporting capabilities, further refinements are needed. For example, because of a lack of adequate reconciliations to subsidiary systems or source documentation, inaccurate reports are produced. Also, manual processes were prone to breakdowns. For instance, OSHA overstated its penalty receivables by \$15.3 million on a Treasury report. MSHA also

misstated its penalty receivables. Moreover, over \$100 million in reported grantee advances were unsupported.

The causes of these financial operations problems include insufficient financial staff and inadequate reconciliation procedures, supervisory reviews, record keeping systems, and communication among financial staff. The Department has not agreed with the scope of the conditions identified by the audit. The Department, however, has agreed with the audit recommendations for corrective action and is developing a corrective action plan.

**Grant Accounting and Reporting.** This area has been a long-standing weakness of the Department. Reconciliations of grant source documentation/subsidiary ledgers and the DOLAR\$ general ledger control accounts were incomplete or were not performed. Additionally, timely recording of grant information was not always accomplished. The OIG also found problems with improper matching of expenses, inadequate enforcement of fund control and grantee financial reporting requirements, inaccurate accruals, inadequate cash management, and improper offsetting of receivable and payable balances.

The Employment and Training Administration (ETA) is the largest grant-awarding agency in the Department of Labor. In FY-91, ETA incurred \$7.1 billion in grant expenses out of a total of \$7.3 billion. The largest of the Department's grant programs, the JTPA, had \$4.2 billion in training grant expenses for FY-91. ETA also issues grants for employment service and Unemployment Insurance (UI) activities in the States. During FY-91, ETA utilized the Regional Automation System (RAS) as its subsidiary grant accounting system.

A new grant management system is being developed by ETA. Although ETA has devoted much effort to developing computer software for a new grant and contract management system, the OIG remains concerned that fundamental internal control weaknesses that remained unaddressed under the old system could, likewise, significantly hamper the success of the new system.

The testing of records during the course of our audits revealed that both the RAS and DOLAR\$ accounting records were unreliable and contained material misstatements. For example, a net adjustment of \$240 million was made to employment and training grants because of inadequate cost estimations. Another \$184 million in adjustments was made to correct accounting errors.

Expenses were not being properly matched with appropriations. Since inception, ETA has administered the JTPA program using one grant agreement per State, with a separate appropriation established for each fiscal year. Because each State reports JTPA costs on a cumulative basis and a separate grant number is not established for each appropriation, the system does not track reported costs by appropriation. ETA utilizes a First-In, First-Out (FIFO) methodology, whereby costs are applied to the oldest appropriation with

unexpended funds before costs are applied against subsequent years. As a result, the OIG believes that appropriate fund control is not being exercised over the JTPA program. These accounting procedures fail to:

- identify when appropriations lapse and are no longer available for expenditure;
- prevent recording of grantee-reported JTPA expenditures against obligations after the available 3-year time for liquidating obligations has lapsed; and
- reduce amounts obligated when unliquidated obligations have lapsed.

The Department has disagreed with the OIG's position. As a result, the OIG has formally requested an opinion from the Comptroller General of the United States regarding the requirements of fund control over appropriations authorized by Public Law 97-300, the Job Training Partnership Act. While the recent amendments to the JTPA may make this issue moot for future appropriations, the Comptroller General's decision is still needed, since it would apply to all past JTPA appropriations.

Accruals of grantee costs were inaccurate. JTPA grants made to State governments are only required to report on a semiannual basis. Reports due under JTPA's provisions cover 6-month periods that do not coincide with the Federal fiscal year. Consequently, these statutory provisions require ETA to estimate and accrue cost for financial reporting purposes.

To compensate for JTPA reporting differences and other grantee and contractor reporting delays, ETA established a cost estimation model. The model, however, does not result in accurate cost accruals. For the year ended September 30, 1991:

- ETA's practice of recording JTPA costs against the oldest available obligation authority resulted in a **\$22 million underestimated** accrual.
- Untimely input of cost reports in RAS resulted in a **\$53 million underestimated** accrual.
- The model's assumption that grantees expend funds evenly over the year resulted in a **\$157 million underestimated** accrual.

Cash management also could be improved. ETA did not have formal, uniform procedures for preventing grantees and contractors from drawing down excess cash. For example, one grantee drew down \$12.8 million in one quarter. Expenses for the quarter were \$2.6 million, resulting in an excess cash draw of \$10.2 million.

Finally, with respect to ETA, our analysis of the receivable and liability accounts used to record grantee and contractor advances activity revealed that the balances applicable to the various grantees and contractors were offset and not separately recorded. In effect, the amounts receivable from some grantees were offset against the amounts payable to others. This practice **understated** ETA's receivables and liabilities by **\$167 million** each as of September 30, 1991

Four other agencies of the Department also make grants, although their grant programs are much smaller than the ETA programs. These agencies: OSHA, MSHA, BLS and VETS, had similar problems to those experienced by ETA, except on a smaller scale. Problems identified included lack of timely receipt of grantee information, untimely input into DOLAR\$, ineffective filing systems, inadequate reconciliations of DOLAR\$ to supporting data, and inadequate fund control and cash management.

The Department has agreed with most of our recommendations and is planning corrective actions.

**Unemployment Trust Fund (UTF) Accounting System.** Past reports have called for integration of the UTF into DOL's general ledger (DOLAR\$). Minimal progress to this end has been made. Although recording year-end, summary financial data in DOLAR\$ has been initiated, ETA has not developed a comprehensive system of financial control over this \$50 billion fund for which DOL has program and CFO financial statement responsibility.

The Federal-State unemployment insurance (UI) program is the largest single program administered by the Department of Labor. The UI program was created as a means to alleviate personal hardship due to involuntary unemployment and to stabilize the economy. Benefits are available to unemployed workers who meet State qualifying and eligibility requirements.

The UTF accounts for the receipts of Federal and State unemployment taxes that are held in trust and used to carry out the Federal-State UI program. The Department of Labor and the Department of the Treasury (Treasury) are jointly responsible for the operations of the UTF. Treasury acts as custodian for the monies held by the UTF and is responsible for their deposit, investment, and disbursement. The DOL has budget authority over the monies held in the UTF and is responsible for the administrative oversight and policy direction of the UI system and for including the UTF in its annual CFO financial statements.

The OIG audit determined that ETA had not established accounting system control over the UTF. Rather, to fulfill the Secretary's responsibilities over the UTF (including financial reporting under the CFO Act), ETA has relied on the fact that the Treasury

maintains certain cash-basis accounts for the UTF. ETA has historically converted the UTF cash-basis financial statements, prepared by the Treasury, to accrual-basis statements.

ETA's lack of an accounting system for the UTF prevents ETA officials from properly reviewing UTF financial data and could result in financial statements that contain material misstatements. More importantly, errors or omissions in recording all UTF cash transactions by Treasury could occur and not be detected by ETA management during the normal course of operations.

The Department has acknowledged that meaningful reports cannot be prepared without timely information from Treasury. It has further stated that, during periods of high unemployment and economic hardship, it is critical that the Unemployment Insurance Service be able to closely monitor account balances in the UTF since the entire UI system depends on the solvency of these accounts. The OIG believes that the solvency of the UTF cannot be adequately determined or monitored without timely and comprehensive accrual-basis financial information. While the Department generally agrees with the need to integrate UTF accounting into DOLAR\$, ETA strongly disagreed with our conclusions and recommendations, stating that accrual-basis accounting would provide no information of value to UI program managers. The OIG, to the contrary, remains convinced that management decisions should be based on the most complete, accurate, and current financial information available. The OIG believes that comprehensive, accrual-basis accounting of the \$50 billion UTF is vital to the operation of this program and to the proper discharge of the Department's management responsibility for the fund.

**Federal Tax Revenue Data.** The Internal Revenue Service (IRS) collects unemployment and coal production taxes for the UTF and the Black Lung Disability Trust Fund (BLDTF), respectively. The IRS remits Federal Unemployment Tax Act (FUTA) taxes to the UTF based on estimates of FUTA taxes collected. The Social Security Act requires the Treasury to adjust, as appropriate, estimated tax transfers to actual tax receipts.

The OIG found that ETA does not have the necessary information, nor the procedures, to monitor IRS transfers of FUTA taxes to the UTF. During FY-89, the Treasury transferred approximately \$1 billion from the UTF back to the General Fund of the Treasury for adjustments to estimated tax revenue transfers for Calendar Years 1983 through 1988. However, ETA had no evidence that any such adjustments had been made, or were due, for Calendar Years 1989 through 1991.

For the BLDTF, the Treasury maintains the accounting records and provides periodic reports on tax collections from coal mine operators to the Employment Standards Administration (ESA). ESA does not have access to the detailed accounting records or reports that would provide better, more timely information for evaluating the financial health of the BLDTF and to forecast future revenues for program management.

The Department, ETA, and ESA agreed with the OIG's recommendations about the need for more information from the Treasury and that FUTA tax collections need to be monitored.

**Unemployment Trust Fund Administrative Assessments.** Within certain limits, the Social Security Act provides for payments from the UTF for the reimbursement of administrative costs that DOL and the Treasury incur while carrying out their responsibilities under the Act. The Act also allows for payment of Treasury's estimated administrative costs. Subsequently, these estimated payments are to be adjusted to demonstrate actual costs.

The OIG review found that ETA did not have procedures in place to review these administrative charges to ensure that they were proper, reasonable, and in accordance with the Social Security Act. Detailed information to support administrative charges to the UTF were not provided to ETA on a regular basis nor did ETA request such documentation. Without adequate documentation to monitor administrative charges, ETA cannot be assured that UTF assets are being used as intended.

There is disagreement between the Department's and ETA's responses to this condition. The Department concurred with the report's recommendations. ETA, however, proposed that the annual budget process and reliance on periodic DOL-OIG and Treasury-OIG audits would be sufficient to document the appropriateness of administrative assessments to the UTF. The OIG believes that management is responsible for establishing and maintaining a system to ensure the appropriateness and integrity of accounting data rather than relying solely on the budget process and after-the-fact audits. The OIG is awaiting ETA's response to the final report.

**Working Capital Fund Financial Controls.** The WCF is an intra-governmental revolving fund established to provide certain goods and services to DOL agencies which can be provided more efficiently and economically through centralized coordination and direction. On the basis of its audit work this reporting period, the OIG concluded that inadequate accounting procedures resulted in unreliable balances of major accounts and overbilling of agencies. Further, cost recovery from program agencies for services provided through the WCF was not accomplished according to established departmental policy.

The audit also found that poor accounting procedures particularly affected property, accounts payable, and expense accounts. Property accounts were materially misstated by at least \$4.5 million because of poor record keeping. The lack of adequate procedures in WCF service organizations for recording accounts payable transactions as well as the related liquidating of undelivered orders, resulted in an audit adjustment of almost \$1 million. Due to a lack of reconciliation between expended appropriation and related expense accounts, program agencies were overbilled in FY-91 by \$623,000 for WCF services.



In addition, departmental WCF management policies were not followed in recovering WCF costs from program agencies. Costs that should have been charged directly, according to the Department's pricing strategy, were being charged as overhead expenses. The OIG analysis concluded that the use of modified overhead allocation tables resulted in inequitable charges, excessive overhead, and large budget variances.

While the Department disagreed that inequitable charges resulted from chargeback methods it is employing, it plans to take corrective action on each audit recommendation.

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In conclusion, since the first OIG audit in FY-86, the Department has made significant improvements in financial management. However, much still remains to be accomplished. The financial management weaknesses identified in the FY-91 audit are serious. They indicate the need to improve financial systems at all levels in the Department. The central accounting system can meet management's needs and the various reporting requirements that the Department places on it. However, the information generated will only be as good as the data entered into the system. System discipline must be enforced at all levels of the Department. In responding to our audit recommendations, management has expressed a willingness to take needed actions. An efficient, effective financial management system is dependent on this action.

## EMPLOYMENT AND TRAINING ADMINISTRATION

The Employment and Training Administration (ETA) administers a number of statutes related to employment and training services for the unemployed and underemployed, employment security for workers, and other programs that are directed to the employment needs of the nation. One of ETA's major responsibilities is administering the Job Training Partnership Act (JTPA). The JTPA authorizes a decentralized structure for the delivery of services funded through grants and administered predominantly by the States. Other major ETA programs include the Unemployment Insurance Service (UIS) and the U.S. Employment Service (USES) which administer the employment security function of ETA. The UIS manages a nationwide unemployment compensation system operated by the State Employment Security Agencies (SESAs). The USES manages the operation of a nationwide public employment service system, also through the SESAs.

In this reporting period, audit reports were issued in each of the major ETA program areas, on the ETA Fiscal Year 1991 Financial Statements, and on the Unemployment Trust Fund Fiscal Year 1991 Financial Statements. The OIG issued several reports on JTPA Title II and Title IV program activities, an audit related to UI program automation, and two audits of programs administered by the SESAs. Significant resolution activities also occurred.

In addition to audit work, the OIG continued to devote significant resources on JTPA and Unemployment Insurance fraud investigations. The OIG also worked closely with ETA and the Congress to amend the JTPA to improve targeting, financial reporting, and fiscal accountability.

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### ETA FINANCIAL MANAGEMENT

For FY-91, the OIG audited the financial statements for the Employment and Training Administration (ETA) and the Unemployment Trust Fund (UTF). ETA had expenses of \$34.5 billion in FY-91, including \$28.0 billion in unemployment benefits. Employment and training programs cost \$5.2 billion. ETA was accountable for \$60 billion in assets, out of the \$71 billion in assets for the Department of Labor as a whole. The UTF accounted for \$53.6 billion in assets, with \$47.6 billion in investments in various Treasury securities. The UTF had liabilities of \$25.5 billion, primarily for accrued unemployment benefits, and a fund balance of \$28.1 billion.

**ETA Fiscal Year 1991 Financial Statements**  
**Report No. 12-92-022-03-001; issued August 25, 1992**

The financial statement opinion was unqualified for the first time since the OIG began auditing ETA's financial statements in FY-86. Previous opinions were qualified because of the inability to obtain sufficient evidence to satisfy the auditors of the fair presentation of accounts receivable from, and advances to, the public, grantees, and contractors.

Although the OIG was able to remove the qualification from the financial statement opinion this year, the report on internal control structure noted certain matters that were considered to be "reportable conditions," or deficiencies in the design or operation of the internal control structure that could adversely affect the ability to record, process, summarize, and report financial data. Of the eight reportable conditions, three were considered by the auditors to be conditions that could materially affect the fair presentation of the financial statements. They are as follows:

- The lack of an accounting system for the UTF. This condition was also disclosed in the separately issued report on the UTF financial statements (Report No. 12-92-021-03-001; issued August 25, 1992).
- The need for actual Federal Unemployment Tax Act (FUTA) revenue data from the Internal Revenue Service (IRS). This condition was also disclosed in the separately issued report on the UTF financial statements (Report No. 12-92-021-03-001; issued August 25, 1992).
- The unreliability of the grant and contract management system.

These weaknesses also were material to the Department as a whole. For a complete discussion of these issues, see the Financial Management section of this report.

The five remaining reportable conditions involve: the lack of accounting for property, plant, and equipment; the need for supporting data for administrative assessments to the UTF; the fair statement of UTF equity on Treasury reports by showing distribution of equity between the Federal and State levels; the use of the Single Audit reports for monitoring UTF activity; and accounting for ETA's interest in SESA real property.

In response to this report, ETA disagreed that DOL should establish an accounting system for the UTF. ETA maintains that, while Title IX of the Social Security Act charges the ETA with overseeing the UI program, the Secretary of the Treasury is charged with total responsibility for all fiduciary aspects of the UTF. DOL's Acting Chief Financial Officer, however, did not disagree with the need for appropriate accounting data to support the Department's inclusion of the UTF in its financial statements.

ETA and DOL agreed with the finding that actual FUTA revenue data are needed from the IRS on a timely basis. The Department of Labor met with the Department of Treasury on this issue.

Regarding the unreliability of the grant and contract management system, ETA and the DOL disagreed with a key recommendation aimed at alleviating this problem--increase the authority of ETA's comptroller to ensure that regional personnel adhere to prescribed accounting policies and procedures. Currently, the ETA comptroller has no direct-line authority over ETA regional office accounting personnel.

Management generally agreed with the recommendations concerning the remaining reportable conditions. However, they have not yet responded to the recommendations related to property and equipment and SESA real property. Concerning the administrative assessments to the UTF, departmental management has concurred with our recommendations, while ETA did not fully concur. We subsequently have clarified our recommendations and are awaiting a response to the final report.

**UTF FY 1991 Financial Statements Audit  
Report No. 12-92-021-03-001; issued August 25, 1992**

An unqualified opinion was given on the UTF financial statements for FY-91. The report on internal control structure contained five reportable conditions, with two conditions considered material. These conditions also were reported at the ETA level. The material reportable conditions involved: the lack of an accounting system for the UTF and the need for actual FUTA revenue data from the IRS. The three remaining reportable conditions were: the need for supporting data for administrative assessments to the UTF; the fair statement of UTF equity, by identifying Federal and State balances, on Treasury reports; and the use of Single Audit reports for monitoring UTF activity.

**JOB TRAINING PARTNERSHIP ACT (JTPA)**

**JTPA Amendments**

The Job Training Reform Amendments (P.L. 102-367) were signed into law by the President on September 7, 1992. ETA is currently writing regulations to implement the amended law. It is important that ETA properly implement the provisions of the new law that call for increased program accountability, namely:

### *Fiscal Controls.*

**Accounting Principles** - Section 164 of the Act now requires that "all financial transactions are conducted and records maintained in accordance with generally accepted accounting principles applicable in each State."

**Uniform Cost Principles** - Section 164 also requires the Secretary to "prescribe regulations establishing uniform cost principles. . . ." The cost principles are to be substantially equivalent to Federal cost principles generally applicable to other Federal grants.

**Procurement** - Section 164 requires the Secretary to establish minimum requirements for Governors to use in establishing procurement standards. The Act further specifies that all procurement standards must include requirements concerning such areas as free and open competition, minimal sole source, analysis of costs and prices, and reasonable program income and profits.

**Financial Reports** - Section 165 of the Act requires quarterly financial reports and states that "such reports shall include information identifying all program costs by cost category in accordance with generally accepted accounting principles and by year of the appropriation." Further, records must be maintained which identify any program income, or profits earned, and any other allowable costs, such as stand-in costs.

### *General Program Requirements.*

**Single Unit Charging** - Section 141 allows charging of all costs to a single cost category only in cases of training purchased from commercially available training packages and for specified tuition charges that are not more than charges to the general public.

**On-the-Job Training (OJT)** - Section 141 specifies criteria governing OJT including limitations on duration and controls on brokering of OJT contracts.

**Program Income** - Section 141 also places stricter requirements on program income by including receipts from conferences, funds provided in excess of costs, and interest income.

**Targeting** - Sections 203 (adults) and 263 (youth) require increased targeting of hard-to-serve participants.

The OIG anticipates a more fiscally responsible and effective job training program dedicated to serving those most in need as a result of these amendments. After many years of auditing the JTPA program and reporting its problems to the Congress in semiannual reports, the OIG views the 1992 amendments as a new beginning. Included in this section are summary descriptions of JTPA audits performed and resolved during this reporting period. Hopefully, the amended JTPA will go a long way towards eliminating the types of problems reported below.

### **JTPA Criminal Investigations**

The OIG continued to devote significant resources to JTPA investigations. Typical JTPA investigations involve fraud by individuals or entities administering the program at the State and local levels or by service providers or contractors that operate on-the-job or classroom training and related services. During this reporting period, the Office of Investigations (OI) had 294 JTPA cases under criminal investigation. Our JTPA-related statistical accomplishments for this period included 19 indictments and 31 convictions for this program. For detailed case narratives, see page 97 in the Office of Investigations section of this report.

### **JTPA Audits**

During this reporting period, the OIG issued several important audit reports, the majority of which represent conditions the recent JTPA amendments were designed to correct. The OIG also issued a report that produced, for the first time, prototype JTPA program results statements.

### ***JTPA Title II Programs***

Title II of JTPA authorizes employment and training services for eligible adults and youth and is funded through grants and administered by the States.

### **East Texas Council of Governments Service Delivery Area Report No. 06-92-010-03-340; issued September 25, 1992**

The OIG issued an interim audit report (Report No. 06-92-004-03-340) in March 1992 that questioned substantial profits generated by two nonprofit subcontractors of the East Texas Council of Governments (ETCOG). The findings and recommendations contained in the interim report are superseded by the findings of the current final report. This report questions \$5,780,925 as follows:

Profits	\$3,682,531
Interest income on profits	\$ 842,499
Employment generating activities	\$ 780,234
Unreported program income	\$ 124,077
Interest costs	\$ 116,177
Overpayments	\$ 235,407

The audit found that subcontractors generated profits of over \$3.6 million primarily because of ETCOG's inadequate procurement system, subcontractor-manipulated contract payment schedules, the indifference of the Private Industry Council and the ETCOG to subcontractor profits, and improperly classified costs. Further, the two subcontractors invested the profits and earned \$842,499 in interest income.

The ETCOG used JTPA funds to finance three entities whose primary function was the economic development of the 14-county service delivery area (SDAs). These entities, and a contract awarded to create a comprehensive economic development plan for ETCOG, were funded under the label of JTPA employment generating activities (EGA) at a cost of \$780,234. However, the OIG was unable to identify any JTPA-eligible individuals that had been served, and the funding agreements did not contain any JTPA performance requirements. One of these entities generated income of \$124,077 (by processing applications for small business loans) which should have been reported as JTPA program income.

The ETCOG charged the JTPA program interest costs of \$116,177 related to the purchase of its headquarters building. These interest costs were included as part of ETCOG's indirect costs that were prorated to each ETCOG program. State of Texas policy requires ETCOG to obtain prior State approval for interest costs to be allowable. Although ETCOG requested State approval, it was never granted. ETCOG's approved indirect cost rate was based on ETCOG's certification that all costs included in the indirect costs pool were allowable. Since the State had not approved the interest costs, the OIG questions the \$116,177 in interest costs paid with JTPA funds.

The OIG also identified \$235,407 of ETCOG overpayments to its subcontractors. These resulted primarily from payments based on the use of the incorrect contract payment schedule, participants who did not reach contract performance benchmarks, and payments for a participant not enrolled in the JTPA program.

The OIG recommended the disallowance of \$1,131,818 in questioned expenditures, and the recovery of \$4,649,107 in profits, program income, and interest income.

**Use of JTPA OJT Funds in West Virginia in Violation of the Act  
Report No. 03-92-044-03-340; issued April 23, 1992**

This review was initiated from a congressional request concerning possible violations of Sections 141(c) and 143(b)(3) of the JTPA. These sections place restrictions on the use of JTPA funds in cases involving relocation of establishments and the hiring of JTPA participants by establishments who have laid off certain employees. The complaint concerned the alleged misuse of JTPA funds in the relocation of jobs from Checker Motors Corporation in Kalamazoo, Michigan, to a subsidiary, South Charleston Stamping and Manufacturing (SCSM) Company, in South Charleston, West Virginia.

The OIG found evidence to support the complaint. Three specific operations initially located with Checker Motors Corporation in Kalamazoo were moved to SCSM in South Charleston. The relocation of one of these operations resulted in an increase in unemployment at Checker Motors Corporation's Kalamazoo, Michigan plant (at least 65 employees were laid off as a direct result of the move). SCSM then employed JTPA participants at Charleston in positions substantially equivalent to those reduced and/or eliminated by Checker Motors Corporation. Since SCSM is a subsidiary of Checker Motors Corporation, this use of JTPA funds violated Sections 141(c) and 143(b)(3) of the JTPA.

The OIG recommended that ETA determine appropriate remedies for the cited violation. ETA stated that they have advised the State of West Virginia to provide additional information on the operation at SCSM and will advise the OIG of the final disposition of this matter.

**Dennis and Associates, Incorporated, JTPA Contractor to Various SDAs in South Carolina  
Report No. 04-92-030-03-340; issued September 1, 1992**

Dennis and Associates, Inc. (Dennis) was a large private-for-profit contractor that acted as a "middleman" or broker between several South Carolina Service Delivery Areas (SDAs) and private employers. Dennis received fixed fees from SDAs to recruit JTPA participants and arrange on-the-job training. Dennis also received funds from the SDAs to reimburse employers 50 percent of the participants' wages for specified training periods. The OIG audited Dennis' operations from July 1990 to May 1991. The audit was a followup to an earlier OIG audit (Report No. 04-92-014-03-340; issued March 31, 1992).

The audit resulted in questioned costs of \$120,491 and identified numerous problems in Dennis' operations. Specifically, the OIG questioned:



- \$87,688 in fixed fees and employer wage reimbursements claimed by Dennis for 80 participants who, before JTPA enrollment, had already been hired and whose costs were questioned in an earlier OIG audit report;
- \$73,760 in OJT wage reimbursements that were due to employers but not paid by Dennis; and
- \$3,974 relating to seven OJT participants who were not working "full-time." These participants averaged fewer hours of work per week than was required by provisions of the contracts between Dennis and the SDAs.

Dennis underclaimed reimbursable costs of \$44,931 on invoices submitted to the SDAs, which reduced total questioned costs to a net amount of \$120,491. All contracts with Dennis have been terminated and Dennis is no longer in business.

### **Kentucky Literacy Commission**

**Report No. 04-92-045-03-340; issued September 29, 1992**

The OIG examined four contracts between the Kentucky Cabinet for Human Resources and the Kentucky Literacy Commission to provide literacy instruction. About 28 percent of the persons served by the Commission were JTPA participants. During Program Years 1988 through 1990, however, the JTPA program paid \$207,077 more than its fair share of the Commission's costs.

The OIG questioned approximately 72 percent of administrative expenses and publication costs charged to the JTPA. For example, the costs for three of the Commission's staff, which should have been prorated among the Commission's JTPA program and its other programs, were charged entirely to JTPA. In another example, JTPA was charged the full cost for publishing a "text" for use in all of Kentucky's literacy programs.

Also, while the average cost of providing literacy training to each student was \$261 (according to State computations), the JTPA program was charged fixed fees ranging from \$271 to \$500 for each participant. Consequently, the Commission charged the JTPA program more than it cost to provide the services.

Kentucky officials disagreed with the OIG. However, they did not provide any additional information that would cause the OIG to change its original findings and recommendations.

## **Kentucky JTPA Counseling Contracts**

**Report No. 04-92-046-03-340; issued September 29, 1992**

The OIG found that State administrators circumvented established procurement controls in awarding a contract for JTPA participant counseling services. Language used in the advertisements for bids was misleading and appeared to solicit applications for State employment, not contractors' proposals. Further, the education and experience requirements contained in the advertisements were obtained from the eventual contractor's resume which had been submitted prior to the solicitation. As a result, only this contractor responded to the solicitations. The OIG also found a potential conflict of interest in that the contractor was married to a member of the State Job Training Coordination Council which had oversight responsibility for the JTPA program. The OIG has questioned \$146,590 of JTPA funds expended by the State for these contracts.

In justifying the need for counseling services, Kentucky JTPA administrators told the State agency responsible for procurement oversight that the contract was necessary to assist dislocated workers with alcohol and drug problems. However, the OIG could find no convincing evidence that either alcohol or drugs were significant barriers to program participants' employment. Data for over 500 persons counseled indicated only 11 (about 2 percent) had alcohol or drug problems.

The contractor was paid \$50 per hour for services that could have been provided by State employees at a cost of no more than \$30 per hour. Also, some of the services for which the contractor billed were either outside the scope of the contract or violated the terms of the contract. Although the improper charges had been questioned by State monitoring staff, Kentucky program officials allowed the charges.

Kentucky declined to provide comments on the draft report. Therefore, OIG findings and recommendations remain unchanged.

## **State of Pennsylvania JTPA Program Results Statements**

**Report No. 03-92-037-03-340; issued September 28, 1992**

The CFO Act requires an annual audited report on the Department's financial results; the status of internal controls and management systems; and program measures of success in achieving critical missions, goals and objectives. To assist this effort, the OIG began an initiative to compile and audit annual program results and costs of JTPA State grantee program operations.

The State of Pennsylvania, because of its large size and centralized automated records, provided the opportunity for the OIG to test the development (compilation) of JTPA program results. The OIG did not audit the statements and, accordingly, does not express

an opinion or provide any other assurances. The consolidated program results statements developed for the Pennsylvania Program Year 1990 Job Training Partnership Act are:

- Statement of Human Resources
- Statement of Outcomes
- Statement of Training Activities
- Statement of Training Received
- Statement of Supportive Services
- Statement of Performance Standards

The OIG will develop (1) a cost allocation methodology to allocate ETA, State, and JTPA SDA costs to the statements; (2) Human Resource and Invested Cost statements; and (3) a return on investment computation. The statements will also be used as prototypes for developing program results reports for other State JTPA programs and review guides to audit information presented in the statements and the CFO report.

#### ***Federally Administered JTPA Title IV Programs***

JTPA Title IV authorizes employment and training (E&T) programs for the Job Corps, Veterans' Employment, Native Americans, Seasonal Farmworkers, and other E&T activities and programs collectively known as "National Activities."

In reporting this period, the OIG audited certain Job Corps centers and contractors as well as Native American, Seasonal Farmworker, and National Activities programs. Three grantees who received over \$2 million annually did not receive renewals of funding by ETA, primarily as a result of OIG audit and resolution activities.

#### **Job Corps**

The Job Corps is a JTPA program designed to assist economically disadvantaged, unemployed, and out-of-school youth (ages 16-21) in obtaining employability skills by offering basic education, vocational training, work experience, health care and other supportive services in a residential setting. The program is nationally administered by ETA, and training centers are operated by both private vendors and Federal agencies. In this reporting period, the OIG performed audits of both training center operations and contractors who provide services to the Job Corps.

#### **Detroit Job Corps Center (Program Year 1990) Report No. 05-92-013-03-370; issued September 28, 1992**

The OIG audit found that quality education and training was not taking place at the Detroit Job Corps Center (DJCC) from the period July 1990 through June 1991. The

DJCC lacked the overall control environment to accomplish its learning objectives. Specifically, student absenteeism from class ranged on average between 23 and 48 percent, student discipline was a problem, and 7 of 20 teachers were not certified to teach their assigned classes. These combined factors contributed to the students' overall lack of student learning gains and program completion. In many cases, no learning gains were achieved in reading and mathematics, as evidenced by the academic records.

Certain key statistics reported by DJCC were overstated. For example, of 53 students reported to have received GED certificates during Program Year 1990, the OIG could confirm only 20. Similarly, DJCC reported 272 placements in employment or school. Of 190 confirmation letters returned to OIG, employers and educational institutions denied employment or enrollment in schools for approximately 116 students. In addition, DJCC overstated its on-board strength and average length of stay for students by retroactively changing AWOL students' status to administrative leave and reporting absent students as present.

Detroit Job Corps Center officials agreed only with the OIG findings that absenteeism was high and that some reported placements were invalid, however, not to the extent reported by the OIG. DJCC officials also believe that practices used to report on-board strength and student average length of stay were proper. Except for the issue of GED completions, the Job Corps' response to the draft report expressed general concurrence with the OIG findings.

#### **National Maritime Union of America**

**Report No. 18-92-034-03-370; issued September 4, 1992**

The National Maritime Union of America (NMU) provides two advanced training programs for Job Corps members by offering a Seamanship Program at Tongue Point, Oregon, and a Culinary Arts Program at Treasure Island, California. The OIG evaluated the success of these programs relative to their costs and the adequacy of internal controls to prevent program abuse.

Overall, NMU operated a successful training program as measured by achieving its overall minimum performance standards (Tongue Point and Treasure Island combined), and appeared to have adequate internal controls to prevent program abuse. The OIG found, however, that the Seamanship Program reported a very low placement rate into training-related employment and that the Culinary Arts program is not significantly increasing trainees' wage rates upon termination and placement into training-related employment. Also, for both programs, based on employer confirmations received, the average reported wage rate appears to be overstated by NMU. Further, there has been a large decrease in the average employment period of trainees placed into training-related employment.

NMU disagreed with all but one of the OIG's findings by claiming that they failed to take credit for all of the training-related placements. NMU did not provide documentation to support their position.

**Technical Assistance Group**

**Report No. 18-92-026-07-735; issued August 24, 1992**

The Technical Assistance Group (TAG), a small privately owned business, had been a prime contractor for Job Corps real estate management support services from 1983 until September 1990. This audit is a followup to OIG Audit Report Nos. 18-90-022-07-735 (Sept. 28, 1990) and 18-91-007-07-735 (March 28, 1991).

The OIG audited the direct costs claimed for reimbursement by TAG for the period September 1989 to September 1990 (\$398,032), as well as TAG's indirect cost submission for 1990. The OIG questioned \$116,013 in claimed direct costs and \$15,131 in claimed indirect costs because they were not in conformance with either the terms of the contract or the Federal Acquisition Regulation (FAR) cost principles.

The audit identified several situations which, taken collectively, constitute substantial evidence of a pattern of program abuse. Examples of this include charging excessive and/or unauthorized salaries paid to family members, double-billing salary costs to the Department and to another Federal agency, and continued failure to recognize non-Job Corps real estate activities as a final cost objective in its indirect cost allocation base. Although provided the opportunity, TAG did not respond to the draft report.

**National Plastering Industry's Joint Apprenticeship Trust Fund**

**Report No. 18-92-032-03-370; issued September 29, 1992**

The National Plastering Industry's Joint Apprenticeship Trust Fund (the Fund) is a nonprofit organization established by construction industry groups to provide plastering apprenticeship training. Under the umbrella of a DOL contract, the Fund also administers subcontracts to provide vocational training at Job Corps Centers.

An earlier OIG audit (Report No. 18-89-011-03-370, issued September 29, 1989) found that the Fund overcharged contracts and subcontracts it administers by \$605,618, with a DOL impact of \$336,029. The Fund appealed these findings and the OIG performed further audit work to validate additional documentation provided by the Fund. The OIG determined that the original audit overstated certain questioned costs by \$94,250 (profit on the sale of materials and supplies), but found additional unallowable salaries and fringe benefits and travel costs of \$9,766. The net adjustment, therefore, decreases the original audit exceptions by \$84,484 and results in final total questioned costs of \$521,134, with a DOL impact of \$298,245.

## **Native American Programs**

Through JTPA Title IV grants awarded to Native American groups, these programs are designed to improve the economic well-being of Native Americans (Indians, Eskimos, Aleuts, and Native Hawaiians) by providing job training and employment-related services to eligible individuals.

### **Grand Rapids Inter-Tribal Council**

**Report No. 18-92-029-03-355; issued August 13, 1992**

At the request of ETA, the OIG performed a financial and performance audit of grant funds awarded to the Grand Rapids Inter-Tribal Council (GRITC) for the 2-year period ended June 30, 1991. The audit revealed serious deficiencies in GRITC's administration of its grant. In addition to questioning 93 percent of the program's reported costs (\$219,195 of \$235,328), the OIG issued an adverse opinion on GRITC's JTPA Financial Status Reports for Program Years 1989 and 1990. The audit found that GRITC's financial management system was inadequate, services provided to participants did not justify grant funds expended, GRITC did not ensure that services provided to participants were in accordance with grant requirements and applicable regulations, and GRITC's system for participant enrollment did not ensure that only eligible participants were enrolled.

Based on these audit findings, ETA determined that GRITC no longer met the responsibility qualifications and conditions to serve as a JTPA grantee, and did not award funds for the program year that began July 1, 1992.

## **Seasonal Farmworker Programs**

JTPA Title IV also authorizes employment and training programs designed to meet the special needs of seasonal farmworkers. The following OIG audits resulted in an ETA decision not to refund the grant recipient.

### **Rural Alabama Development Corp.**

**Report No. 18-92-017-03-365; issued April 9, 1992**

**Report No. 18-92-030-03-365; issued August 20, 1992**

The Rural Alabama Development Council (RADC), a nonprofit corporation, was funded by JTPA Title IV grants for the purpose of providing employment and training services to migrant and seasonal farmworkers. At the request of ETA, the OIG performed a review of RADC's cash management operations and a financial and performance audit of RADC's grant administration for the 2½-year period ended December 31, 1991.

The OIG review of RADC's operations disclosed a serious cash management problem. Prompt corrective actions by ETA resulted in an effective cash outlay avoidance of \$280,826, which included a cash refund to ETA of \$27,699.

The OIG issued an adverse opinion on RADC's JTPA Financial Status Reports for the 2½ year period ending December 31, 1992. The audit report questions \$788,808 (about 40 percent) of reported costs for this period. The OIG also found irregularities in the operation of RADC's OJT program, inadequate verification of eligibility of program participants, and inaccurate program statistics which had the effect of enhancing reported program performance. Based on OIG findings, ETA did not invite RADC to apply for continued funding commencing July 1, 1992.

### National Activities

JTPA Title IV also authorizes funds for national activities such as training and technical assistance programs, research and evaluation projects, and pilot and demonstration projects. FY-92 funding for these activities is budgeted for \$78 million. The OIG audited one grantee in this category.

#### **SER-Jobs for Progress, Inc.**

**Report No. 18-92-025-03-340; issued June 25, 1992**

SER-Jobs for Progress, Inc. (SER) is a national, nonprofit community-based organization, whose major objective is to improve the education and employability of traditionally underserved groups. SER's primary target group for training and employment services are Hispanic youth above the age of compulsory school attendance who are in need of basic and vocational education and employability skills.

The OIG audited SER's direct costs charged to JTPA Title IV grants covering the period July 1987 through June 1989, as well as SER's final indirect cost proposal for the year ended June 1988. The audit resulted in questioned direct costs of \$344,134 and with no questioned costs relating to the audit of the indirect cost proposal.

Almost two-thirds of the questioned direct costs (\$215,711) resulted because SER charged the Department actual indirect costs instead of those based on an approved indirect cost rate. The remaining questioned costs resulted from inadequate or lack of documentation to support grant charges, overcharging for goods and services, and exceeding grant budget line items.

SER officials generally concurred with the audit findings; however, they are requesting "offset" of \$157,781 of the questioned indirect costs because, for certain grants, actual indirect costs claimed were less than the maximum allowable.

### ***JTPA Audit Resolution***

An audit recommendation is resolved when the OIG and the DOL funding agency (in this case ETA) agree on the action(s) that will correct the problem or deficiency that produced the recommendation. For most ETA programs, this occurs when ETA issues a "final determination" and the OIG accepts the conditions of the determination as adequate to correct the problem or deficiency.

In this reporting period, ETA issued final determinations on several important OIG audits of JTPA programs. For the most part, ETA and the OIG have agreed on appropriate actions for resolution; however, there are two areas where agreement has yet to be reached.

#### **National Alliance of Business**

**Report No. 06-91-013-03-340; issued March 29, 1991 (Resolution)**

In May 1992, ETA responded to the remaining unresolved issue in this report, i.e., that a portion of the National Alliance of Business (NAB) revenues from contributions and membership fees should be considered JTPA program income and should be used to further program goals.

The ETA response stated:

" . . . NAB's performance under the ETA grants probably contributes to NAB's growth, expertise, and success and probably enhances its ability to acquire corporate memberships and contributions. The acquisition of corporate membership dues and contributions is, however, a result of NAB's success and these dues and contributions are not direct earnings from specific activities." (Emphasis added.)

The OIG position is that DOL funding of NAB's activities contributed to NAB's ability to generate approximately 18 percent of its total Program Years 1988 and 1989 revenue from membership fees and contributions. The Department provided 71 percent of NAB's total Program Years 1988 and 1989 revenues; and 88 percent of its revenues excluding membership fees, contributions, and investment interest income.

If 88 percent of NAB's revenues were eliminated, the OIG does not believe that NAB would be able to generate over \$4 million in membership fees and contributions over 2 program years. Consequently, it is OIG's position that membership fees and contributions relate to direct activities under NAB's core grant and should be considered program income. This finding remains unresolved.



**Audit of Compliance with Federal and State JTPA Requirements  
Denver Service Delivery Area  
Report No. 06-91-019-03-340; issued September 27, 1991 (Resolution)**

This report questioned approximately \$1.1 million in JTPA expenditures because:

- Administrative costs, including employment generating activities, were misclassified as training and participant support costs. Reclassification of these costs resulted in the SDA exceeding the JTPA 15 percent administrative cost limit.
- JTPA funds were expended on a Job Link program that served both program participants and ineligible individuals.
- JTPA Title III funds were expended for a new airport employment office which served ineligible individuals.

ETA has disallowed approximately \$.8 million and allowed \$.3 million of the questioned costs. The OIG disagrees with approximately \$47,000 of the \$.3 million allowed because ETA's acceptance of certain stand-in costs resulted in the SDA exceeding the JTPA 15 percent administrative cost limitation.

**New Orleans Service Delivery Area  
Report No. 06-91-009-03-340; issued February 19, 1991 (Resolution)**

This final audit report questioned approximately \$7.3 million in JTPA program costs and recommended major changes in the service provider procurement system and internal control systems for the New Orleans SDA. Consequently, the State required the New Orleans SDA to undergo a major reorganization and change the SDA's administrative entity.

In April 1992, ETA disallowed \$3.6 million of the \$7.3 million questioned and deferred resolution action on an additional \$1 million. The State has subsequently responded to the deferred \$1 million, and ETA is in the process of ruling on these questioned costs.

**Kentucky Industrial Incentives Funded by JTPA  
Report No. 04-92-023-03-340; issued March 26, 1992 (Resolution)**

The OIG questioned \$6.9 million of JTPA funds expended by the State of Kentucky to subsidize its industrial development program. From July 1986 through June 1991, Kentucky reimbursed a portion of two large manufacturers' recruiting, training, and payroll costs with JTPA funds. These expenditures were used to recruit and train highly qualified individuals who, as previously reported, were not in need of JTPA assistance. The

reimbursements were merely inducements for the manufacturers to build new plants in Kentucky.

ETA agreed with the audit findings and disallowed the entire \$6.9 million questioned by the OIG. It stated that while the Act allows payments to compensate employers for "extraordinary" costs of training JTPA participants, it prohibits subsidization of employers' normal costs of doing business. ETA also agreed with the OIG that a bona-fide JTPA program was not part of the relationship between the State and the companies. Costs paid with JTPA funds were normal start up expenditures that Kentucky should have paid with State funds. Consequently, none of the reimbursements should have been charged to the JTPA program.

**Fixed-Unit Price Contracting in Florida**  
**Report No. 04-92-027-03-340; issued March 17, 1992 (Resolution)**

The OIG questioned \$847,515 in unwarranted profits charged to various Florida JTPA and Wagner-Peyser Act (WPA) programs through a series of layered fixed-unit price, performance-based contracts. The profits were accumulated by intermediary contractors who provided no participant services and passed the responsibility of training and placing participants to other subcontractors. Had the Florida Department of Labor and Employment Security properly negotiated contracts directly with the entities which ultimately provided participant services, unnecessary costs would have been eliminated. The OIG also questioned \$364,934 in unsupported administrative costs charged to the WPA program by a Florida nonprofit organization.

ETA's final determination supported the OIG audit findings and disallowed all questioned costs (\$1,212,449). ETA also required Florida to ensure that its policies and procedures for fixed-unit price, performance-based contracts comply with Federal and State requirements. In addition, the State must demonstrate that proper contracting methods are being used to obtain administrative services.

**JTPA OJT Performance-Based Contracts: Los Angeles City Service Delivery Area**  
**Report No. 05-91-046-03-340; issued August 23, 1991 (Resolution)**

The report questioned \$1,226,175 because sufficient documentation was not maintained to support the rates and periods of employment of the OJT participants, and certain claims were overstated or inflated. ETA has disallowed \$284,322 and allowed \$57,077 of these questioned costs; resolution of \$884,777 has been deferred pending the completion of an investigation by the OIG's Office of Investigations.

## STATE EMPLOYMENT SECURITY AGENCIES

### *Trade Adjustment Assistance*

The Trade Adjustment Assistance (TAA) program, authorized by the Trade Act of 1974 and administered by the State Employment Security Agencies (SESAs), is designed to assist individuals whose jobs are adversely affected by increased imports to return to suitable employment. The 1988 amendments to the Act, which authorizes the program through FY-93, emphasize job training as a means to achieve this objective.

### **Wisconsin Trade Adjustment Assistance Program Report No. 05-92-016-03-330; issued September 28, 1992**

The OIG audited Wisconsin's Department of Industry, Labor, and Human Relations SESA program accomplishments for participants which terminated the program from October 1988 to mid-August 1991. The OIG examined whether TAA participants found suitable employment, the extent to which subsequent employment was related to TAA training, and whether the SESA's reports of TAA program activities were accurate.

ETA does not require followup on TAA participants and sufficient data were not gathered by the SESA to adequately assess program outcomes. The OIG, therefore, used several sources of information to determine program outcomes for its sample of 200 terminees. In the OIG's opinion, the Wisconsin SESA's TAA program fell short of reaching the objectives of the Act. Specifically:

- Seventy percent of the participants in our sample found subsequent employment. Of these, 26 percent found suitable employment (which includes a wage of at least 80% of their former average weekly wage), 32 percent found employment that was not suitable as compared to former wages, and 12 percent accepted recall to their former employment.
- Sixty-nine percent of the participants in our sample enrolled into TAA-approved training. However, just 40 percent of those participants who terminated training completed their training programs and 11 percent found suitable employment in an occupation related to the training received.
- The Wisconsin SESA did not adequately document services provided to TAA participants, and portions of the quarterly reports submitted to ETA were inaccurate.

The Wisconsin SESA's response to the OIG findings was constructive and raised several issues that OIG believes should be addressed in cooperation with ETA. Both the

Wisconsin SESA and the OIG believe that program objectives should be more clearly stated and that, to measure adequately the program's success, data collected and reported on program outcomes needs to be improved.

Wisconsin also questioned the OIG's use of the definition of "suitable employment" found in Section 236(e) of the Act as a critical measure of the program's success. The OIG believes, however, that the definition is sufficient to provide a means for measuring success consistent with the intent of the Act.

### ***Targeted Jobs Tax Credit***

The Targeted Jobs Tax Credit (TJTC) provides for a Federal income tax credit for employers who hire and retain individuals from target groups needing special employment assistance. First authorized by the Revenue Act of 1978, it has been extended and amended several times and is administered by ETA through SESAs. The Congress is currently considering legislation to extend the program or to make it permanent.

### **Tennessee Targeted Jobs Tax Credit Survey Report No. 04-92-043-03-320; issued September 30, 1992**

The OIG examined TJTC program activities that occurred in Tennessee during the period October 1990 through December 1991. The purpose of the survey was to determine whether the internal controls over program operations were sufficient to prevent fraud, waste, and abuse; and to determine the effectiveness of the program in assisting targeted groups.

Documentation supporting eligibility certifications for a sample of TJTC participants identified 5 percent as ineligible. Additionally, 33 percent of the certifications in our sample did not adequately document individuals' eligibility. The Tennessee Department of Employment Security (TDES) did not complete sufficient quality control reviews or audits to test the validity of eligibility determinations, which contributed to the certification of ineligible individuals and insufficient documentation of eligibility.

The OIG audit found that Tennessee did not aggressively plan for, or operate, the program, nor did it sufficiently evaluate its effectiveness. Only one cooperative agreement with another State agency, for recruiting and vouchering eligible participants, had been obtained. TDES' contact with employers consisted almost entirely of employer-initiated requests. No allocation of staff time for TJTC activities was budgeted for TDES' local offices and certification goals were not established. A State monitoring guide for program reviews had not been developed and on-site local office reviews had not been formally scheduled. The audit also found that TJTC participants experienced low employment retention rates. TDES' data indicate only 23 percent of TJTC participants were still

working for the same employer 1 year following the quarter in which they were certified. Most TJTC participants obtained jobs with low skill requirements, high turnover rates, and little significant long-term career impact.

Tennessee generally disagreed with the OIG findings regarding its operation of the program and cited differences in its interpretations of eligibility and other program requirements. The OIG is awaiting ETA's response.

### ***Unemployment Insurance Program***

The Social Security Act of 1935 authorizes the Unemployment Insurance (UI) Program, a Federal-State partnership based on Federal law, which is implemented through individual State legislation and administered by SESAs. ETA's Unemployment Insurance Service (UIS) is charged with ensuring proper and efficient administration of the overall UI program.

#### **Review of the Virgin Islands U.I. Automation Grant Report No. 02-92-249-03-315; issued May 21, 1992**

The UIS has made grant awards to several state-level agencies to upgrade automation related to the provision of unemployment insurance services. At the request of ETA, staff from the OIG and ETA reviewed the contract awarded to XEBEC SYSTEMS, Ltd. (XEBEC) by the Virgin Islands to install an unemployment insurance automated benefit payment system and an employer tax system. The services, which were to be performed under the XEBEC contract, covered the major requirements of the Unemployment Insurance Automation Grant totalling \$1.12 million awarded by ETA to the Virgin Islands.

The review found that the contract awarded to XEBEC was not obtained at the most favorable price possible. Although XEBEC, the highest bidder, was technically rated as the most qualified, the overall technical ratings were very close and did not justify awarding the contract to XEBEC for \$1.34 million when the initial proposals of four other comparably qualified vendors ranged from about \$950,000 to \$1.26 million. Moreover, in violation of Virgin Islands law, the contract amount exceeded the available funding. Finally, the Virgin Islands Department of Property and Procurement (VIDPP) did not exercise sufficient control over the procurement process.

ETA suspended activities related to the UI automation grant until the Virgin Islands could demonstrate that a contract providing a fair and reasonable price could be negotiated under the authority of VIDPP and in compliance with all applicable laws and regulations of the Virgin Islands. The Virgin Islands subsequently renegotiated the contract with XEBEC for \$970,950. ETA is restricting payments to the Virgin Islands until each phase prescribed under the contract is successfully completed.

## **Unemployment Insurance Criminal Investigations**

In addition to our audit work, the OIG continued to devote significant resources to Unemployment Insurance (UI) fraud investigations. These investigations frequently involve schemes by individuals who conspire to submit false claims for unemployment benefits. These schemes may involve establishing bogus companies and fictitious employees for whom benefits are filed, sometimes in multiple States. During this reporting period, the OI had under criminal investigation 116 UI fraud cases. Our UI-related statistical accomplishments for this period included 21 indictments and 27 convictions. For detailed case narratives, see page 100 in the Office of Investigations section of this report.

### **REVISED MANAGEMENT DECISIONS**

The term "management decision" means the evaluation by DOL program management of the findings and recommendations included in an audit report and the issuance of a final decision concerning its response to such findings and recommendations, including actions determined to be necessary.

The OIG is required by the Inspector General Act Amendments of 1988 to provide a description and explanation of the reasons for any significant revised management decision made by departmental agencies during the reporting period. The OIG is also required to report on any significant management decision with which it disagrees.

During this reporting period, revised management decisions were issued for 10 ETA-related audit reports. A synopsis of the more significant revised management decisions follows.

#### **State of Iowa**

**Report No. 05-91-048-50-598; issued February 20, 1991**

ETA had disallowed \$394,014 of Iowa's FY-89 Employment Service expenditures because this amount was transferred to the State's UI program with no documentation to support the appropriateness of the transfer.

Subsequently, the State of Iowa provided ETA with sufficient documentation to support the fact that the funds associated with the disallowed costs were State funds, transferred in apparent violation of State, rather than Federal, law. Based on this, ETA concluded that there is no basis for the disallowance and has issued a Post-Final Determination Review which reverses the disallowance of \$394,014.

**DMJT/HBT Joint Venture**

**Report No. 18-92-001-03-370; issued October 8, 1991**

ETA disallowed \$103,616 questioned by the OIG primarily because a consultant overcharged the contractor (Joint Venture) by using billing rates in excess of actual labor costs and by incorrectly applying a 10 percent profit rate to lab fee charges. Subsequent to ETA's Final Determination, the contractor satisfactorily demonstrated to ETA that adjustments were made to reduce, by \$99,412, the amount of these costs charged to the Department. Combined with other documentation submitted by the contractor supporting \$1,528 of disallowed costs, ETA issued a Revised Final Decision allowing \$100,940 of the disallowed costs.

## EMPLOYMENT STANDARDS ADMINISTRATION

The Employment Standards Administration (ESA) administers and enforces a variety of statutes prescribing certain standards of employment that must be met by covered employers. These standards are primarily concerned with wages and working conditions, workers' compensation benefits for certain workers, and compliance by Federal contractors with the conditions of nondiscrimination and affirmative action programs for employees of Government contractors. Within ESA, to carry out these tasks, are the Office of Workers' Compensation Programs, the Wage and Hour Division, and the Office of Federal Contract Compliance Programs.

During this reporting period, OIG activities focused on various ESA financial management functions; on Federal Employees' Compensation Act (FECA), Black Lung, and Wage and Hour investigations; and on legislative issues related to FECA and the Fair Labor Standards Act (FLSA).

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### ESA FINANCIAL MANAGEMENT

For FY-91, the OIG audited the financial statements for the Employment Standards Administration (ESA), the Black Lung Disability Trust Fund (BLDTF), the disbursements under the Federal Employees' Compensation Act (FECA), and the Longshore and District of Columbia Special Funds. FY-91 marks the first year that the OIG has issued an opinion on the financial statements of the BLDTF. FECA disbursements were audited because they represent 65 percent of ESA's total expenses. The audit reports on the Longshore and Harbor Workers' Special Fund (Report No. 03-92-026-04-432) and the District of Columbia Workmen's Compensation Fund (Report No. 03-92-028-02-432) were issued on December 23, 1991, and contained unqualified opinions.

ESA had expenses of \$2.4 billion in FY-91, with \$2.2 billion spent on its various workers' compensation programs. Other expenses included: \$92 million for employment standards enforcement, \$50 million for Federal contract compliance with nondiscrimination and affirmative action laws and regulations, and \$12 million for executive direction. The agency had assets of \$10.4 billion, but \$7.3 billion were future financing sources -- funds that need to be provided from taxes, assessments, or appropriations for liabilities that have been incurred. Liabilities totaled \$10 billion. The liability for future workers' compensation benefits for injuries that have already occurred was \$6.6 billion. The BLDTF had outstanding loans totaling \$3.3 billion from the U.S. Treasury.



**ESA FY 1991 Financial Statement Audit**  
**Report No. 03-92-052-04-001; issued June 30, 1992**

The OIG's opinion on the financial statements was qualified because sufficient evidence could not be obtained to determine the fairness of the recorded amounts in coal tax revenue remitted to the BLDTF by the Treasury. Periodic reports are provided by the Treasury on this revenue. However, the Department of Labor does not have access to the detailed accounting records, nor does it receive any audit assurance on the accuracy of the Treasury reporting.

In addition to the lack of support for the accuracy of coal tax revenue, two other matters that were considered material weaknesses were noted in the report on ESA's internal control structure. These two conditions were common throughout the Department. First, the Department's and ESA's accounting practices and procedures were not adequate to provide accurate and complete information for accounts payable and undelivered orders. The total amount of ESA accounts payable and undelivered orders (together known as unliquidated obligations) in question is approximately \$20 million. Second, property management weaknesses cited in prior years' reports have continued. The Department and ESA have not maintained adequate records of property and equipment costs and related depreciation expenses. ESA has agreed to take corrective actions in conjunction with Departmentwide plans.

**Black Lung Disability Trust Fund Financial Statement Audit**  
**Report No. 03-92-053-04-433; issued June 30, 1992**

Because we were unable to obtain sufficient evidence from the Department of Treasury to determine the fairness of the recorded amounts of coal tax revenue stated as of September 30, 1991 and 1990 (\$651,863,000 and \$663,348,000, respectively), the BLDTF FY-91 financial statement opinion was qualified.

The report on internal control structure contained two reportable conditions. Accounts receivable amounts were not recorded and properly classified and compensation and medical payments were inaccurate. These conditions were not considered material to the financial statements.

**FECA FY 1991 Disbursement Audit**  
**Report No. 03-92-047-04-431; issued September 10, 1992**

The OIG audit of FECA's \$1.2 billion of compensation and \$390 million of medical payments for FY-91 resulted in an unqualified opinion on the compensation and medical disbursements.

However, in reviewing operations at FECA district offices, certain matters were noted that were considered reportable conditions. They included that (1) wage information was missing in 27 percent of the case files for claimants on the periodic roll for 3 or more years, (2) payment batch cover sheets were not approved by appropriate bill examiner supervisors or fiscal officers at one of the district offices, and (3) monthly audits of medical bills were not being performed and required reports were not being provided to appropriate levels of management at three district offices. These conditions are not considered material. ESA plans appropriate corrective actions.

## **OFFICE OF WORKERS' COMPENSATION PROGRAMS (OWCP)**

The OWCP is responsible for the administration of three basic Federal compensation laws: the Federal Employees' Compensation Act, the Longshore and Harbor Workers' Compensation Act, and the Black Lung Benefits Act.

### ***Federal Employees' Compensation Act (FECA) Program***

FECA is the sole form of workers' compensation available for Federal employees who suffer on-the-job injury or occupational disease. The Department of Labor is responsible for administering the Act, but actions by all Federal employing agencies, the Office of Personnel Management, and the Office of Management and Budget influence its administration.

In previous semiannual reports, the OIG has recommended that Federal agencies need to be aggressive in monitoring the status of employees receiving FECA benefits. The OIG has emphasized that, consistent with medical opinion, it is line management that can best identify and provide for light-duty assignments that may encourage an earlier return to the workplace of employees who have been out on disability. In this regard, the OIG has developed a FECA audit guide for use by the Inspector General community when reviewing the administration of their respective FECA programs.

During this reporting period, the OIG transmitted to the Congress the results of a study titled "Assessment of Actions Taken Against FECA Claimants Convicted of Defrauding the Program in Fiscal Years 1990 and 1991." This study, conducted by the OIG's Office of Investigations, revealed that over 50 percent of FECA claimants convicted of defrauding the program continued to receive FECA benefits because the Department does not have the statutory authority to terminate benefits solely on the basis of a criminal conviction. The OIG has advocated legislative changes to address this situation. These recommendations are discussed in detail later in this section.

## **FECA Criminal Investigations**

The OIG continued to devote significant investigative resources to FECA fraud committed by claimants and medical providers. Often, these investigations are conducted with the assistance of other criminal investigative organizations. During this reporting period, the OI had 442 ongoing FECA-related criminal investigations which resulted in 33 indictments and 26 convictions. For detailed narratives of selected FECA criminal investigations, see page 101 in the Office of Investigations section of this report.

## **President's Council on Integrity and Efficiency (PCIE)/Employing Agency Review of FECA Program**

In addition to our audit and investigative work on the FECA program, the DOL-OIG is leading a Governmentwide review to determine whether Federal employing agencies are efficiently and effectively managing their responsibilities under the FECA. This review is being conducted under the auspices of the PCIE.

Offices of Inspectors General from 13 agencies (which accounted for \$457 million [about 30 percent] of the \$1.5 billion expended for FECA during the year ended June 30, 1991) are participating in the PCIE project. Fieldwork is currently in process in most of these agencies. We anticipate issuing a consolidated report on the Governmentwide results by June 1993.

## **FECA Legislative Recommendations**

Under current Federal law, the maximum penalty for a violation of 18 USC §1920 (false statement to obtain Federal employees' compensation) is a fine of not more than \$2,000 or imprisonment of not more than 1 year, or both. While this and other criminal statutes (18 U.S.C §§1001 [false statement] and 1341 [mail fraud] in particular) are routinely used to prosecute claimants alleged to have committed FECA fraud, §1920 has had very little deterrent value because it is a misdemeanor. Moreover, an individual may be convicted of a violation of 18 USC §1920 and, yet, continue to receive benefits from the very program he or she defrauded.

Therefore, the OIG proposes amending that section to elevate a §1920 violation to a felony and to reword §1920 so that it is applicable to any false statement made in connection with a claim for FECA compensation. This would make it clear that false statements made by individuals claiming total disability as well as those claiming partial disability are covered by §1920.

The OIG further recommends that §1920 include language that would automatically terminate the FECA benefits of any person convicted of violating §1920 or committing any other fraud involving the application for and/or receipt of FECA benefits and that such termination would affect the subject claim or any prior FECA claim.

The OIG believes that such amendments would greatly enhance the deterrent value of the statute and provide the DOL with a valuable tool for dealing with those who attempt to defraud the FECA program. Individuals committing FECA fraud would not only risk going to jail, but would also jeopardize their benefits by engaging in criminal fraud.

### ***Black Lung (BL) Program***

The Black Lung Program pays monthly compensation payments and medical diagnostic and treatment costs to coal miners who are totally disabled from pneumoconiosis (black lung) arising from their coal mine employment.

### **Black Lung Criminal Investigations**

Fraud in the Black Lung program is typically committed by claimants, their beneficiaries, or by providers of medical equipment and services. During this reporting period, the OI had 41 ongoing Black Lung-related criminal investigations which, to date, have resulted in 7 indictments and 5 convictions. For detailed narratives on selected Black Lung investigations, see page 103 in the Office of Investigations section of this report.

## **WAGE AND HOUR DIVISION (WHD)**

The Wage and Hour Division is responsible for the administration of a wide range of labor standards laws, including the Fair Labor Standards Act (FLSA), the country's principal minimum wage and overtime law.

### **Legislative Activities**

In September 1991, the OIG issued an audit report reviewing the effectiveness of the WHD's enforcement of the FLSA. In particular, this review was concerned with FLSA's minimum wage and overtime provisions. The audit included a review of back wage collections where there was not yet complete agreement as to the employer's responsibility for the payment of back wages. The audit found that employers had failed to pay back wages to 510 out of 2,876 employees who were owed back wages. The audit also disclosed that 98 percent of the employers were repeat violators. These statistics point to flaws in WHD's ability to enforce FLSA. As a result of work in this area by the General Accounting Office (GAO), as well as the OIG audit, the House Government

Operations Committee held two hearings in the last several months to review the WHD's enforcement of minimum and overtime provisions of FLSA. Moreover, in June 1992, the Inspector General (IG) testified before the Senate Appropriations Committee, Subcommittee on Labor, Health, and Human Services, Education, and Related Agencies about the September 1991 audit. The IG testified that WHD's detection of FLSA violations and its management information system need to be improved. The IG also recommended amending the FLSA to (1) provide for civil money penalties for employers who do not maintain accurate payroll records, (2) require that unclaimed back wages resulting from an administrative settlement be deposited into the U.S. Treasury, (3) require increased criminal penalties for repeat violations of the FLSA, and (4) change the statute of limitations to prevent the amount of back wages owed from being eroded as a result of DOL inactivity or employer stalling tactics.

The Department is considering the need for an amendment requiring civil money penalties for violations of the FLSA's record-keeping provisions. The OIG supports the need for such legislation and encourages its introduction in the 103rd Congress. In January 1992, the Department transmitted to the Office of Management and Budget, for review and clearance, regulations establishing penalties for repeat violations of FLSA. However, the regulations have been delayed as a result of the President's moratorium on new regulations. The OIG strongly recommends the clearance and implementation of these new regulations.

### **Wage and Hour Criminal Investigations**

During this reporting period, the OIG continued to devote resources to investigations involving the Wage and Hour program. These investigations typically involve employers who falsely certify wage records that claim the employer is paying employees the prevailing wage rates, when, in fact, employees are being paid less. During this reporting period the OI had 27 ongoing criminal investigations into Wage and Hour matters which, to date, have resulted in 3 indictments and 3 convictions. For a narrative illustrating our criminal investigations, see page 104 in the Office of Investigations section of this report.

## OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION

The Occupational Safety and Health Administration (OSHA) provides leadership in providing protections for the health and safety of 90 million American workers by administering the provisions of the Occupational Safety and Health Act of 1970. The purpose of this Act was "to assure so far as possible...safe and healthful working conditions for every working man and woman in the Nation."

To carry out its responsibilities under the law, OSHA develops and promulgates Federal safety and health standards, operates a compliance program based on both voluntary compliance and physical inspection of workplaces, provides grant programs to State-operated safety and health programs, provides technical assistance, and collects and publishes statistics in support of safety and health programs.

In this reporting period, the OIG audited the OSHA financial statements for FY-91, performed a financial review of North Carolina's state plan operations, and resolved (with OSHA) the audit findings reported in the prior semiannual period on egregious case settlement and followup. Additionally, the OIG testified before the Congress on the need for criminal penalties for willful violations of OSHA rules that result in death or serious bodily injury.

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### OSHA FINANCIAL MANAGEMENT

During this reporting period, the OIG audited OSHA's FY-91 financial statements and presented comparable unaudited information for FY-90. In FY-91, OSHA had expenses of \$261.7 million. They were incurred as follows: Federal enforcement program, \$112.1 million; State enforcement programs, \$61.1 million; safety and health standards development, \$6.9 million; technical support, \$15.5 million; compliance assistance, \$35.1 million; statistical reporting and analysis, \$22.4 million; and other, \$8.6 million.

### OSHA FY 1991 Financial Statement Audit Report No. 05-92-014-10-001; issued September 29, 1992

The OIG's opinion on the FY-91 financial statements was qualified because the OIG was unable to ascertain that penalty revenue and grantee advances were fairly stated and because records supporting property and equipment were not complete. More specifically:

- Penalty revenue could not be substantiated by the OIG because of inadequacies in OSHA's accounting system related to lack of reconciliation of cash receipts, inadequate financial reporting, and unrecorded and untimely entry of transactions.
- OSHA's subsidiary grant records were not reconciled to the total advances recorded in the Department's general ledger, resulting in a significant overstatement of advances to grantees.
- Because OSHA records documenting the cost and accumulated depreciation of property were incomplete, the OIG could not determine the amounts at which property, equipment, and related accumulated depreciation should be recorded in the agency's financial statements.

An examination was made of OSHA's internal control structure, the status of prior years' reported material weaknesses, and OSHA's compliance with applicable laws and regulations. The report on internal control structure identified material weaknesses related to penalties receivable and grant advances, which resulted in qualifications in the financial statement opinion. The findings included the following:

- Internal controls over the penalty collection process were inadequate in that insufficient reconciliations were performed between OSHA's management information systems and collections deposited into the Treasury. A \$6.9 million unreconciled difference existed for FY-91 collection activity.
- Penalties receivable, as reported to Treasury, were overstated by \$15.3 million.
- OSHA did not reconcile the subsidiary grant records to the general ledger, which reported grant advances at \$19.4 million.

Moreover, although OSHA has made significant progress in correcting reportable conditions noted in prior reports, certain conditions remained uncorrected at the time of our review. These conditions related to penalties receivable and revenue, grants management, property management, and accounts payable and undelivered orders. The report on compliance disclosed that, with respect to the items tested, OSHA complied in all material respects with applicable laws and regulations. OSHA's response to the draft report adequately addressed the OIG recommendations and are now resolved.

**Special Review of North Carolina OSHA Grants**  
**Report No. 04-92-050-10-101; issued September 30, 1992**

The OIG performed a limited scope examination of the FY-91 OSHA grants to the State of North Carolina. OSHA requested the OIG audit because initial year-end financial

reports submitted by the State made it appear that Federal funds, exceeding \$600,000, had been obligated and spent after the close of the FY-91 grant.

Weaknesses in accounting and administrative controls contributed to material errors in the State's financial reports submitted to OSHA. For example, unliquidated obligations were overstated by more than \$236,000 on both the September and December 1991 financial reports, which resulted in an understatement of the amount of unspent Federal funds. The OIG questioned \$246,025 in personal and non-personal service costs which were incurred after September 30, 1991, but charged as Federal costs to the FY-91 grants; \$9,980 of equipment and maintenance contract charges which were incurred outside the grant period; and \$53,807 spent on an office automation system without OSHA's prior approval.

North Carolina disagreed with most of the OIG findings related to expenditures outside of the grant period, and also stated "cash" accounting rather than "accrual" accounting was responsible for errors in the financial reports. The OIG recommended that OSHA recover questioned costs of \$309,486 (\$326 in questioned costs were withdrawn by OIG); obtain separate audits of North Carolina's FY-92 grants; and ensure that North Carolina verify the accuracy of its reported financial information, including the use of independent review procedures.

**Review of How OSHA Settled and Followed Up On Its Egregious Cases  
Report No. 05-92-008-10-001; issued March 31, 1992 (Resolution)**

In this report the OIG examined the effectiveness of OSHA policies for pursuing flagrant violations of Federal safety and health standards. The OIG concluded that OSHA's strategy for dealing with flagrant violations was effective in most cases and that OSHA could do more to maximize the deterrent effects of its enforcement program. OSHA has taken actions in response to OIG recommendations to improve its enforcement program. Specifically, OSHA is:

- Implementing procedures to enforce the safety and health provisions of the Walsh-Healey Public Contracts Act and MacNamara-O'Hara Service Contract Act. Such procedures include referrals to contracting agencies and instituting debarment proceedings where appropriate.
- Clarifying the policy regarding enforcement through the courts and referring cases to the Solicitor of Labor when employers have failed to meet the terms of final orders of the Occupational Safety and Health Review Commission.
- Promulgating a regulation requiring employers to submit a certified report of actions taken to abate hazards.



- Improving coordination with State plan administrators to encourage more effective enforcement of OSHA's corporatewide settlement agreements.
- Implementing a system to track the status of corrective actions required by corporatewide agreements that go beyond the scope of the originating inspection. OSHA has already stepped up its monitoring of corporatewide settlement agreements.
- Improving internal controls over the accuracy and timeliness of management information on egregious cases.

These OSHA actions are sufficient to resolve the OIG audit recommendations.

### OSHA Legislative Recommendation

The OIG continues to be concerned with the Department's minimal reliance on criminal enforcement of worker safety and health laws. Accordingly, during FY-92, the Inspector General testified before the House Subcommittee on Crime and Criminal Justice on the need for legislation that criminalizes willful violations of OSHA rules that result in death or serious bodily injury. The Inspector General testified that

"Strengthening the criminal enforcement provisions of the OSH Act would be the first step towards greater worker protection...employers...engaging in willful and repeated conduct which violates the safety standards promulgated pursuant to the OSH Act...should be subject to both civil fines and criminal incarceration, since such incarceration may send a strong message to other employers contemplating the same type of willful activity...willful or knowing violations of the OSH Act resulting in a worker's death [currently misdemeanors] need to be upgraded to felonies...I also support legislation which would provide for criminal penalties under the OSH Act, for willful or knowing violations resulting in serious bodily injury."

Legislation introduced in both the House and the Senate, which contained criminal enforcement provisions, died in the 102nd Congress. The OIG urges the Department and the Congress to revisit this issue early in the next congressional session to ensure that the American worker is better protected from occupational hazards.

## MINE SAFETY AND HEALTH ADMINISTRATION

The Mine Safety and Health Administration (MSHA) administers the provisions of the Mine Safety and Health Act of 1977 (Act). The Act was established to provide a means for improving working conditions and practices in the Nation's mines and for promoting a safe and healthful environment for the nation's miners. MSHA's major activities are the development and enforcement of health and safety standards; the development and implementation of educational policy; technical support in the approval and certification of mine equipment; and the collection, analysis, and publication of information pertinent to the mining industry.

In this reporting period, the OIG audited the MSHA financial statements for FY-91 and the performance of MSHA's Special Investigations Program, which the Act authorizes as part of MSHA's overall enforcement program.

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### MSHA FINANCIAL MANAGEMENT

The OIG audited MSHA's financial statements for FY-91. During FY-91, MSHA had expenses of \$139.5 million, which were incurred as follows: enforcement of coal mine standards, \$70 million; enforcement of metal/nonmetal mine standards, \$28.1 million; assessment collections, \$1.8 million; standards development, \$1 million; technical support, \$16.1 million; education, \$11.7 million; and administration, \$10.8 million.

#### **FY 1991 MSHA Financial Statements Audit Report No. 12-92-001-06-001; issued June 30, 1992**

A qualified opinion was issued on MSHA's FY-91 financial statements. The opinion was qualified because (1) inadequate accounting records precluded verification of the beginning accounts payable balances and (2) property held for resale was stated at cost net of accumulated depreciation rather than at "lower of cost or market" as required by departmental accounting policies.

The report on internal control structure noted three reportable conditions. Two of the reportable conditions are material weaknesses involving inadequate reconciliation procedures and inadequate accounting policies and procedures.

The audit found that MSHA did not perform regular reconciliations of several general ledger account balances. In those cases where reconciliations were performed, there were inadequate supervision and review procedures to ensure the accuracy and timeliness of the account reconciliations. Affected accounts included funds with U.S. Treasury, accounts receivable, and advances.

The audit concluded that MSHA did not have adequate accounting policies and procedures to ensure that transactions were recorded properly. OIG testing of accounts payable showed that approximately 30 percent of the outstanding balance should be shown as undelivered orders or, in some cases, be de-obligated. Based on testing of undelivered orders, the OIG noted that approximately 50 percent of the outstanding balance should be reclassified as accounts payable or, in some cases, be de-obligated. Year-end physical inventories did not include procedures to identify items no longer in use. Transactions were not reviewed to ensure proper capitalization. Also, miscellaneous receipts for the MSHA Academy were recorded as reductions of expenses instead of revenue.

The remaining reportable condition involved inadequate financial reporting policies and procedures. MSHA did not have year-end close-out policies and procedures designed to produce their annual financial reports. One result was that accounts receivable balances for fines and penalties did not include all FY-91 transactions.

The report on compliance noted exceptions for noncompliance with appropriation law for collection of miscellaneous receipts and noncompliance with laws and regulations for State grantee reporting. MSHA treats sales of audiovisual materials and publications as reimbursements to their appropriation. In the absence of authority to treat these items as reimbursable, this is not in compliance with appropriation law. MSHA has not enforced legal requirements for its State grantees to submit required reports. MSHA cannot ensure that grantees are spending their funds in accordance with the Federal Mine Safety and Health Act of 1977, Section 503, and other applicable Federal regulations.

MSHA agreed with the OIG's findings and recommendations and is initiating corrective action.

**Improvements Can Be Made in MSHA'S Special Investigations Program  
Report No. 03-92-042-06-610; issued September 30, 1992**

Section 103(a) of the Mine Safety and Health Act authorizes MSHA to conduct special investigations as an integral part of the Agency's inspection and enforcement program. Authorized special investigations are resolution of complaints of discrimination filed by miners and other protected persons [Section 105(c)] and assessment of civil or criminal penalties pertaining to a serious and significant violation of a mandatory health and safety standard where the mine operator or agent of the operator knowingly allowed the violation to occur [Sections 110(c) and 110(d)].

The OIG reviewed MSHA's Coal and Metal/Nonmetal Divisions' Special Investigations Programs, and found that:

- MSHA district offices are in compliance with national office policies and procedures.
- MSHA needs to develop a comprehensive management information system and consistent reports.
- MSHA needs to establish procedures to close special investigation cases that warrant no further action. (This recommendation remains unresolved.)
- Implementation of a training tracking system and planned criminal investigations training would improve enforcement efforts in MSHA.

With the exception noted, MSHA has implemented actions to address the OIG recommendations to improve operation of its special investigations program.

## OFFICE OF THE SOLICITOR

The Office of the Solicitor (SOL) is the legal arm of the Department of Labor. The SOL plays a key role in enforcing the provisions of over 180 labor-related statutes that protect the rights of over 90 million individuals and impact a regulated community of 10 million entities. In this reporting period, the OIG (with SOL) resolved audit findings that will assist SOL in applying its litigation resources in the most effective manner.

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### **Managing the Effectiveness of SOL**

**Report No. 17-92-005-08-001; issued March 31, 1992 (Resolution)**

In the past the SOL did not make formal internal assessments of its litigation function and, as a result, had not developed the pragmatic elements essential for assessing the effectiveness of this activity. The SOL accepted the following OIG recommendations to improve its litigation function: (1) develop formal priorities for litigation activities; (2) implement a system to track and report the costs of litigation, including attorney time and litigation outcomes; and (3) periodically review and evaluate its litigation policies and procedures.

The SOL is currently working toward a requirements-based budget using priorities established from the Secretary's goals and defined by SOL's client agencies. Further actions that SOL plans to take to define its priorities include publishing SOL's defined priorities, allocating resources among programs to best meet the client agencies' goals in the overall context of Secretarial goals and priorities, and identifying work that will be accomplished and the work that probably will not be addressed.

The SOL has acknowledged the need to have accurate and timely data on cases, including the amount of time legal staff spend on them. SOL is currently working on revisions to its legal activity record-keeping system (SOLAR) and the development and integration of a time distribution system. SOL has formed a work group to oversee the development of a time distribution system and plans to have the new system completed by the end of 1993. The SOL has also begun to review and evaluate its litigation policies and procedures, and has made changes to certain procedures.

## DEPARTMENTAL MANAGEMENT

Departmental Management (DM) refers to those activities and functions that implement and formalize policy, procedures, systems, and standards to ensure efficient and effective operations of administrative and managerial programs. DM includes both those activities and functions that are applicable to all agencies of the Department, and a small number of operating programs and activities for which incorporation in an existing DOL component is not suitable.

In this reporting period, the OIG audited the financial statements of the Department and certain financial activities that support the statements, selected components of DM, indirect costs for certain departmental contractors, and resolved indirect cost audits issued in prior periods. Additionally, the OIG was very active in the Department's information resources management (IRM) activities.

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### **Department of Labor Fiscal Year 1991 Consolidated Financial Statements Report No. 12-92-002-07-001; issued August 28, 1992**

The findings for this report are included in the Financial Management section.

### **Audit of Accounts Payable, Undelivered Orders, and Disbursements Report No. 12-92-029-07-711; issued September 1, 1992**

As an adjunct to the audit of the Department's FY-91 consolidated financial statements, a separate audit of accounts payable and undelivered orders was undertaken to determine if they were fairly stated for vendor payments.

The OIG found the accounts payable and undelivered orders were materially misstated because of misclassification of accounts payable and undelivered orders and the failure to accrue expenses as of September 30, 1991. The OIG estimated that accounts payable in the FY-91 general ledger were understated by 84 percent or \$24.6 million. Reported accounts payable were \$29.2 million. The estimated accounts payable per audit were \$53.8 million. The undelivered orders in the general ledger were overstated by approximately 29 percent or \$36.8 million. Reported undelivered orders were \$127.7 million. The estimated undelivered orders per audit were \$90.9 million. FY-91 disbursements were reported at \$407.6 million for vendor payments. The amount was determined reasonable per audit. However, some problems were noted with documentation supporting transactions.

The basic accounts payable and DOLAR\$ modules generally were properly designed; however, the Department's understanding and utilization of these automated systems were not always proper. Weaknesses were noted in filing and retention of accounting and procurement records, absence of receiving reports, missing obligating documents, miscoded transactions, and missing files. Because of these problems, program managers did not have accurate obligation status information available. Also, the lack of receipt and payment information and other documentation hinders the proper management of goods and services procured by the Department, including the price paid for them.

The Department generally concurred with the OIG's recommendations to correct these problems. They disagreed, however, with the scope of the problems presented.

**FY 1991 Working Capital Fund Audit**  
**Report No. 12-92-030-07-710; issued August 19, 1992**

This is the first time the Working Capital Fund's (WCF) financial statements have been audited. These financial statements were compiled by the OIG from the supplemental financial schedules included with the Department's consolidated financial statements and related financial records. The WCF had expenses of \$69.8 million in FY-91. Assets of \$16.5 million were reported for the WCF as of September 30, 1991, including \$13.9 million in funds with the U.S. Treasury.

An adverse opinion was issued on the financial statements of the WCF because of poor property accounting. Three factors contributed to our conclusion. First, depreciation expense was recorded for assets that were not capitalized. Second, computer software of at least \$4.5 million had not been capitalized. Moreover, sufficient evidence was not available to support management's contention that the amount not capitalized was \$7.9 million. Third, WCF billings were overstated by \$622,769 due to calculation errors. An audit adjustment was made for this amount; however, the adjustment does not reflect the effect of the understatement of the property accounts.

In the report on the internal control structure, the OIG identified seven reportable conditions, with four conditions considered to be material in relation to the financial statements. The four material weaknesses were as follows:

- (1) WCF capitalized property records were not reconciled to the general ledger control accounts. Fragmented property systems, ineffective policies and procedures for recording property transactions, poor communication among procurement and accounting offices, and a lack of reconciliation and depreciation procedures have resulted in 1) unreliable property and equipment account balances, including ADP software and 2) departures from established departmental accounting policy.

- (2) WCF service agency procedures were not adequate to provide accurate accounts payable and undelivered orders account balances. The financial statements included an adjustment to decrease accounts payable and expenditures in the amount of \$954,293.
- (3) WCF billings exceeded billable expenses due to improper billing procedures and a lack of reconciliation between expended appropriations and billable expenses. For the year ended September 30, 1991, billings in excess of billable expenses were \$622,769.
- (4) Agencies were not charged on the basis of actual costs or appropriate prices/rates for certain sensitive services in accordance with departmental policy, resulting in unfair charges, excessive overhead, and large agency budget variances.

The remaining reportable conditions relate to inappropriate and excessive cost centers, incomplete written operating procedures, and inadequate supervisory reviews. Management has responded to the above findings, indicating basic agreement with the recommendations. They disagreed, however, that unfair charges resulted from their billing practices.

The results of OIG tests of compliance disclosed one material instance of noncompliance. The WCF is budgeting for and charging Department of Labor agencies for activities not authorized by the WCF enabling legislation.

In the OIG's opinion, the WCF charged participating agencies \$7,209,194 for activities and services not authorized the by WCF-enabling legislation in FY-91. Though the expenses were reasonable for the Department, they should not have been charged to the WCF. We recommended that the Acting Chief Financial Officer either charge agencies only for legislatively authorized WCF activities or initiate an amendment to the enabling legislation authorizing an expanded revolving-fund operation.

Management has responded indicating basic agreement with the finding; however, they have disagreed with some items listed as unauthorized. Management is preparing a legislative proposal to address the scope of WCF activities.

## **INFORMATION RESOURCES MANAGEMENT (IRM)**

Information Resources Management refers to those activities associated with the collection, use, dissemination, and management of information and related resources. The term is commonly used in connection with the utilization of computers and other information processing equipment.



During this reporting period, the OIG continued to play an active role in efforts to improve the efficiency and effectiveness of the Department's overall IRM environment. In reporting this period, the OIG and the Department resolved important OIG audit findings from a prior period. In addition, the OIG prepared a blueprint for future audits of departmental IRM activities and performed other IRM-related audits.

**Problems With Departmental System Development Efforts Persist  
Report No. 19-92-003-07-001; issued March 31, 1992 (Resolution)**

In this audit report, the OIG informed the Department's Designated Senior Official (DSO) of another major information system project failure within the Department; namely, the Pension and Welfare Benefits Administration's (PWBA) failure to successfully develop the final phase of the Field Office Information System (see page 64). The report also noted that OIG system development project audits since 1984 could not identify a single large systems development project in the Department that had met each of three important criteria: satisfying user needs, meeting the development schedule, and reasonably meeting the original cost estimates.

The DSO agreed with the OIG's recommendations to improve the results of departmental system development efforts by developing:

- an improved level of oversight and technical assistance for high risk projects at key decision points that include careful evaluation of agency actions by the OIG and the Deputy Secretary;
- a new policy requiring DOL agencies to undergo stringent assessment in the use of Interagency Agreements to procure Federal Information Processing resources; and
- an updated System Engineering Concepts and Procedures Manual.

As a result of these actions, the OIG and the Department have resolved all recommendations. In addition, the Department's Directorate of Information Resources Management (DIRM) and the OIG have coordinated several initiatives to improve IRM activities in the Department. This includes (1) collaboration on drafting a Secretary's Order to establish a Secretarial Priority System Advisory Board, (2) agreement on the need for both DIRM and OIG oversight of complex IRM system development efforts, and (3) recognition of the need to establish performance measures for evaluating the Department's IRM activities. The OIG and the Department will continue to work cooperatively to improve overall IRM activities.

## **The OIG Strategic Plan for Auditing IRM in the Department of Labor: Fiscal Year 1993 through Fiscal Year 1995**

In the last semiannual report, the OIG described the most important results of auditing the Department's and individual agencies' IRM activities over the past 8 years. During this 8-year period, the OIG's planning process for IRM audits was driven by high visibility, risk, and cost of system development; the impact of introducing new technology (local and wide area networks); and compliance with IRM statutes. Audit work planned and conducted under this approach usually resulted only in individual agency improvements. However, to meet the growing challenge of managing information technology in the future, a new focus is necessary.

Based on this experience, the OIG has developed a strategic IRM audit plan for Fiscal Years 1993-1995 to address systematically IRM problems identified by the audit process. This plan provides the framework for affected agencies and the OIG to develop logical solutions to identified problems. In the future, the OIG's IRM audit work will be increasingly crosscutting and concerned simultaneously with functions in departmental and agency environments. This necessarily will direct audit efforts more to the underlying causes of recurring problems.

Consistent with this focus, the OIG has developed six strategic issues (overall audit objectives) to drive future IRM audit work. They are as follows:

- 1) **Strategic Planning** - a focus on departmental and agency visions and abilities to achieve the mission, goals, and objectives through effective use of technology.
- 2) **Design and Acquisition** - a concentration on whether agencies' major system development and modernization efforts are adequately justified, feasible (economically and technically), and meet users' needs.
- 3) **Systemic Barriers** - an evaluation of the success of implementing new technology by avoiding problems in areas such as software development, information management, requirements, organizational structure, acquisition strategies, and information and system sharing.
- 4) **Operations and Maintenance** - methods that agencies can use to reduce and account for operational and maintenance costs, and enhance the reliability of equipment.
- 5) **Recruitment, Education, and Training** - a focus on the agency's identification, recruitment, and retention of qualified IRM personnel, and management of programs to teach, refine, and evaluate technical skills.

- 6) **Fraud, Waste, and Abuse** - a focus on the agency's use of technology to improve internal controls that prevent/detect fraudulent activities and provide feedback to management to reduce waste and abuse.

This strategic plan will be supplemented by the development of individual agency IRM profiles and a tactical agency-by-agency IRM audit plan for Fiscal Years 1993 through 1995.

#### **Host Computer Resources Utilization**

**Report No. 19-92-011-07-720; issued September 30, 1992**

DIRM has oversight responsibilities for the provision of host computer services to other departmental agencies. The Boeing Computer Services (BCS) provided host computer processing services for the Department from 1986 to 1992, at which time a new service provider (SunGard Computer Services, Inc.) began to provide these services. The OIG audited the effectiveness of host computer services delivered to the Department by BCS and SunGard.

The audit found that no one individual or agency in the Department was designated to coordinate and exchange information for either service provider. More specifically, the Department does not have:

- formal policies and procedures for the efficient and effective use of host computer processing services;
- a mechanism to promote the exchange of solutions to common problems, cost-savings measures and technological advances identified by the agencies; and
- procedures to ensure all users received adequate training to effectively use the host computer services.

The OIG recommended that DIRM establish a users' group, effective over the life of the SunGard contract, to exchange information on problems encountered in system use and to find solutions to these problems. DIRM concurred with the recommendations and agreed to implement them.

#### **PWBA'S ERISA Information System: Development Problems Delay FOIS Implementation** **Report No. 19-92-002-12-001; issued March 31, 1992 (Resolution)**

In the prior semiannual report, the OIG reported audit findings related to a major PWBA system development effort. During the current period, the OIG and PWBA have resolved these findings. The OIG found that the failure of the final phase of PWBA's new

management information system (FOIS) was attributable to unsatisfactory contractor performance, ineffective project management, and inadequate consideration of critical technical issues. The OIG recommended that PWBA take specific steps to improve the development effort. This included developing an action plan that included protecting the Government's interests from contractor claims and restarting the FOIS system development, adopting the Department's quality assurance procedures and standards for development projects, and simplifying parts of the FOIS design to reduce system complexities.

In advance of the OIG's final report, PWBA undertook a replacement system development effort and has agreed to provide the OIG with the replacement system's completed system design documentation for review and comments.

The OIG is monitoring departmental efforts to terminate the GSA contract with the original system development contractor and resolve about \$2.2 million in contested contractor billings and claims. These efforts have yet to produce results. The OIG has informed the Department's Audit Followup Official about the lack of progress in resolving these issues.

## **OTHER DEPARTMENTAL MANAGEMENT ACTIVITIES**

### **The Department's Enforcement Programs**

During the past 18 months, the OIG has reviewed the efforts of both the Department and individual agencies to improve the overall effectiveness of departmental enforcement programs. Status reports on these efforts were issued in September 1991 and March 1992, and reported in the Inspector General's Semiannual Report.

During the past 6 months, continued monitoring has been focused on assisting the Department's program agencies in improving their overall enforcement programs. The OIG found that: (1) the Office of the Assistant Secretary for Policy (OASP) has continued its efforts to design and implement a Departmentwide enforcement data base (scheduled for completion in October 1992); (2) OASP is completing a handbook to assist small businesses to understand the major statutes and regulations administered by the Department; (3) agency prosecution guides, designed to improve coordination with the Department of Justice, have been completed by two of the Department's enforcement agencies (three guides are currently being reviewed by the Office of the Solicitor); and (4) the Department is continuing to explore ways to utilize more effectively the criminal investigations training available through the Federal Law Enforcement Training Center.

In FY-93, the OIG plans to audit the effectiveness of the agencies' criminal investigation framework. During this audit, the OIG will determine whether (1) all potential criminal

violations are being identified and (2) the framework has resulted in improved prosecution results.

**The Effectiveness of the Directorate of Civil Rights  
Report No. 17-92-006-07-770; issued September 25, 1992**

The OIG performed a review of the effectiveness of the Department's Directorate of Civil Rights (DCR) complaints and compliance systems. The review identified potentially significant deficiencies in the timeliness of processing complaints filed under Titles VI and VII of the Civil Rights Act, record-keeping and tracking systems, timeliness of Solicitor review, and performance of compliance reviews of entities receiving Department of Labor funds. The review also identified backlogs of complaints and compliance review reports. These potential deficiencies and weaknesses constitute vulnerabilities that may jeopardize the DCR's effectiveness in performing its basic mission. While some improvements were made during the course of the review, the critical mission and responsibilities of the DCR are such that the OIG will proceed with a full audit of Directorate of Civil Rights.

**Weaknesses Identified in The Recertified Payment Process Need Immediate Attention  
Report No. 19-92-010-07-710; issued August 18, 1992**

The Department's Office of Accounting is responsible for both replacing salary checks reported lost, stolen, or mutilated; and collecting salary overpayments after Treasury identifies the original check was cashed.

The OIG examined Office of Accounting records which identified 1,152 replacement salary checks for the period January 1989 to June 1991. Additionally, the OIG identified practices used in the management, documentation, and reporting of the Recertified Payment Process which the Department uses to replace employee salary checks. The audit found that the Office of Accounting:

- was not collecting all salary overpayments (after Treasury identified the original check was cashed and the replacement check not returned);
- lacked formal policies and procedures to adequately control the Recertified Payment Process; and
- employed an inadequate method to track and certify historical replacement check request information.

The OIG alerted the Department's Comptroller to weaknesses identified in the Recertified Payment Process and recommended certain measures to correct these deficiencies. The Comptroller agreed to install measures to address each of these deficiencies.

**Health Insurance Premiums Remitted to HealthPlus of Maryland**  
**Report No. 12-92-027-07-711; issued August 14, 1992**  
**Report No. 12-92-028-04-431; issued August 14, 1992**

HealthPlus of Maryland (HealthPlus) is a health plan participating in the Federal Employees' Health Benefit Program (FEHBP). In December 1990, HealthPlus submitted a \$2.4 million claim to the Office of Personnel Management (OPM) (which administers the FEHBP) for unpaid Federal health benefit premiums for the 3-year period ended December 31, 1990. The Department of Labor portion of the claim was \$30,654 for Federal employees and \$23,754 for Federal employees' workers' compensation beneficiaries. At the request of OPM, the OIG reviewed the circumstances of DOL remittances for these activities.

Based on a review of 91 sample items - selected from 12 sample periods - the OIG identified net underpayments of \$3,635.27 for DOL employees. The total projected underpayment for the 12 sampled pay periods was \$5,151.02. The OIG also reviewed the remittances by OWCP for FECA beneficiaries. Based on the review of 164 sample items - selected from 12 sampled months - net underpayments of \$7,819.12 were identified for FECA beneficiaries. The total projected underpayment for the 12 sampled months was \$16,189.92. OPM is responsible for resolving underpayments and overpayments.

The OIG also identified several departmental and OWCP weaknesses in the internal control structure for health benefit processing. For example, adequate reconciliation between payroll records and health benefit reports was not performed, OWCP procedures were inadequate to ensure that all enrollment changes were properly entered in the benefit payment system, and individual payroll offices did not have adequate procedures to ensure proper payment of premiums during periods of leave without pay. The Department noted that a new health benefit reporting and reconciliation system planned for development and implementation would correct most of the problems noted. OWCP also generally agreed with the OIG findings and stated that existing procedures will be reemphasized to ensure the problems are corrected.

**Cost Allocation Plans and Indirect Cost Rates**

Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. The OIG audits indirect cost proposals and rates of departmental contractors both at the request of the Department and on its own initiative.

**Leo A. Daly Company Fiscal Year 1987 Indirect Costs  
Report No. 18-92-027-03-370; issued September 10, 1992**

For the period June 1983 to September 1989, the Leo A. Daly Company (Daly) received two DOL contracts totalling \$37.5 million to perform inspection and facilities surveys at Job Corps centers. The OIG performed a special review of nine selected Daly indirect cost accounts for FY-87 (March 1986 through February 1987) to determine whether indirect costs charged to DOL by Daly were allowable, allocable, and reasonable in accordance with Federal and departmental cost reimbursement regulations.

For FY-87, Daly proposed that DOL's pro rata share of all indirect costs charged to DOL and non-DOL activities was \$2.8 million. The OIG concluded, however, that this amount was overstated by \$210,695. In addition, the OIG identified that, of the \$3.3 million reviewed, \$1.1 million was inappropriately included in the total indirect costs to be allocated by Daly. These included items such as social/country club memberships, personal travel expenses, personal residence expenditures, liquor, entertainment, and luggage.

In response to the draft report, Daly agreed that \$140,134 was improperly charged as an indirect cost, but did not agree that the remaining \$976,271 was inappropriately charged. The OIG has concluded, however, that the costs in question do not meet the definition of allowable, allocable, or reasonable charges.

**National Conference of Black Mayors, Inc.  
Report No. 18-92-024-07-735; issued June 22, 1992**

The National Conference of Black Mayors, Inc. (NCBM) is a private, nonprofit organization founded in 1972 for the purpose of providing training, research, information, and technical assistance to black mayors. The NCBM was awarded a JTPA Title IV grant to provide a technical assistance and training program to assist primarily rural and small urban governments in recognizing how they can best utilize the JTPA program in their communities.

The OIG audited direct costs claimed for the grant years ended April 30, 1989, 1990, and 1991 and the final indirect cost rate proposed by NCBM for the Calendar Year that ended December 31, 1989. However, because the audit of the direct costs claimed for the 3 grant years disclosed that, during this period, NCBM's financial management system did not meet the requirements of the applicable OMB circulars, the OIG questioned all indirect costs charged to the Department for the 3 grant years ended April 30, 1991.

The audit resulted in a total of \$194,850 in questioned costs, of which \$58,854 were direct costs (of \$474,256 direct costs audited), and \$4,958 represented unremitted interest due the DOL. As mentioned, all of the indirect costs (\$135,996) claimed for the 3-year grant period were questioned. Due primarily to these findings, the OIG stated NCBM's final

indirect cost rate proposal for 1989 and the amended financial status reports for the period May 1, 1988 through April 30, 1991 do not present fairly, in conformity with applicable criteria, the costs associated with program operations.

NCBM did not agree with the OIG's conclusions regarding the seriousness of the deficiencies in its financial management system. It did, however, agree that the system is deficient in some areas and further stated that it is taking steps to bring it into compliance with OMB Circulars A-110, A-122, and A-133.

#### **National Governors' Association**

**Report No. 18-92-023-07-735; issued June 3, 1992 (Resolution)**

In our semiannual report for the period ended March 31, 1991, the OIG reported (Report No. 18-91-024-07-735) questioned costs of \$646,002 related to operational costs for the National Governors' Association (NGA) for Fiscal Years 1986-1988. The impact of these questioned costs on DOL and other Federal agencies was \$236,275. Subsequent to the issuance of this report, the NGA submitted additional documentation related to the questioned indirect costs.

As a result of the OIG's review of this additional information, a new report has been issued for which questioned indirect costs have been reduced to a revised total of \$483,961. The impact of these questioned costs on DOL and other Federal agencies is \$174,520. The current report will be used to assist the Department in establishing NGA's final indirect cost rates for Fiscal Years 1986-1988.

#### **National Council on the Aging, Inc.**

**Report No. 18-91-018-07-735; issued July 19, 1991 (Resolution)**

The OIG audited the direct and indirect costs claimed for reimbursement by the National Council on the Aging (NCOA) for the 2-year period ended December 1989. ETA disallowed \$342,545 of the \$662,944 questioned by the OIG. Most of the disallowed indirect costs resulted from improper salaries and fringe benefits charged to the indirect cost pool and excessive allocation of nonpersonnel costs. Excessive rental and other unallowable costs were also charged directly to DOL grants.

In addition to the questioned costs, the OIG found that NCOA had not properly returned to the Department \$364,672 that had accumulated from over-recovery of indirect costs from the DOL and from subgrantee payments to NCOA related to audit disallowances. NCOA has since returned these funds to the Department.



## **Section II**

### **Federal Managers' Financial Integrity Act Activities**

## FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ACTIVITIES

The Federal Managers' Financial Integrity Act (FMFIA) establishes management's accountability for the efficient, effective use of resources to accomplish program objectives. The FMFIA process provides a formal mechanism for the assessment and reporting of management's internal control structure.

The OIG is fully involved in the FMFIA process for the Department of Labor. The OIG reviews the Secretary's annual report and the reports of the Department's component agencies to determine that reports are accurate and complete. The status of corrective actions is monitored through ongoing audits.

In the FY-91 FMFIA report, material weaknesses are reported under Sections 2 and 4 of the Act. Under Section 2 of the Act, which pertains to management controls, 14 material weaknesses were reported. Of the 14 material weaknesses reported, 4 were considered high risk. They related to JTPA audit coverage, State JTPA grant operations, the Employee Retirement Income Security Act (ERISA) audit process, and DOL equity in SESA real property.

### 1) **JTPA Audit Coverage**

Audit coverage of the JTPA was inadequate because the Single Audit Act (SAA) does not have stipulations providing for adequate coverage of JTPA funds. The entities/organizations which actually expend JTPA dollars at the local level are not subject to these audit requirements. In addition, most entities that are subject to the SAA either pass through most of the JTPA funds that they receive or have a JTPA program which represents a relatively small percentage of their total Federal assistance funds. The General Accounting Office, Office of Management and Budget, and President's Council on Integrity and Efficiency are conducting reviews of the adequacy and effectiveness of the SAA.

### 2) **State JTPA Grant Operations**

This area encompasses several problems. These include service delivery area procurement systems; oversight of State JTPA programs; on-the-job training; fixed unit price, performance-based broker contracts; and other contracting practices. ETA has conducted extensive reviews of procurement practices and provided procurement training to State and local staff. A number of the recent amendments to JTPA are also designed to address these weaknesses. The OIG is closely monitoring ETA's development of implementing regulations for the new JTPA amendments.

### 3) **The ERISA Audit Process**

This is an important element of the oversight and enforcement of pension and welfare benefit plans. While widespread fiduciary abuse has not been determined, limited scope audits are currently allowable under ERISA. Fraud and abuse may be going undetected because of the audit limitations currently permissible. During this reporting period, the Administration submitted a legislative proposal which would eliminate limited scope audits of pension plans and require peer reviews of independent public accountants who audit pension plans. Further, the Pension and Welfare Benefits Administration has increased its enforcement effort against plan administrators who fail to correct deficient audits. They also are pursuing sanctions against public accountants performing substandard audits. Unfortunately, the legislative proposals did not progress in this Congress. The OIG is recommending that the Department of Labor make this a top legislative priority in the coming year.

### 4) **DOL Equity in SESA Real Property**

DOL has equity in SESA real property that was purchased with Federal funds. An OIG audit found that some SESAs were not in compliance with DOL regulations governing acquisition, management, and disposition of property. Further, ETA did not account for the Department's equity of approximately \$296 million in 472 State properties as of September 30, 1988. ETA's progress to correct this weakness has been slow. Because of ETA's work on procurement systems, limited staff resources have been devoted to property management and accountability. Based on the OIG's recommendations, ETA has established an inventory of national property, but it was not current as of the OIG's latest audit in May 1992. While a real estate specialist position has been established by ETA, directives outlining real property policies and requirements for the SESAs have not yet been issued. ETA plans to complete the reconciliation of ETA records with SESA records in 1993.

Section 4 of the FMFIA requires the reporting of financial system weaknesses. Under this section, nine material weaknesses were reported. Of these, five were combined into a single high risk area - inadequate financial systems. The OIG's audit of the Department's FY-91 consolidated financial statements found continued problems with the Department's financial systems. Although the general ledger is fully operational, subsidiary systems and processes continue to be weak. For a complete discussion, see page 13 in the Financial Management section of this report.

## **Section III**

### **Summary of Additional OIG Activities and Issues**

## **OFFICE OF LABOR RACKETEERING**

The mission of the Office of Labor Racketeering (OLR) is "to identify and reduce labor racketeering and corruption in employee benefit plans, labor-management relations, and internal union affairs."

Labor racketeering is the use of union or benefit plan power for personal benefit. The underlying concept of a union (or a benefit plan) is that it is organized for the benefit of its members, not its leaders. When racketeers take over, that relationship is inverted with the leadership reaping benefits by exploiting the members.

### **Organized Crime**

Organized crime has historically viewed labor racketeering as one of its primary sources of money and power. Although weakened by successful prosecutions in various parts of the country, organized crime still controls and exploits labor unions, most notably in the Northeast. The power to extort, using the union as a weapon, and the vast sums of money contained in union pension and welfare plans continue to prove irresistible to racketeers.

Several recent cases in which the OLR participated demonstrate organized crime's continuing influence in the labor movement. A major New York case, worked jointly with the Manhattan District Attorney's Office and the New York State Police, resulted in the indictment of several members of the Bonnano crime family as well as numerous officers of the Newspaper and Mail Deliverers Union. In Boston, a case worked jointly with the FBI resulted in the indictment of a Patriarca organized crime family figure, two reputed Patriarca family members, and a Teamsters Union member.

### **Emerging Criminal Enterprises**

Joining the traditional racketeers is a new breed of "second generation" racketeers -- lawyers, accountants, fund managers, and plan administrators -- who use the fountain pen and the computer, rather than the baseball bat and gun as their weapons. Using inflated appraisals, phony assets, self-dealing, and a myriad of sophisticated schemes, these professional criminals ruthlessly loot pension and welfare funds -- union and non-union alike.

### **Fraudulent Multiple Employer Welfare Arrangements**

One specific species of fraud, which the OIG has reported on previously and continues to pursue through criminal investigations, is the fraudulent Multiple Employer Welfare Arrangement (MEWA). Originally conceived as a method by which members of an

association of employers could provide reasonably priced health coverage to their employees, the MEWA has evolved into a commercial alternative to traditional insurance. With the rising costs of health insurance and the reduced availability of coverage -- even from the major insurance carriers -- many small employers have found that they are no longer able to obtain health insurance for their employees at a cost they can afford. MEWAs, organized by entrepreneurs, have stepped in to fill the market void for affordable health insurance. Small employers enter into these arrangements under the impression that the premiums they are paying provide bona-fide health insurance for themselves and their employees. Our investigations have found, however, that a few unscrupulous operators ran their MEWAs like Ponzi schemes, paying small claims at the early stage while diverting premium dollars to their own accounts. These operations have inevitably gone bankrupt, leaving millions of dollars in unpaid claims.

As these arrangements began to falter and ceased paying claims, participants complained to State insurance regulators. When the States attempted to investigate and regulate many of these arrangements, the MEWA operators claimed that ERISA preempted any such investigation or regulation. The basis for such claims was that the MEWAs were plans under ERISA and ERISA preempts States from regulating employee benefit plans. While the courts and the Department of Labor have invariably found that such entrepreneurial MEWAs are not employee benefit plans, these claims have hindered State MEWA enforcement efforts.

OLR has investigated several dozen of these scams and has worked closely with both State and Federal regulators to focus needed attention. During this reporting period, a major indictment in Seattle resulted from an investigation of a fraudulent MEWA operator. In this case alone, there were over \$8 million in unpaid claims when the MEWA ceased operation. In addition to prosecutions, another result of this focused attention has been proposed legislation to close a perceived gap in which many fraudulent MEWAs were able to operate.

### **Bogus Labor Unions**

A negative effect of the increased attention given to fraudulent MEWAs has been the creation of the bogus labor union. As State regulatory and enforcement efforts against fraudulent MEWAs have increased, operators have sought ways to avoid scrutiny. Like an evolving virus, some MEWAs were turned into "labor unions." In this manner, the operators have attempted to position themselves under the broad preemption aspect of ERISA, thereby insulating themselves from State regulation. This is a current issue in which the OLR has recently initiated several criminal investigations. Working with State insurance authorities, OLR has succeeded in bringing several of these scams to a halt at an early stage.

While accurate figures on the amount of money and number of participants that are at risk do not exist, the impact of the fraudulent MEWA problem can be inferred from those few cases cited in this report. The 3 MEWA cases reported in this semiannual report represent 8,550 potential victims and \$13.5 million in unpaid claims. Because of their complex nature and geographic dispersal, MEWA cases are extremely expensive to investigate. OLR is attempting to address this real and immediate problem to the best of its ability with the resources allocated to it.

### **MEWA Legislation**

During this reporting period, the OIG was encouraged by the introduction, in both the House and the Senate, of the Department's bill (H.R. 5386 and S. 2843, respectively), as well as the introduction of three additional bills addressing the issue of health insurance fraud.

The intent of the Department's bill is to enhance the soundness and stability of MEWAs and to strengthen the ability of both the Federal and State Governments to ensure that these arrangements are free from fraud and abuse. Specifically, the bill:

- clarifies Federal and State regulatory authorities with respect to MEWAs;
- establishes a new exemption procedure to allow the Department to grant a renewable 3-year exemption from State regulation to MEWAs that are employee welfare benefit plans under ERISA and are not fully insured;
- would require MEWAs to register with the Department annually and send copies to States in which they offer or provide benefits;
- clarifies the definition of "collective bargaining agreement" to prevent MEWAs from improperly claiming to be exempt from State laws;
- allows States access to information on organizations claiming to be MEWAs to determine whether they are in fact MEWAs and whether they are legitimately exempted from State regulation by a DOL exemption;
- contains changes in some definitions that are designed to allow certain MEWAs that cover both employees and a small number of non-employees to be eligible to seek a DOL exemption, and clarifies that certain types of arrangements are not MEWAs and, thus, are not subject to State regulation under section 514(b)(6) of ERISA; and
- grants the Secretary of Labor the authority to obtain a court order forcing a MEWA to cease operations immediately when it is established that (1) it is not

operating in accordance with departmental exemption or (2) it is not in compliance with State insurance laws.

The need for legislation of this nature is illustrated by a case recently investigated by OLR. In this case, an association-based MEWA, which had operated successfully for a number of years, was taken over by an entrepreneur. In short order, the MEWA multiplied in size several times, became insolvent, and left millions of dollars in unpaid claims. OLR conducted an investigation into alleged criminal violations but found none. In declining prosecution, the United States Attorney expressed the opinion that what had happened was clearly wrong; unfortunately, it was not illegal. Had legislation been in effect, as that which is currently being proposed, the operator of this MEWA would not have been able to do business in the manner in which he did. In the words of the prosecutor, "This is an area ripe for abuse in the absence of any existing effective State or Federal regulation."

### **Office of Labor Racketeering Priorities**

In order to ensure that the very limited resources available are directed to the areas at the core of OLR's mission, management recently restated OLR's investigative priorities, as follows:

1. Organized Crime (OC) domination of labor unions and/or employee benefit funds.
2. OC influence over or manipulation of labor unions and/or employee benefit funds.
3. Long-standing, abusive, and criminal domination of labor unions and/or their funds by non-OC members.
4. Significant and orchestrated criminal abuse of non-union employee benefit funds, including MEWAs, by non-OC members.

A sharper focus on these priorities will allow OLR managers to ensure the efforts of their agents are directed to those cases with the highest potential for impact.

With fewer agents in number than in previous years, OLR realized more indictments during Fiscal Year 1992 than in any year in the organization's history. In addition to achieving 164 indictments and 128 convictions during FY-92, OLR also generated \$47.9 million in monetary accomplishments. We are very proud of these accomplishments, but must point out that the monetary accomplishments are skewed by an extraordinary item - one case accounted for over \$36 million in restitutions ordered. This is a singularly large restitution. The value of OLR investigations is not typically monetary, the value lies in the significance of the involvement of the defendants in organized criminal activities and the



impact of our investigation on this crime problem. OLR cases do not lend themselves to strict statistical measurement.

Another aspect of our efforts to ensure that limited resources are utilized to the maximum involves placing investigators in areas with the richest potential for carrying out our mission. To this end, we have undertaken a preliminary review and are formulating plans to establish a presence in several new areas and/or increase our presence in areas with the highest racketeering potential.

Narratives of our most significant cases follow.

## **EMPLOYEE BENEFIT PLANS**

### **Health Insurance Executive and Two Associates Indicted in Health Care Fraud Scheme**

The president and two associates of Labor Management Services, Inc. (LMSI), a Washington State insurance consulting firm, were charged in Seattle with cheating thousands of Americans out of about \$8 million in health insurance claims between March 1988 and October 1989. The Federal indictment charged Edward B. Gallup, president of LMSI, and associates Patrick W. Lyon and Thomas M. O'Brien with embezzlement from employee benefit plans, mail fraud, wire fraud, and money laundering.

The indictment alleged that Gallup, with the assistance of Lyon and O'Brien, fraudulently received and converted more than \$1 million in health insurance premiums for their own use, in one instance using premium money to buy three new Jaguars worth more than \$160,000. The defendants were also charged with embezzling almost \$275,000 from the employee welfare benefit plans of two companies in Modesto, California. They were further charged with interstate transportation of money obtained by fraud relative to obtaining more than \$550,000 in premium dollars from third-party administrators in Massachusetts and Michigan.

According to the indictment, Gallup and his associates misrepresented the plan to employers, selling it as low-cost health insurance arranged with reputable companies when, in fact, the represented insurance coverage did not exist. This investigation was conducted jointly by the OIG, the U.S. Postal Inspection Service, the Internal Revenue Service, and the U.S. Attorney's Office in Seattle. Substantial assistance was provided by the Washington State Insurance Commissioner's Office in Olympia. *U.S. v. Gallup et al.* (W.D. Washington)

## **Remaining Defendants in CAP Staffing Case Sentenced**

Robert Long, former president of CAP Programs, Inc., in Charlotte, North Carolina, was sentenced to 6 years and 6 months in prison for mail fraud, interstate transportation of money obtained by fraud, embezzlement from an employee benefit plan, money laundering, and conspiracy.

Also sentenced were Jerry M. Wolicki, former vice-president of CAP Programs, Inc., to 5 years and 6 months' imprisonment; Ronald Harris, former secretary of CAP Staffing, Inc., a related Charlotte-based employee leasing company, to 2 years and 9 months' imprisonment; and, Victor S. Blackwell, former vice-president of CAP Programs, Inc., to 5 years' imprisonment. For their participation in the continuation of the CAP Programs, Inc. fraud scheme, Michael Spieles, former president of Universal Staffing Associates, a related employee leasing company in Palm City, Florida, was sentenced to 3 years and 5 months' imprisonment, and Michael A. Krebsler, former officer of Universal Staffing Associates, to 2 years and 3 months in prison.

The former CAP staffing officials were convicted in 1991 on charges they defrauded more than 120 businesses and their employees by causing the employees to believe they were covered by health insurance and other personal benefits when only minimal coverage was provided. They also diverted approximately \$500,000 in premium proceeds for other uses. Currently, an amount in excess of \$1.2 million in medical claims remains outstanding.

Plea agreements previously entered into by all defendants require forfeiture to the United States of all rights, titles, and interest in the property involved in the facilitation of the fraud scheme, including proceeds generated from the fraud scheme. This includes residences of the defendants, automobiles, bank accounts, office equipment, and mining equipment.

This investigation was conducted jointly by the OIG, the U.S. Postal Inspection Service, the Internal Revenue Service, and the Federal Bureau of Investigation. The North Carolina Department of Insurance and the Florida Department of Insurance assisted in the investigation. *U.S. v. Long et al.* (W.D. North Carolina)

## **Massachusetts Health Insurance Executives Sentenced in Fraud Scheme**

Richard L. Rowe, the owner of the now defunct Harbor Medical Administrators, Inc., a Boston company administering health care plans, was sentenced in Federal district court in Boston to 6 years' imprisonment and ordered to make restitution in the amount of \$1.9 million after pleading guilty to kickbacks, embezzlement, mail fraud, and related charges. Philip W. Carpenter, the former executive vice-president of the firm, was sentenced to 46 months' imprisonment and ordered to make restitution of \$1 million after pleading guilty to receiving kickbacks, embezzlement, conspiracy, and related charges.

In pleading guilty, Rowe and Carpenter admitted that from 1985 to 1989 they induced employers to pay premiums to the OMNI Trust, a self-insured group health care arrangement providing benefits to more than 600 employers and their employees and dependents, by misrepresenting the trust as a Government-approved health insurance plan operating under Federal law. They also admitted to converting more than \$2 million and \$1 million, respectively, in assets from the two trusts. Carpenter also received kickbacks in the form of marketing override, life, and medical stop-loss commissions. The fraud scheme resulted in more than \$4 million in unpaid medical claims and individual losses as high as \$250,000.

Anne B. Dunlop, former vice-president and general manager of Harbor Medical, is awaiting sentencing after pleading guilty to embezzlement, mail fraud, and conspiracy.

This investigation was conducted jointly by the OIG, the DOL's Pension and Welfare Benefits Administration, and the U.S. Postal Inspection Service. *U.S. v. Rowe and Carpenter* (D. Massachusetts)

#### **Kentucky Third-Party Administrator Indicted in Insurance Fraud Scheme**

Raymond A. Huelefeld, the president of the now-defunct Benefit Administrators, Inc., a Ft. Mitchell, Kentucky third-party administration company, was indicted in Cincinnati on charges of benefit plan embezzlement, bank and mail fraud, and falsification of benefit plan-related records. Huelefeld was charged in a scheme to inflate fraudulently the cost of stop-loss insurance premiums for employee health plans of four Cincinnati area businesses.

The indictment alleged that Huelefeld, between March 1987 and January 1990, used his position as third-party administrator for the four firms' self-funded insurance plans to defraud the plans by overstating the cost of stop-loss insurance premiums. Based upon the misrepresentations, the employer-sponsors of the respective benefit plans provided approximately \$829,749 in excess funding to Benefit Administrators. Huelefeld allegedly remitted to the insurance company only the premiums actually due and converted the amount overcharged to his personal use and benefit and to the use of others. The indictment charged that to cover up the scheme, Huelefeld forged or caused to be forged the employer-sponsors' acknowledgement on documents which verified they knew the true premium cost. This investigation was conducted jointly by the OIG and the U.S. Postal Inspection Service. *U.S. v. Huelefeld* (S.D. Ohio)

#### **Pittsburgh Accountant Indicted for Embezzling More than \$1 Million from Pension and Investment Accounts**

Philip P. Quattrone, a self-employed accountant and owner of Quattrone Accountants, Inc., was indicted in Pittsburgh on charges of bank fraud, tax evasion, falsification of records,

and embezzlement of more than \$1 million in pension funds and investments belonging to two Pittsburgh area doctors and their employees.

According to the indictment, Quattrone used his position as accountant and investment advisor for the pension plans and investment accounts to embezzle more than \$1 million from April 1987 to May 1989. After gaining signature authority over the bank accounts in which these funds were deposited, Quattrone withdrew the money, used it for his personal and business purposes, and created false records to conceal the embezzlement. Quattrone is also charged with evading taxes by failing to report the embezzled funds as income.

This investigation was conducted jointly by the OIG, the Internal Revenue Service, and the Federal Bureau of Investigation. *U.S. v. Quattrone* (W.D. Pennsylvania)

#### **Former Houston Teamster Official Convicted for Kickbacks**

Lynn McDon Wells, the former president and business manager of the International Brotherhood of Teamsters Local 1111 in Houston, was convicted on charges of receiving kickbacks from the Local's health plan administrator.

Wells was convicted of accepting approximately \$2,100 in kickbacks from Melvin Ray Gilmore, between May 1987 and December 1988. Gilmore was an insurance broker who administered a group health plan for Local 1111's members. Gilmore testified at the trial that he made payments to both Wells and Wells' predecessor to obtain and assure continued business with the union's health plan.

Wells retired from the Teamsters and resigned from Local 1111 in March 1992. This investigation was conducted jointly by the OIG, the DOL's Office of Labor-Management Standards, and the Federal Bureau of Investigation. *U.S. v. Wells* (S.D. Texas)

#### **New York Insurance Broker Charged in Bribery Scheme**

Asher Schapiro, doing business as Investors Marketing Associates and Employee Benefit Services, Inc., was charged in Detroit in a scheme to bribe a former official of American Motors Corporation (AMC) and several co-conspirators to assure AMC's selection of an optional life insurance program Schapiro offered. Schapiro was charged with conspiracy, interstate transportation in aid of racketeering, and money laundering.

The indictment alleged that, between 1985 and 1987, Schapiro conspired to use and used the mail and telephone to carry out the bribery scheme. Further, the indictment alleges Schapiro made payments totaling approximately \$98,000 to the former AMC official and his co-conspirators. The former AMC official was responsible for administering employee benefit programs and his influence was instrumental in the selection of the program for

AMC employees. The indictment charged Schapiro with money laundering for passing the bribe payments through a shell corporation, created by his co-conspirators to disguise the true nature of the payments.

This investigation was conducted jointly by the OIG and the Federal Bureau of Investigation. *U.S. v. Schapiro* (E.D. Michigan)

## **LABOR-MANAGEMENT RELATIONS**

### **Labor Racketeering Sting Nets Organized Crime Figures**

Following a lengthy undercover probe, Francis P. Salemme, Jr., and Thomas L. Hillary, reputed Patriarca organized crime family members; Dennis D. Lepore, a Patriarca family figure; and William M. Winn, an International Brotherhood of Teamsters (IBT) Local 25 member were indicted in Boston on charges of conspiracy to bribe labor union officers and interstate transportation in aid of racketeering.

The undercover probe, titled "Dramex," involved FBI operation of an undercover production company, David Rudder Productions, which purported to be an independent motion picture company with offices in Santa Monica, California.

According to the indictment, between March 1989 and June 1990, the defendants conspired to bribe labor union officers in return for assurances that David Rudder Productions could film movies in various cities without union personnel. David Rudder would thereby realize millions of dollars in savings from reduced payroll costs and incur no expense for pension and medical insurance coverage of its employees.

Salemme, Jr. is the son of Frank "Cadillac Frank" Salemme, Sr., reputed leader of the Patriarca family. Winn is the IBT Local 25 transportation captain/coordinator supervising IBT members employed by movie companies filming in New England. Lepore is currently serving a 14-year prison sentence for racketeering.

This aspect of the investigation was conducted jointly by the OIG and the Federal Bureau of Investigation. *U.S. v. Salemme et al.* (D. Massachusetts).

### **St. Louis Attorney and Two Railroad Union Officials Charged in Fraud Scheme**

Stephen Tillery, a Midwest attorney, and two prominent railroad union officials were charged, in two separate but related indictments in Illinois, with fraudulent schemes designed to steer business to Tillery.

The first indictment charged Tillery, an attorney practicing in Illinois and Missouri; his investigator, James Wolf; and Martin Barton, a high ranking local official for the United Transportation Union (which represents union members employed by the Terminal Railroad Association of St. Louis) with conspiracy, mail fraud, and interstate travel in aid of racketeering. The indictment also charged Wolf with making a false declaration before a grand jury.

The second indictment charged Tillery and Mark Waldemer, a licensed attorney and high ranking local official for the Brotherhood of Locomotive Engineers (which represents union members employed by the Union Pacific Railroad) with mail fraud and interstate travel in aid of racketeering. The indictment also charged Waldemer with making a false declaration before a grand jury.

According to the indictments, Tillery paid union officials money and other things of value in order to provide legal representation to injured union members. The indictments also alleged that to carry out the schemes, the defendants used the mail and travelled in interstate commerce.

This investigation was conducted by the OIG with assistance of the U.S. Department of Justice, Criminal Division. U.S. v. Tillery et al. and *U.S. v. Tillery and Waldemer* (S.D. Illinois)

#### **Business Manager of Carpenters Local Union 17 Convicted of Bribery**

Benedetto "Benny" Schepis, the business manager of Carpenters Local Union 17, was convicted in the New York State Supreme Court of bribing a labor official, receiving bribes, and engaging in a prohibited financial interest and transaction.

Schepis was found guilty of facilitating a \$3,000 bribe to a business agent of another Carpenters Local. Testimony revealed that Schepis and Louis Moscatiello, a former official of Plasterers Local Union 530 (who previously pled guilty to bribery and is presently serving a 2 to 5-year jail sentence), allowed construction contractors to receive favorable treatment and violate the Carpenters Union collective bargaining agreement.

This investigation was conducted jointly by the OIG, the New York State Organized Crime Task Force, and the Manhattan District Attorney's Office. *State of New York v. Schepis* (Supreme Court of the State of New York, County of New York)

#### **New Jersey Union Official Pleads Guilty to Demanding Illegal Payments from Employer**

Edward D. Bigham, Sr., the business agent of the International Association of Machinist and Aerospace Workers Union (IAM), Local 447, pled guilty to demanding illegal payoffs from the Middlesex Metro Bus Company in East Brunswick, New Jersey.

The June 1992 indictment charged that Bigham sought to represent and organize the employees of Middlesex Metro. On three occasions Bigham told a representative of Middlesex Metro that if payoffs were made, a sweetheart labor contract would be entered into with Health Care Employees Union Amalgamated Local 747, Fords, New Jersey, in lieu of requiring a more expensive contract with IAM Local 447.

All counts of the June 1992 indictment pertaining to Edward D. Bigham, Jr. (Bigham's son and current president of Local 747), were dismissed.

This investigation was conducted by the OIG with assistance from the Middlesex County New Jersey Prosecutor's Office. *U.S. v. Bigham* (D. New Jersey)

### **Executive Secretary of the International Brotherhood of Painters and Allied Trades (IBPAT) District Council Sentenced for Bribery**

Arthur R. Colasanto, executive secretary of the International Brotherhood of Painters and Allied Trades (IBPAT) District Council 20 in White Plains, New York, pled guilty plea to receiving a bribe. He was sentenced to 5 years' probation and 250 hours of community service, ordered to make \$1,800 restitution, and barred from holding any union position for life.

The indictment charged Colasanto with accepting four bribes totaling \$1,900 from an undercover police investigator posing as a corrupt painting contractor. In exchange for the money, Colasanto agreed to allow the undercover investigator to use non-union labor. Additionally, the "contractor" was not required to enter into collective bargaining with the Painters District Council.

Colasanto is one of several corrupt IBPAT union officials who were targeted in a joint Federal and New York State law enforcement probe into racketeering in the painting industry. In 1991, former IBPAT International Vice-President James Wolford of Buffalo, New York, and Richard Campigotto, business manager of IBPAT Local 65 in Niagara Falls, New York, were indicted on racketeering charges in Buffalo. Investigation of additional union officials and painting contractors is continuing.

This investigation was conducted jointly by the OIG, the Special Investigations Unit of the New York State Police, and the New York State Organized Crime Task Force. *U.S. v. Colasanto* (Supreme Court of the State of New York, County of New York)

## INTERNAL UNION AFFAIRS

### **Bonnano Organized Crime Family Members and Newspaper Deliverers Union Members Indicted for Enterprise Corruption**

Twenty individuals were charged in New York County Supreme Court in related indictments involving racketeering activities by members of the Newspaper and Mail Deliverers Union (NMDU) in New York City and by members of the Bonnano organized crime family.

The first phase resulted in the arrest of 13 individuals following their indictment in New York County Supreme Court on enterprise corruption and related charges. Al Embarrato, a capo in the Bonnano organized crime family; Richard Cantarella, a reputed Bonnano family soldier; and other defendants were charged with enterprise corruption and related acts, including extortion, coercion, larceny, bribery, and falsification business records. The indictment alleged that the defendants were members of a criminal enterprise which controlled the systematic theft and sale of *New York Post* papers and was involved in organized crime-related activity. The criminal enterprise exercised its control by infiltrating the NMDU and using its members to facilitate the enterprise's activities.

A second indictment involved four members of the NMDU, including a soldier in the Bonnano family. This indictment charged the defendants with violation of the New York State Organized Crime Control Act and related acts, including extortion, coercion, larceny, criminal usury, and falsifying business records. In a related indictment, a former union official of the NMDU and two others were charged with kidnapping, conspiracy, and bribery charges. The indictment charged that a construction contractor representative was kidnapped until the contractor agreed to pay the defendants' ransom for labor peace.

The defendants, known as the Galante Delivery Crew, used their affiliation with the union, the Metropolitan News Delivery Company, and the Bonnano organized crime family to systematically control the theft and sale of newspapers and to operate a ghost employee scheme.

This investigation was conducted jointly by the OIG, the Manhattan District Attorney's office, the Organized Crime Investigation Division of the New York City Police Department, and the New York State Police. *State of New York v. Embarrato et al*; *State of New York v. Galante et al.*, and *State of New York v. Carraro et al.* (Supreme Court of the State of New York, County of New York)



### **Former Los Angeles Teamsters Official Indicted for Mail Fraud and Embezzlement**

Former IBT Local 399 Secretary-Treasurer and International Representative, Earl D. Bush, was indicted in Los Angeles on charges of union embezzlement and mail fraud. The indictment charged Bush with embezzling approximately \$63,740, between 1987 and 1989, by double billing both Local 399 and the IBT for travel expenses, automobile allowance, and social security taxes. Bush also billed the IBT for travel expenses he did not incur. The indictment also alleged that Bush mailed requests for reimbursement for the fraudulently claimed expenses to the IBT International.

This investigation was conducted jointly by the OIG and the Federal Bureau of Investigation. *U.S. v. Bush* (C.D. California)

### **Washington D.C. Area Carpenters' Local Officers Sentenced**

The two principal officers of United Brotherhood of Carpenters and Joiners of America Local 1110 in Forestville, MD, have been sentenced in Baltimore for embezzling approximately \$800,000 from the Local. Michael Miller, the president and business agent for the Local, was sentenced to 2 years in prison and 3 years' supervised release, and ordered to pay \$500,000 in restitution. Marshall D. Bradley, the Local's financial secretary, was sentenced to 4 months in jail, 4 months' home detention, and 3 years' supervised release; and ordered to make \$15,700 in restitution. Miller pled guilty to conspiracy to embezzle approximately \$800,000 from Local 1110, and Bradley pled guilty to embezzling from the Local. The indictment charged that Miller conspired with Bradley and Linda Goldsborough, the office secretary and a trustee of Local 1110, to embezzle an amount in excess of \$800,000 from the union and its related employee benefit plans.

The indictment further charged Miller with depositing checks payable to the union and benefit plans into a secret unauthorized bank account and using the funds to pay his personal expenses. Goldsborough has pled guilty to aiding and abetting the embezzlement and is awaiting sentencing.

This investigation was conducted jointly by the OIG and the Federal Bureau of Investigation. *U.S. v. Miller and Bradley* (D. Maryland)

## OFFICE OF RESOURCE MANAGEMENT AND LEGISLATIVE ASSESSMENT

The Office of Resource Management and Legislative Assessment fulfills several responsibilities mandated by the Inspector General Act of 1978, including legislative and regulatory review, reporting to the Congress, and performing general management and support activities to achieve the mission of the OIG.

Section 4(a) of the Inspector General Act of 1978 requires the Inspector General to review existing or proposed legislation and regulations and to make recommendations in the semiannual report concerning the impact on the economy and efficiency of the administration of the Department's programs and on the prevention of fraud and abuse.

The following represent several of the most important legislative and regulatory items of OIG concern. With the close of the 102nd Congress, however, many of these items either died in the legislative process or were never introduced. Consequently, the OIG urges the Department and the Congress to revisit those issues still outstanding and to give them swift consideration early in the next Congress.

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### LEGISLATION AFFECTING THE OPERATION OF DEPARTMENT PROGRAMS

#### **Job Training Partnership Act (JTPA): Amendments and Regulation**

The OIG is encouraged by the recently-enacted JTPA amendments (PL 102-367). This Act provides the means to alleviate some of the long-standing problems that have diminished the success of the JTPA program in providing needed skills to the unemployed, underemployed, and hard-to-employ. Key to ensuring the effectiveness of the new amendments, however, will be the development, promulgation, monitoring, and enforcement of comprehensive regulations needed to implement the new amendments. For a complete discussion, see page 25 in the Employment and Training Administration section of this report.

#### **Criminal Penalties for Violations of Occupational Safety and Health Rules**

The OIG continues to be concerned with the Department's minimal reliance on criminal enforcement of worker safety and health laws. Accordingly, during FY-92, the Inspector General testified before the Congress on the need for legislation which criminalizes willful

violations of OSHA rules that result in death or serious bodily injury. For more information, see page 54 in the Occupational Safety and Health Administration section of this report.

### **Pension Plan Audit and Enforcement Enhancement Amendments**

Since 1984, through our semiannual reports and congressional testimony, the OIG has raised its concerns that hundreds of billions of dollars in employee pension funds are not being adequately audited to ensure that they are safeguarded. Currently, under the Employee Retirement Income Security Act (ERISA) of 1974, funds that have been invested in entities such as savings and loans, banks, and insurance companies (which are regulated by Federal [or State] Governments) and are not required to be audited. While the assumption is that these institutions receive adequate audit coverage from other regulatory agencies, these audits are generally done every 2 years and are not primarily designed to test for ERISA violations. As a result, this limited scope audit loophole is putting at risk workers' pension funds, now amounting to more than \$2 trillion. To reduce these risks to employee pension funds and, secondarily, to the Government which guarantees the payment of pension benefits for defined benefit plans, the OIG has long recommended legislative changes to improve the quality of pension plan audits and to strengthen disincentives for unlawful behavior.

Moreover, the Department, after reviewing a broad range of enforcement-related issues under ERISA, concluded that ERISA enforcement should be enhanced in several respects and that statutory changes are required to implement these enforcement initiatives.

To improve the quality of pension plan audits, the OIG continues to recommend that (1) the provision of ERISA which allows funds held in federally regulated entities to escape scrutiny, be eliminated and (2) independent public accountants (IPAs) be required to undergo a peer review for qualification (as outlined in S.2708 and H.R.5158). In order to enhance ERISA enforcement, the current law should be modified to (1) require that material illegal acts detected by IPAs in the course of their pension plan audit work be reported to senior plan management, the board of directors or its audit committee, and to PWBA for enforcement action; (2) require that the industry audit guide for the audit of employee benefit plans, promulgated by the American Institute of Certified Public Accountants, be used by all auditors as the minimum acceptable standard when performing audits of pension plans under ERISA; and (3) require that parties separate from plan management be established to oversee IPA audits on behalf of plan participants.

During this reporting period, the OIG was encouraged by the introduction, in both the House and the Senate, of the Administration's bill (H.R.5158 and S.2708, respectively) which addresses some of our long-standing concerns. The OIG has consistently outlined these concerns in its semiannual reports during the past several years. While the

Department has now agreed to most of our recommendations, the OIG is concerned that a more concerted effort was not made to ensure that the bills progressed further during this Congress. We urge the Department to take the lead and make this issue a legislative priority in the coming year.

**Employer-Sponsored Health Insurance Plan Fraud:  
Multiple Employer Welfare Arrangements (MEWAs)**

The OIG's Office of Labor Racketeering is currently conducting 43 criminal investigations of fraudulent MEWAs. These investigations continue to reveal extensive abuse characterized by the use of bogus labor unions, associations, and memberships.

During this reporting period, the OIG was encouraged by the introduction, in both the House and Senate, of the Administration's bill (H.R. 5386 and S.2843, respectively), as well as by the introduction of other bills by various members of Congress. For a complete discussion of this legislative issue, see page 79 in the Office of Labor Racketeering section of this report.

**Federal Employees' Compensation Act (FECA)**

The OIG has recommended that the Department pursue legislative changes to give the Government the ability -- not presently available under existing workers' compensation statutes -- to terminate FECA payments following a conviction. In addition, the OIG continues to pursue a legislative change to elevate a violation of 18 USC §1920 (false statement to obtain Federal employees' compensation) from a misdemeanor to a felony. For a complete discussion on these legislative recommendations, see page 48 in the Employment Standards Administration section of this report.

**Fair Labor Standards Act (FLSA)**

The House Government Operations Committee held two hearings to review the Wage and Hour Division's (WHD) enforcement of minimum wage and overtime provisions of the FLSA. During that oversight review, the Committee referenced an OIG audit, issued in September 1991, which focused on the effectiveness of the WHD's enforcement of the FLSA. In addition, the Inspector General testified before a Senate Appropriations Subcommittee on the need for improvements in WHD's detection of FLSA violations and management of its information system, as well as needed improvements to the FLSA itself. For a complete discussion on the OIG's recommendations, see page 49 in the Employment Standards Administration section of this report.

## **LEGISLATION AFFECTING OIG OPERATIONS**

### **Law Enforcement Authority for OIG Special Agents**

The OIG continues to recommend legislation to provide law enforcement authority to the Office of Labor Racketeering (OLR) and Office of Investigations (OI) special agents. Congressional hearings and accompanying reports from the Senate Labor and Human Resources Committee and the Permanent Subcommittee on Investigations have supported the need for law enforcement authority for OLR.

This authority would permit OIG special agents to perform all usual law enforcement functions, including executing search warrants and making arrests. Currently, OIG special agents are forced to rely on assistance from other Federal, State, and local law enforcement agencies in order to carry-out the Department of Labor's agency-specific responsibilities. This lack of basic law enforcement authority impedes the ability of the OIG to discharge a number of critical aspects of our investigations and presents a real problem of safety for our witnesses and agents.

Since 1987, the Department of Justice (DOJ) has appointed all qualified OLR Special Agents as Special Deputy U.S. Marshals annually. Such authority has added demonstrably to the effectiveness and efficiency of OLR field operations. OLR now is better able to continue those enforcement efforts that are potentially hazardous to agents and cooperating third parties. While this temporary authority has proved beneficial, it has only been a palliative remedy and does not adequately meet OLR's need for permanent law enforcement powers necessary to ensure success and credibility.

Case-by-case deputation of OI special agents is not only inadequate, but the inherent inadequacies have been exacerbated by a request and renewal process which has proved to be a bureaucratic, administrative nightmare. During the first 9 months of Calendar Year 1992, the DOJ approved almost 500 individual deputations for OI agents. These requests required an average of almost 45 days for DOJ to process, but individually ranged as high as 85 days to be completed.

It is important to recognize that during the period that we are waiting for DOJ approval of our deputation requests, cases may come to a virtual halt, opening up the possibility of evidence and witnesses disappearing, records becoming lost, and memories fading.

While it is clear that statutory law enforcement authority for all OIG special agents would provide for the most efficient operation of our criminal investigative program, at a minimum, OI agents need to have annually-renewable deputation in the interim. We are continuing to hold discussions with DOJ officials and hope that we can reach a mutually acceptable agreement.

## **Exemption of Undercover OLR Operations from Certain Laws**

The OIG continues to work with the Department on the draft bill titled "The Department of Labor Office of Inspector General Undercover Operations Amendment of 1991." The bill would exempt the undercover operations of the OIG's Office of Labor Racketeering (OLR) from certain laws and would permit the use of proceeds from undercover operations to offset necessary and reasonable expenses.

During undercover operations, it is frequently necessary to set up a business lease office space, open a checking account, etc., using a fictitious name. It is essential that the existence of the fictitious business and false name used by the undercover agent remain secret to ensure the success of the undercover operations and to protect the safety of the undercover agent.

Although the OIG engages in undercover operations, it lacks the authority to carry out some activities necessary to conduct them. The OIG seeks an exemption from certain laws similar to that of the Federal Bureau of Investigation and the Department of Treasury.

## **PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY ACTIVITIES**

The President's Council on Integrity and Efficiency (PCIE) was established by Executive Order to coordinate and enhance governmental efforts to promote integrity and efficiency and to detect and prevent fraud, waste, and abuse in Federal programs.

The PCIE is chaired by the Deputy Director for Management of the Office of Management and Budget, and its members include all of the Presidentially appointed Inspectors General, the Controller of the Office of Federal Financial Management; the Associate Deputy Director for Investigations of the Federal Bureau of Investigation; the Director of the Office of Government Ethics; the Special Counsel of the Office of Special Counsel; the Vice Chair of the Executive Council on Integrity and Efficiency; and the Deputy Director of the Office of Personnel Management.

Labor Inspector General, Julian W. De La Rosa, was recently appointed to serve as PCIE Vice Chair. In his capacity as Vice Chair, Mr. De La Rosa works closely with the Deputy Director for Management of the Office of Management and Budget and with the Inspector General community to carry out the functions of the Council. He also serves on many interagency committees where he represents the interests of the Council.

During this reporting period, under Mr. De La Rosa's leadership, the DOL-OIG has been leading a Governmentwide review to determine whether Federal employing agencies are efficiently and effectively managing their responsibilities under the Federal Employees' Compensation Act (FECA). Moreover, the DOL-OIG developed an audit guide to be

used by Federal audit offices when reviewing their respective agencies' administration of their FECA claims. The DOL-OIG has also led a team to develop an audit guide to be used by other Federal Departments when reviewing their respective financial statements for conformance with the Chief Financial Officers Act.

## OFFICE OF INVESTIGATIONS

During this period, investigations of the Job Training Partnership Act (JTPA) and the Federal Employees' Compensation Act (FECA) programs, contract and procurement fraud, and employee misconduct continued to be the Office of Investigations' (OI) national priorities. An appreciable amount of effort was concurrently expended in unemployment insurance (UI) interstate fictitious employer/employee and third-party false claims investigations. During this fiscal year, we reached a consistent level of effort in the JTPA area, in which the OI continues to devote around 40 percent of its investigative time. The OI attention afforded FECA investigations also remains constant, at about 25 percent of OI's investigative time. OI devoted almost 15 percent and about 10 percent of its investigative time, respectively, to UI investigations and employee misconduct matters.

In addition to achieving 169 indictments and 162 convictions during FY-92, OI also generated \$9.9 million in monetary accomplishments. Therefore, notwithstanding the significant deterrent benefits derived from these indictments and convictions, OI monetary accomplishments alone represent a 15 percent return on the American taxpayer's investment over the \$8.6 million that was appropriated for this activity in FY-92.

### **Inefficiencies Still Plague Deputation Request Process**

In our last report, we set forth the inefficiencies associated with the administrative process used by the Department of Justice (DOJ) to review and act on requests for the deputation of OI Special Agents as special deputy U.S. Marshals. We noted that the Inspector General, along with three other Inspectors General, was engaged in discussions with the Attorney General and other DOJ officials on this issue. Of particular concern to the Inspectors General were the delays associated with the DOJ's review and action on deputation requests.

Despite the meetings with DOJ officials and their agreement to handle these matters in a more timely manner, we have experienced a significant increase in the length of time required by DOJ to process these requests. For example, during Calendar Year 1991, the DOJ required an average of over 30 days to process just over 240 individual deputations for OI agents. During the first 9 months of Calendar Year 1992, the DOJ approved almost 500 individual deputations for OI agents. These requests required an average of almost 45 days for DOJ to process but, individually ranged up to 85 days to be completed.

The delays associated with the DOJ review process are so significant that they have an adverse impact on the effectiveness and efficiency of OI investigations.



## OIG FECA Study

We reported in the last semiannual report that to comply with a request from the Congress, the OIG's OI, with assistance from the U.S. Postal Inspection Service, conducted a survey to determine the effect of the two agencies' combined convictions for FECA fraud in Fiscal Years 1990 and 1991 on the continued receipt of benefits by convicted claimants. The study has been completed and the results have since been forwarded to the appropriate congressional recipients.

The following cases, listed by major program area, are illustrative of the array of investigations which came to fruition during this period.

### **JOB TRAINING PARTNERSHIP ACT (JTPA)**

- An OI-directed JTPA investigation, resulting from findings by the OIG's Office of Audit and the Department's ETA, revealed that employees of the National Association for the Advancement of Colored People's Project Rebound were falsifying participant placement and retention records to fraudulently obtain JTPA program funds. The New York City-based Project Rebound had served as a major JTPA on-the-job training (OJT) broker for many years, receiving multi-million-dollar JTPA contracts to identify and place individuals in OJT positions in the New York City area.

The investigation of the activities of Project Rebound and major sub-contractors, who were to actually supply the OJT, disclosed that some \$632,000 in fraudulent JTPA payments were received from 1987 through 1991. The fraudulently-obtained payments were made for training allegedly provided to participants who had never worked for, or who were already working for the subcontractors, or who had been terminated from employment prior to completion of the required work and training period.

To date, four former Project Rebound account executives and/or placement counselors have pled guilty to charges of having embezzled Federal funds and have been sentenced. They are: William Raynor who was sentenced to 18 months' imprisonment; Emmanuel Sledge who was ordered to serve 10 months' imprisonment concurrently with a State prison term for grand larceny; and Johnnie Jones who was sentenced to 6 months' electronically monitored house arrest. Each of the defendants was ordered to serve 3 years' probation after incarceration. The fourth defendant in this category, Barbara Parsons, was sentenced to 2 years' probation.

Additionally, three other subcontractors and/or their employees have also pled guilty to mail fraud charges and have been sentenced for their roles in the scheme. They are: Dennis Glennen, the former director of personnel for The Riese Organization (a fast food and real estate holding corporation) and his assistant, Lana Johnson, who were sentenced to 6 months' electronically monitored house arrest. Glennen was placed on 5 years' probation while Johnson's sentence included 3 years' probation. To satisfy any liability against it, The Riese Organization agreed to repay \$70,000 to the Government for any fraudulently induced JTPA funds it may have received.

The third defendant in this group, Sarah Bolden, the owner/operator of the Hairstyling Palace and an OJT subcontractor, was sentenced to 3 months' electronically monitored house arrest and 5 years' probation, and ordered to pay \$7,556 restitution. *U.S. v. Raynor et al.* (S.D. New York)

- On July 2, 1992, ETA rendered an initial determination letter to the mayor of Gary, Indiana, advising that as a result of the joint OIG and Internal Revenue Service investigation of Gary Manpower Administration (GMA), Comprehensive Employment and Training Act (CETA) costs in the amount of \$1,304,500 were being disallowed. This was the result of a collaborative OIG and ETA followup to a 5-year investigation into fraud and corruption at GMA.

This investigation previously resulted in the conviction of the former top two officials of GMA on charges of racketeering, racketeering conspiracy, bribery, and conspiracy to defraud the DOL. The investigation was followed by the conviction of 10 other former GMA employees and/or job training contractors on various fraud charges. As a City of Gary entity, GMA administered approximately \$95 million in CETA funds during its 1974 to 1984 existence. *U.S. v. Gary Manpower Administration* (N.D. Indiana)

- Joseph J. Santopietro, the former mayor of Waterbury, Connecticut, was sentenced on June 12, 1992, to 9 years' incarceration, fined \$25,000, assessed a mandatory \$900, and ordered to make restitution (to be determined at a later date) for JTPA funds embezzlement. Santopietro and six others exploited their political party's control to gain favorable action on certain City of Waterbury projects. Santopietro had been found guilty of, among other things, using JTPA money to defray personal travel expenses.

For his part in the scheme, John Bolinski, former fiscal officer for the Department of Employment, Education and Grants Administration (DEEGA) - the agency that administered JTPA funds in Waterbury - was sentenced on May 13, 1992, to 30 days' imprisonment, ordered to perform 150 hours of community service, fined \$1,500, and ordered to pay \$1,500 in restitution. On May 14, 1992, Joseph Carrah,

former administrator of DEEGA, was sentenced to 4 months' in jail and 3 years' probation, and ordered to perform 500 hours of community service and to pay \$20,000 restitution. *U.S. v. Santopietro et al.* (D. Connecticut)

- Subsequent to our last report, Bobby Lee Hill, a former State of Georgia Representative, was sentenced on May 28, 1992, to 12 months' incarceration followed by 3 years' supervised probation, and ordered to pay \$3,973 restitution and a \$1,700 fine. Charles Key, a former City of Savannah revenue officer and JTPA participant, was also sentenced the same day to 5 months' imprisonment, followed by 5 months' home detention, 3 years' supervised probation, and ordered to pay \$5,036 restitution. Both defendants were also required to enter a substance abuse program. Hill was released on bond pending an appeal. Key's incarceration began on June 29, 1992. *U.S. v. Hill and Key* (S.D. Georgia)
- As a followup to our preceding report, defendant Ezra Bolds was sentenced on June 9, 1992, to 15 months' imprisonment and ordered to pay \$15,000 restitution and a special assessment. Co-defendant Ronald Bible was sentenced to 18 months' imprisonment and ordered to pay a \$250 special assessment. As on-the-job training (OJT) employers, doing business as K & K Sight and Sound, Balloon Surprises, and Amusement Vendors, the pair devised a scheme which defrauded the JTPA program of \$140,000 which was intended for eligible OJT participant reimbursements. Over 50 individuals were recruited by the defendants to pose as participants. The OIG's investigative findings resulted in an April 16, 1992, cost disallowance by ETA of over \$300,000. *U.S. v. Bolds and Bible* (C.D. California)
- From a case detailed in our previous semiannual report, on August 7, 1992, Gary R. Stewart, the former City of Ocala, Florida director of public works, was sentenced to 3 years' probation, 250 hours of community service, and fined \$4,000. The sentence follows Stewart's guilty plea to filing a false claim against the Government.

On July 14, 1992, defendant Sylvester Smith pled guilty to making false claims and aiding and abetting. Smith was instrumental in assisting Shelton Eugene Wood, a prominent Florida JTPA training and placement contractor (and third defendant in this case), and Stewart in obtaining over \$180,000 in JTPA funds by filing false JTPA claims. In the process, Smith prepared 14 sets of bogus counsellor notes to support false JTPA claims pertaining to a contract between the State of Florida and Wood. Wood previously pled guilty to two counts of making false JTPA claims and, along with Smith, is awaiting sentencing. *U.S. v. Wood* (M.D. Florida)

- Harriet Herndon and Velma Molina the former owners of Seven to Seven Answering Service; Oliver Glover, owner of L & D Coiffures; and D. L. Stevens, owner of Classic Car Care, who had pled guilty to criminal informations charging

them with theft of JTPA funds, were sentenced during this reporting period as follows: Herndon and Molina were each sentenced to 3 years' probation; Glover was sentenced to 1 year imprisonment (suspended), 150 hours of community service, and 3 years' probation; and Stevens was sentenced to 5 years' probation and 300 hours of community service.

Jerry Curvey, owner of Grey Street Automotive, withdrew his previous guilty plea. Subsequently, he was tried and found guilty on September 16, 1992. He is scheduled to be sentenced in November. These sub-contractors of a Houston JTPA program conspired with Job Developer Gha'is Lateef to defraud the JTPA program of over \$65,000, as reported in our last semiannual report. False and fraudulent time sheets were prepared by the subcontractors and certified by Lateef for submission to the Houston Job Training Partnership Council. Participants who were enrolled in the JTPA program did not receive the reported training. Instead, the JTPA reimbursements were divided between Lateef and the subcontractors. Lateef, who pled guilty on July 31, 1992, was placed on 5 years' probation; and ordered to pay restitution of \$1,196, a fine of \$6,816, and a special assessment of \$100. *U.S. v. Gha'is Lateef Service* (S.D. Texas)

#### UNEMPLOYMENT INSURANCE (UI) PROGRAM

- On June 4, 1992, James Arthur Wilson and his wife Nancella Marcella Wilson were indicted on 142 counts of various Federal violations. The Wilsons were involved in an eight-State unemployment insurance (UI) fraud scheme. Their arrests resulted in the seizure of a quantity of marijuana plants, false identifications, and semiautomatic handguns.

The Wilsons used false social security numbers, birth certificates, and other forms of identification to set up unemployment insurance accounts with assorted State Employment Security Agencies. False applications were then used to apply for UI benefits. The couple used as many as eight aliases to request fraudulent UI claims in Georgia, Michigan, Minnesota, Missouri, New York, Oregon, Washington, and Wisconsin.

On June 29, 1992, James A. Wilson pled guilty to five counts of the indictment which included conspiracy, mail fraud, social security fraud, firearms, and drug charges. He faces a maximum sentence of 40 years' imprisonment, 17 years' probation, and fines totalling \$1.5 million.

Nancella M. Wilson pled guilty to a criminal information (which superceded her indictment) on September 22, 1992. She faces a maximum sentence of 25 years'

imprisonment and a \$750,000 fine. The Wilsons are scheduled to be sentenced on November 3, 1992. *U.S. v. Wilson and Wilson* (N.D. Georgia)

- As reported in our last semiannual report, Paul Louie and two accomplices, Coriolano Romero and Jimmy Leon, breached the Massachusetts Department of Employment and Training's computer system and generated unemployment insurance (UI) benefits checks payable to other conspirators. The loss exceeded \$100,000 in both extended and regular UI benefits. Louie and Leon pled guilty (on August 5 and May 19, 1992, respectively) to four counts of the indictment including conspiracy, offering a bribe, theft, and use of a false social security number. They are scheduled to be sentenced on October 8, 1992. Romero, aware of the possible indictment, fled to Venezuela where he remains a fugitive. *U.S. v. Louie et al.* (D. Massachusetts)
- As a followup to our last report, Ronald Sieber and Sharon Brewer each pled guilty to one count of making false statements. They were sentenced on July 31, 1992, to time served and 5 years' probation and ordered to make restitution of \$3,692 and \$3,818, respectively. Their pleas and sentencing stem from an indictment which alleged that they filed false claims for UI benefits using the identities of deceased Colorado residents and false social security numbers. Through this scheme, Sieber and Brewer obtained over \$87,000 in UI benefits. *U.S. v. Sieber and Brewer* (D. Colorado)

#### **FEDERAL EMPLOYEES' COMPENSATION ACT (FECA) PROGRAM**

- Sampson Wolfchief was convicted on July 9, 1992, of practicing physical therapy without a license. An OIG investigation disclosed that he defrauded the OWCP of about \$20,000 by falsely billing the DOL for treating a FECA claimant. Wolfchief was sentenced to 8 months' imprisonment and 3 years' probation, and fined \$360. *Arizona v. Wolfchief* (Arizona)
- On August 5, 1992, Daniel C. Burleigh, a former U.S. Postal Service clerk, was indicted on six felony counts of making false statements to OWCP. Following a 1972 work-related injury, Burleigh was found "temporarily disabled" and received approximately \$193,000 in FECA benefits. The indictment alleges that Burleigh failed to notify OWCP that, since 1985, he has been self-employed as a principal operator of a dog and cat kennel. This was a joint investigation with the Postal Inspection Service. *U.S. v. Burleigh* (D. New Hampshire)
- On September 18, 1992, Kenneth W. Furbush pled guilty to four counts of a six-count indictment charging him with mail fraud and making false statements. He is scheduled to be sentenced in November. The indictment and plea stem from a

- 1985 claim by Furbush that he injured his back while employed as a Naval shipyard welder. He received some \$150,000 in FECA benefits while failing to notify OWCP that he was a joint owner and operator of an excavation business. This was a joint investigation with the Naval Investigative Service. *U.S. v. Furbush* (D. New Hampshire)
- John R. Salvagno was charged on May 28, 1992, by a Federal grand jury, with four counts of mail fraud and three counts of filing false statements. Salvagno, a former laborer at the Davisville Naval Base in North Kingston, Rhode Island, claimed that in 1986, while lifting an ice machine, he suffered a strained neck. Since then, he has received in excess of \$90,000 in FECA benefits. The indictment alleges that Salvagno failed to notify OWCP that he was the owner, operator, and manager of a pest-control business. This was a joint investigation with the Naval Investigative Service. *U.S. v. Salvagno* (D. Rhode Island)
  - Dr. Andrew E. Brandon was convicted on September 2, 1992, of 130 counts of a 136-count indictment. Following his conviction, Brandon was debarred by the OWCP. As reported in our last semiannual report, Brandon, an audiologist and hearing aide specialist, was charged with mail fraud and making false statements by billing both OWCP and Medicare for the same services, as well as submitting claims for audiological tests that were not performed. This was a joint investigation with the OIG, Department of Health and Human Services. *U.S. v. Brandon* (D. New Hampshire)
  - As a followup to our last semiannual report, on April 20, 1992, Ronald B. Ballard, a former Tennessee Valley Authority employee, pled guilty to mail fraud. He was sentenced to make restitution in the amount of \$84,733, serve 6 months' home detention and 5 years' probation. Ballard had claimed disability from an on-the-job injury and was paid over \$84,000 in OWCP benefits while he was concurrently self-employed as a farrier in western Kentucky. *U.S. v. Ballard* (W.D. Kentucky)
  - Following his guilty plea, Harlin E. Welch, a former U.S. Postal Service employee, was sentenced on April 23, 1992, to 36 months' probation and ordered to make \$79,356 restitution for submitting a false statement to fraudulently obtain approximately \$120,000 in FECA benefits from the OWCP. As reported in our last semiannual report, Welch had been employed as a rural mail carrier when he sustained an elbow injury in 1979. Welch received FECA benefits, from 1979 through 1991, while operating his used automobile business, without reporting his self-employment to OWCP. This investigation was conducted jointly with the Postal Inspection Service. *U.S. v. Welch* (W.D. Virginia)
  - Linda K. Richardson, a former Bureau of Alcohol, Tobacco, and Firearms Special Agent, was sentenced on July 20, 1992, to 5 months' imprisonment and 5 years'

supervised probation following incarceration. She was ordered to pay \$23,893 in restitution. Richardson was found guilty by a Federal jury of failing to report her income from a family business, Executive Safeguard Corporation, to OWCP and making false statements to collect approximately \$58,000 in FECA disability benefits, as reported in our September 30, 1991, semiannual report. *U.S. v. Richardson* (C.D. California)

## BLACK LUNG (BL) PROGRAM

- As a followup to our last semiannual report, John C. Lish was sentenced on September 21, 1992, to 37 months' imprisonment and 2 years' probation. The sentence followed a guilty plea by Lish on April 29, 1992, to charges that he conspired with others to commit mail fraud by presenting false claims for payment to the DOL's black lung program and to the Department of Health and Human Services' (HHS) Medicare Program. Lish was president of Penn Medical Services, Inc. (Penn), a provider of durable medical equipment and oxygen used by black lung patients. As previously reported, David A. Polvinale, the former manager of Penn, and Steve M. Crowe, a former Penn employee, pled guilty to one count each of criminal conspiracy and making a false claim to the DOL. Lish, Polvinale, and Crowe will be sentenced at a later date. They each face a maximum sentence of 5 years' imprisonment and fines of \$1.6 million. This is an ongoing investigation being conducted jointly by the OIG, the HHS-OIG, the Postal Inspection Service, and the Pennsylvania State Medicaid Fraud Unit. *U.S. v. Polvinale et al.* (W.D. Pennsylvania)
- Carl David Pack was sentenced on July 10, 1992, to 4 months' imprisonment, to be followed by 5 years' probation, and ordered to pay over \$17,000 in restitution and interest, after pleading guilty to one count of making false claims. Pack had operated United Medical Inc., in Huntington, West Virginia, which provided durable medical equipment to black lung patients. He falsified reimbursement claims for oxygen equipment that was either not supplied or was unnecessary. After his indictment on May 23, 1989, Pack kidnapped his daughter from her mother who had legal custody, fled from the area, and failed to appear for arraignment.

Acting on a request from the American legal attache in Guadalajara, Mexico, authorities apprehended Pack on December 4, 1991, and deported him the following day on immigration charges related to his failure to inform authorities that he was a fugitive on State and Federal charges in the United States. Pack was arrested by the FBI upon arriving at Fort Worth, Texas. He waived preliminary proceedings and was returned to West Virginia. *U.S. v. Pack* (S.D. West Virginia)

## WAGE AND HOUR DIVISION

On August 18, 1992, Charles Thomas, doing business as Thomas Construction Company, pled guilty to mail fraud and making false statements. In his plea agreement, Thomas admitted that he falsified certified payroll records he submitted to the Department of Housing and Urban Development. He acknowledged that he had underpaid his employees \$100,000 in wages and benefits. This investigation was conducted jointly by the OIG and the Postal Inspection Service, with the assistance of the DOL Wage and Hour Division. *U.S. v. Thomas* (N.D. Illinois)



**Complaint Analysis Office Activities**  
**April 1 - September 30, 1992**

**Breakdown of Allegation Reports by Source:**

Walk-in	0
IG Hotline	12
Letters from the Congress	7
Letters from individuals or organizations	146
Letters from DOL agencies	0
Letters from Non-DOL agencies	0
Incident Reports from DOL agencies	2
Reports by Special Agents and Auditors	3
Referrals from GAO	1
<b>Total</b>	<b>171</b>

**Breakdown of Allegation Reports by Referral:**

Referred to Office of Audit	4
Referred to Office of Labor Racketeering	3
Referred to Office of Investigations Regional Offices	38
Referred to DOL program management	83
Referred to other agencies	20
No further action required	1
Pending action at end of period	22
<b>Total</b>	<b>171</b>

**APPENDIX**  
**Office of Investigations**  
**Financial Accomplishments**

<u>CATEGORIES<sup>1</sup></u>	<u>AMOUNT</u>
<b>Recoveries:</b> (Expenditures to be recovered and/or reprogrammed. This includes the dollar amount of management's commitment to seek recoveries and adjustments. This is a quantification of an agency's action in response to the Inspector General's recommendation to recover funds and/or to make adjustments.)	<b>\$3,057,688</b>
<b>Cost Efficiencies:</b> (The one-time and/or per annum dollar amount/value or management's commitment to utilize more efficiently the Government's resources. This category is a quantification of management's action in response to the Inspector General's recommendation to prevent improper obligations or expenditures of agency funds or to improve agency systems and operations, thereby avoiding further unnecessary expenditures.)	<b>\$ 889,230</b>
<b>Restitutions:</b> (The dollar amount/value of restitution ordered. This category reflects restitutions ordered as a result of Inspector General investigative activities.)	<b>\$ 754,154</b>
<b>Fines/Penalties:</b> (The dollar amount/value of fines and penalties assessed. This category reflects fines and penalties assessed as a result of criminal and civil action instituted as a result of the Inspector General's investigations.)	<b>\$ 69,935</b>
<b>Civil Monetary:</b> (The dollar amount/value of settlements and judgments rendered as a result of civil actions.)	<b>\$ 277,603</b>
<b>Forfeiture/Court Costs:</b> (The dollar amount/value of forfeiture and court costs assessed as a result of criminal and civil action instituted as a result of the Inspector General's investigations.)	<b>\$ 126,291</b>
<b>Total</b>	<b><u>\$5,174,901</u></b>

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<sup>1</sup> Source of these definitions (except "Civil Monetary" and "Forfeiture/Court Costs"): "Investigative Case Tracking Systems, Agents' Instruction Manual", dated October 1985.

## OFFICE OF AUDIT

During this reporting period, 246 audits of program activities, grants, and contracts were issued. A list of these audit reports is contained in the Audit and Schedules section of this report. Of these, 44 were performed by OIG auditors, 31 by CPA auditors under OIG contract, 2 by Defense Contract Audit Agency auditors, 23 by state and local government auditors for DOL grantees and subrecipients, and 146 by CPA firms hired by DOL grantees or subrecipients.

Our audit priorities for this period included the Job Training Partnership Act and the Department's Financial and Information Resources Management. Audit-related narratives are detailed in the ETA, ESA, OSHA, MSHA, SOL, Financial Management, and Departmental Management sections of this report.

### **SPECIAL INITIATIVES FOR FISCAL YEAR 1993**

To establish its audit priorities, the Office of Audit has considered those factors required by OMB Circular A-73. Consistent with this, the Office of Audit has outlined broad areas of priority for FY-93 (as listed in the Annual Audit Workplan for Fiscal Year 1993). Evolving from the priorities are areas of special initiatives. These are areas of activity broader than a specific audit project and which involve the investment of considerable audit resources. The following are the Office of Audit's major special initiatives for FY-93:

#### **Financial Management**

Strong financial management is critical to effective overall management and accountability. Because of this, the Department's financial management activities have been, and will continue to be, an important focus of the OIG's audit workplan.

Implementation of the Chief Financial Officers (CFO) Act served as a catalyst for improvements in the Department's financial management during FY-92. Two changes are especially noteworthy. First, departmental management, rather than the OIG, compiled and prepared the FY-91 consolidated financial statements of the Department. Second, the Department included program performance measures along with financial information for each program agency. These are significant first-time events.

These actions have set the stage for planned OIG efforts for FY-93. The OIG plans to audit the financial statements of the Department at the combining, or agency, level (rather than the consolidated level) through audits of the Department's major agencies, trust funds, and Working Capital Fund. The OIG also plans to audit several functional areas including payroll, grant, and contract management systems, as well as the FMFIA process. The OIG

will also begin a review of the Department's development of program agency measures of performance.

### **Program Agency Measures of Performance**

The CFO Act requires that program agency financial management systems provide meaningful measures of performance. While the development of performance measures is the responsibility of several departmental agencies, linking these performance measures with financial data, especially audited financial statements, may provide reliable information to enable management to make fully informed decisions related to the quality and costs of program delivery.

During Fiscal Year 1993, the OIG will begin the evaluation of the Department's performance measurement systems to determine if they provide adequate:

- identification of performance measures,
- collection of performance-related data,
- measurement and analysis of results,
- evaluation and interpretation of results, and
- internal and external reporting of results.

The review will also include an evaluation of the Department's development process for performance measures.

### **Information Resources Management**

The need for enhanced information resources technology continues to increase while Department officials are faced with meeting the increased demand with diminishing budgetary resources. This has required that the Department and agency managers create a workable IRM strategy that provides the vision and framework for meeting future needs. Only an effective IRM program can provide more efficient service to the public and achieve effective administration and management of scarce information resources.

To assist in meeting these needs, the OIG has developed a strategic plan for auditing IRM in the Department over the next few years. A summary of this plan is found on page 63.

### **Job Training Partnership Act Amendments**

The OIG played a significant role in the process that produced the JTPA amendments. These amendments address many of the program's weaknesses previously identified by the OIG. The OIG will provide the technical assistance requested by ETA as it develops the regulations implementing the amendments. The OIG will also monitor program activities under the new regulations to determine the extent of increased program accountability.

See page 25 for a more detailed explanation of the most important elements of the JTPA amendments.

### **Trade Adjustment Assistance**

The Trade Adjustment Assistance (TAA) program is scheduled for reauthorization by the Congress in FY-93. The OIG has begun a review of the effectiveness of this program. See page 40 for the results of OIG audit activity for this special initiative which was completed as of September 30, 1992.

The OIG will continue this audit work into FY-93. The objectives will include an evaluation of whether:

- program participants covered by certified TAA petitions obtained suitable employment,
- program training assisted participants in finding suitable employment,
- workers were appropriately notified of their entitlement to approved training and weekly allowance, and
- program reports submitted by the States are accurate.

Because initial indications are that information on certain program outcomes is lacking, the audit will also provide data for program managers and the Congress on these program outcomes.

### **ERISA Pension Plan Terminations**

The OIG recently conducted preliminary audit work in the area of pension plan terminations covered by the Employee Retirement Income Security Act (ERISA). The purpose of this work was to determine if PWBA's level of involvement in the pension plan termination process affords an adequate level of protection to plan participants against illegal acts by fiduciaries and others. The OIG also sought to determine if coordination and cooperation among the three Federal agencies charged with implementing ERISA (PWBA, the Pension Benefit Guaranty Corporation, and the Internal Revenue Service) are effective in protecting plan participants during the termination process.

Initial indications are that problems exist in each of the above areas. In FY-93, the OIG plans to conduct a full audit of ERISA pension plan terminations which will include a statistically valid sample of plan terminations large enough to project results to the universe of ERISA plan terminations.

## **Section IV**

### **Audit Schedules and Tables**

# Money Owed the Department of Labor For the Period April 1, 1992 - September 30, 1992

Program Name	Beginning Balance		Debt Established During Period	Collections During the Period			Writeoffs			Adjustments Due to:			Ending Balance	
	In Collection	Under Appeal		Cash	Offset	Other	Compromise	Termination	Overturned	Appeals	Revised Management Decision	In Collection	Under Appeal	
ESA	18,884,910	6,472,421	20,131,115	16,919,222	0	0	372,845	765,483	593,101	0	575,674	8,958,992	10,698,219	6,604,910
FECA Black Lung -Disability Trust Fund	4,379,357	103,853,937	10,386,208	7,414,120	0	0	0	3,448,851	0	0	3,000,815	4,072,647	0	100,683,069
ETA	33,735,963	22,491,787	4,617,998	376,452	0	0	1,699	8,188,159	2,203,497	2,790,772	4,935,671	12,450,558	14,555,817	18,886,799
CEITA	5,224,862	17,062,175	20,893,133	1,714,193	9,955	250,223	0	124,107	2,021,041	591,873	1,132,198	321,898	14,686,587	22,939,988
UI/SESA	0	13,976,776	298,191	1,955,102	0	190,909	0	0	1,530,876	1,896,011	2,418,260	0	37,928	8,141,892
MSHA Assessments/Mine Operator Civil Penalties	14,193,243	13,035,354	17,626,442	10,798,199	0	0	0	700,000	0	0	0	13,356,840	7,500,000	12,500,000
OSHA Civil Penalties -From Business -From State Grantees	33,574,741	81,050,354	40,917,337	32,950,740	0	0	0	2,130,225	0	0	400,000	16,408,819	19,967,782	83,684,866
BLS	269,011	0	110,067	255,361	0	0	0	0	0	0	0	0	110,067	0
PWBA	1,044,916	0	5,425,723	5,211,087	0	0	102,543	0	0	0	150,000	1,005,965	1,044	0
OASAM	225,574	0	20,099	23,287	0	0	0	0	0	0	0	219,875	2,513	0
Total	111,532,597	257,942,804	120,462,905	76,901,451	9,955	421,132	477,087	15,356,825	6,248,515	5,278,656	12,612,618	56,809,242	67,559,957	253,441,524

**Explanations:**

Figures provided by agencies are estimates and are unaudited.

Differences between beginning balances on this schedule and ending balances on the prior period schedule result from adjustments made during the period. Almost all delinquent debt has either been referred to DOJ for collection action or is in the process of referral.

Collections during the period includes: money which had been under appeal, subsequently had a debt established, and money collected.

**Definitions:**

**Collections:** Includes cash, offsets, property, repayment agreements; any amount more than 30 days overdue is delinquent

**Under appeal:** Formal process in which program recipient/auditee appeals program agency's determination; amounts are "contingent" receivables--not available for collection

**Write-Offs:** Result from agency administrative procedures to write off uncollectible receivables, a/k/a bad debt

**Adjustments due to appeals:** Adjustments of contingent receivables which result from ALJ/Judicial process (includes agency actions overturned & compromises)

**Adjustments due to audit resolution:** Adjustments of contingent receivables which result from reclassification of disallowed costs based on documentation submitted after audit resolution

**Summary of Audit Activity of DOL Programs  
April 1, 1992 - September 30, 1992**

Agency	Reports Issued	Grant/Contract Amount Audited <sup>1</sup>	Questioned Costs	
			Unsupported	Other <sup>2</sup>
OSEC	1	\$ 0	\$ 0	\$ 0
VETS	3	252,774	0	0
ETA	170	117,124,814,479	9,547,061	647,440
ESA	9	12,068,794,321	0	14,555
MSHA	4	156,542,020	0	0
OASAM	13	71,217,518,664	325,994	41,810,479
OIG	1	0	0	0
OSHA	7	265,030,713	14,364	309,486
BLS	1	71,593	0	0
PWBA	1	0	0	0
Multi-Agency	32	2,140,739,323	11,868,981	561,102
OT AGY	4	0	0	0
<b>Totals</b>	<b>246</b>	<b>\$202,973,763,887</b>	<b>\$21,756,400</b>	<b>\$43,343,062</b>

<sup>1</sup>Grant/Contract Amount Audited are overstated because, in some cases, expenditures were audited at more than one level as funds were passed down from Department to program agency to program office to grantee/contractor to subrecipient.

<sup>2</sup>Other Questioned Costs include \$42,091,305 in Funds Recommended for Better Use as reported in Audit Reports 18-92-017-03-365, Rural Alabama Dev Corp - Weaknesses Cash Mgmt, \$280,826; 12-92-029-07-711, Accts Payable, Undelivered Orders & Disbursements, \$41,187,720; and 12-92-030-07-710, Working Capital Fund Financial Statements, \$622,759.



**Summary of Audit Activity of ETA Programs**  
**April 1, 1992 - September 30, 1992**

Program	Reports Issued	Grant/Contract Amount Audited	Questioned Costs	
			Unsupported	Other
ADMIN	2	\$116,621,944,000	\$ 0	\$ 0
UIS	2	1,120,742	0	0
USES	3	100,079,138	0	0
OTAA	1	0	0	0
JTPA	26	59,984,009	6,414,866	353,667
CETA	4	285,934	285,934	0
DINAP	81	30,382,430	306,134	0
DOWP	9	221,937,454	17,079	0
DSFP	25	33,594,855	755,005	280,826
OJC	12	54,020,062	1,387,675	12,947
OSPPD	5	1,465,855	380,368	0
<b>Totals</b>	<b>170</b>	<b>\$117,124,814,479</b>	<b>\$9,547,061</b>	<b>\$647,440</b>

**Summary of Audits Performed Under the Single Audit Act  
April 1, 1992 - September 30, 1992**

Agency	Entities Audited	Reports Issued	DOL Grant/Contract Amount Audited	Questioned Costs	
				Unsupported	Other
VETS	0	3	\$ 252,774	\$ 0	\$ 0
ETA	59	126	411,891,075	742,902	0
MSHA	0	1	121,020	0	0
OSHA	2	4	1,659,854	0	0
BLS	1	1	71,593	0	0
Multi-Agency	15	32	2,140,739,323	11,868,981	38,060
OT AGY	2	2	0	0	0
<b>Totals</b>	<b>79</b>	<b>169</b>	<b>\$2,554,735,639</b>	<b>\$12,611,883</b>	<b>\$38,060</b>

**Note:** DOL has cognizant responsibility for specific entities under the Single Audit Act. More than one audit report may have been transmitted or issued for an entity during this time period. Reports are transmitted or issued based on the type of funding and the agency/program responsible for resolution. During this period, DOL issued reports on 79 entities for which DOL was cognizant; in addition, DOL issued 70 reports which included direct DOL funds for which DOL was not cognizant.

**Summary of Audits Performed Under the Single Audit Act  
Multi-Agency Program Reports  
April 1, 1992 -September 30, 1992**

Program	Number of Recommendations	Questioned Costs	
		Unsupported	Other
ETA:			
UIS	7	\$ 18,508	\$523,042
SESA	4	3,148	0
JTPA	13	11,847,325	38,060
Totals	24	\$11,868,981	\$561,102

**Note:** Multi-Agency Program Reports relate to Single Audit reports. The report may be on a statewide audit where DOL has accepted "lead" cognizancy or it may be on a single entity under the direct responsibility of DOL. If multiple DOL programs were audited, the multi-agency designation was used. Individual recommendations within the report designate which agency/program is responsible for resolution. Twenty-four recommendations are contained within the 26 multi-agency reports issued this period.

Audits by Non-Federal Auditors  
 PCIE Semiannual Reporting - Summary Results of IG Reviews  
 Six Months Ended September 30, 1992

	A-128/102-P Audits			A-133/110 Audits			Grand Total
	Independent Public Accountant	State & Local Auditor	Total	Independent Public Accountant	State & Local Auditor	Total	
1. Reports Issued Without Change or With Minor Changes							
A. Based on Desk Review	113	23	136	25	0	25	161
B. Based on QCR	0	0	0	0	0	0	0
Total Without Change or With Minor Changes	113	23	136	25	0	25	161
2. Reports Issued With Major Changes							
A. Based on Desk Review	0	0	0	2	0	2	2
B. Based on QCR	0	0	0	0	0	0	0
Total With Major Changes	0	0	0	2	0	2	2
3. Reports With Significant Inadequacies							
A. Based on Desk Review	3	0	3	3	0	3	5
B. Based on QCR	0	0	0	0	0	0	0
Total Reports with Significant Inadequacies	3	0	3	3	0	3	6
4. Number of Auditors Referred to State Boards/AICPA	0	0	0	1	0	1	1
5. Number of Auditors Which Other Sanctions Were Taken	0	0	0	0	0	0	0
6. Unsupported Costs in Reports With Direct Funded Findings	\$12,571,361	\$22,115	\$12,593,476	\$18,407	\$0	\$18,407	\$12,611,883
7. Sustained Unsupported Costs	\$3,670,845	\$5,754,406	\$9,425,251	\$478	\$0	\$478	\$9,425,729
8. Recovered Unsupported Costs	\$535,856	\$323,411	\$859,267	\$454	\$0	\$454	\$859,721
9. Other Costs Questioned in Reports With Direct Funded Findings	\$0	\$561,102	\$561,102	\$0	\$0	\$0	\$561,102
10. Sustained Other Questioned Costs	\$922	\$51,190	\$52,112	\$0	\$0	\$0	\$52,112
11. Recovered Other Questioned Costs	\$1,771	\$251,824	\$253,595	\$0	\$0	\$0	\$253,595

STATISTICAL TABLE

1. Reports Issued Without Change or With Minor Changes
  - A. Based on Desk Review
  - B. Based on QCR
- Total Without Change or With Minor Changes
2. Reports Issued With Major Changes
  - A. Based on Desk Review
  - B. Based on QCR
- Total With Major Changes
3. Reports With Significant Inadequacies
  - A. Based on Desk Review
  - B. Based on QCR
- Total Reports with Significant Inadequacies
4. Number of Auditors Referred to State Boards/AICPA
5. Number of Auditors Which Other Sanctions Were Taken
6. Unsupported Costs in Reports With Direct Funded Findings
7. Sustained Unsupported Costs
8. Recovered Unsupported Costs
9. Other Costs Questioned in Reports With Direct Funded Findings
10. Sustained Other Questioned Costs
11. Recovered Other Questioned Costs

**Summary of Audit Resolution Activity  
Questioned Costs  
April 1, 1992 - September 30, 1992**

Agency/ Program	April 1, 1992 Balance Unresolved Reports	April 1, 1992 Balance Unresolved Dollars	Issued (Increases) Reports	Issued (Increases) Dollars	Reports	Resolved (Decreases) Allowed	Disallowed	September 30, 1992 Balance Unresolved Reports	September 30, 1992 Balance Unresolved Dollars
OSEC	1	\$ 36,148	1	\$ 0	2	\$ 0	\$ 36,148	0	\$ 0
VETS	0	0	3	0	2	0	0	1	0
ETA:									
ADMIN	1	0	2	0	1	0	0	2	0
OFCMS	1	1,485,911	0	0	1	0	1,485,911	0	0
UIS	0	0	2	0	1	0	0	1	0
USES	1	0	3	0	3	0	0	1	0
FLC	0	0	0	0	0	0	0	0	0
SESA	2	7,636,135	0	0	2	5,626,202	2,009,933	0	0
OTAA	1	394,825	1	0	0	0	0	2	394,825
JTPA	25	33,917,856	26	6,768,533	24	8,918,230	13,426,133	27	18,342,026
CETA	0	0	4	285,934	2	0	0	2	285,934
OSTP	0	0	0	0	0	0	0	0	0
DINAP	20	984,290	81	306,134	82	33,532	951,345	19	305,547
DOWP	3	0	9	17,079	9	0	0	3	17,079
DSFP	5	151,652	25	755,005	26	5,828	145,824	4	755,005
OJC	35	1,228,896	12	1,400,622	32	284,328	599,973	15	1,745,217
BAT	0	0	0	0	0	0	0	0	0
OSPPD	1	124,484	5	380,368	5	47,772	76,712	1	380,368
ESA	2	0	9	14,555	9	8	3,174	2	11,373
OLMS	0	0	0	0	0	0	0	0	0
MSHA	0	0	4	0	2	0	0	2	0
OASAM	19	11,777,206	13	325,994	15	416,809	501,992	17	11,184,399
SOL	1	0	0	0	1	0	0	0	0
OIG	0	0	1	0	1	0	0	0	0
OSHA	2	0	7	323,850	5	0	0	4	323,850
BLS	0	0	1	0	1	0	0	0	0
PWBA	1	0	1	0	2	0	0	0	0
Multi-Agency	28	35,324,385	32	12,430,083	37	28,409,036	6,777,797	23	12,567,635
Other Agencies	0	0	4	0	4	0	0	0	0
<b>TOTAL</b>	<b>149</b>	<b>\$93,061,788</b>	<b>246</b>	<b>\$23,008,157</b>	<b>269</b>	<b>\$43,741,745</b>	<b>\$26,014,942</b>	<b>126</b>	<b>\$46,313,258</b>

DOLLARS represent both unsupported (inadequately documented) costs and questioned (alleged violation of law, regulation, contract, etc.; or unnecessary or unreasonable) costs.

DISALLOWED COSTS includes \$238,776 of additional claim amounts. Additional claim amounts occur when the grant/contract officer disallows an amount in addition to the finding amount.

AUDIT RESOLUTION occurs when the program agency and the OIG agree on action to be taken on reported findings and determinations. Thus, this table does not represent any activity subsequent to management's final action such as results of the appeals process or program agency debt collections. Information such as this may be found in the Secretary's Report to Congress. See Chapter I, Section 4 for discussion on revision of prior management decisions.

DIFFERENCES between the beginning balance of this schedule and the ending balance of the previous *Semiannual Report* result from adjustments during the period.

**Summary of Audit Resolution Activity**  
**Unsupported Costs**  
**April 1, 1992 - September 30, 1992**

Agency/ Program	April 1, 1992		Issued (Increases)		Resolved (Decreases)		September 30, 1992	
	Balance Unresolved	Reports	Reports	Dollars	Reports	Allowed	Disallowed	Balance Unresolved
	Dollars			Dollars			Dollars	Dollars
OSEC	\$36,148	1	0	\$0	1	\$0	\$36,148	0
VETS	0	0	0	0	0	0	0	0
ETA:								
ADMIN	0	0	0	0	0	0	0	0
OFCMS	1,485,911	1	0	0	1	0	1,485,911	0
UIS	0	0	0	0	0	0	0	0
SESA	7,213,625	2	0	0	2	5,203,692	2,009,933	0
OTAA	93,572	1	0	0	0	0	0	93,572
JTFA	3,274,045	11	7	6,414,866	6	226,771	1,513,814	12
CETA	0	0	2	285,934	0	0	0	2
DINAP	983,368	11	9	306,134	12	33,532	950,423	8
DOWP	0	0	2	17,079	0	0	0	2
DSFP	151,652	3	2	755,005	3	5,828	145,824	2
OJC	1,087,350	19	6	1,387,675	16	178,363	568,459	9
OSPPD	120,074	1	1	380,368	1	46,376	73,698	1
ESA	0	0	0	0	0	0	0	0
MSHA	0	0	0	0	0	0	0	0
OASAM	11,733,468	12	2	325,994	4	416,809	501,992	10
OIG	0	0	0	0	0	0	0	0
OSHA	0	0	1	14,364	0	0	0	1
Multi-Agency	35,246,034	15	10	11,868,981	14	28,392,138	6,716,344	11
Other Agency	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>\$61,425,247</b>	<b>77</b>	<b>42</b>	<b>\$21,756,400</b>	<b>60</b>	<b>\$34,503,509</b>	<b>\$14,002,546</b>	<b>59</b>
								<b>\$34,675,592</b>

These unsupported costs are incorporated into the "Summary of Audit Resolution Activity" schedule on the previous page. They are broken out as required by P.L. 100-504.

**Summary of Audit Resolution Activity  
Funds Put to Better Use  
April 1, 1992 - September 30, 1992**

Agency/ Program	April 1, 1992		Issued (Increases)		Resolved (Decreases)		Management		September 30, 1992		
	Balance Unresolved	Dollars	Reports	Dollars	Reports	Disagreed	Agreed	Reports	Dollars	Balance Unresolved	
											Reports
OSEC	0	\$ 0	0	\$ 0	0	\$0	\$ 0	0	\$ 0	0	\$ 0
ETA:											
DSFP	0	0	1	280,826	1	0	280,826	0	0	0	0
OIC	2	98,073	0	0	2	4,624	159,129	0	0	0	0
ESA	0	0	0	0	0	0	0	0	0	0	0
OASAM	1	14,116	2	41,810,479	1	1,680	12,436	2	41,810,479	2	41,810,479
<b>TOTAL</b>	<b>3</b>	<b>\$112,189</b>	<b>3</b>	<b>\$42,091,305</b>	<b>4</b>	<b>\$6,304</b>	<b>\$452,391<sup>1</sup></b>	<b>2</b>	<b>\$41,810,479</b>	<b>2</b>	<b>\$41,810,479</b>

<sup>1</sup> Management Agreed Costs includes \$65,680 of additional claim amounts. Additional claim amounts occur when the grant/contract officers agree to an amount in addition to the finding amount.

**Unresolved Audits Over 6 Months  
April 1, 1992 - September 30, 1992**

Agency	Program	Audit Report Number	Name of Audit/Auditee	No of Rec	Questioned Costs
<b>Under Litigation:</b>					
ETA	JTPA	04-92-014-03-340	DENNIS AND ASSOCIATES - SC	4	\$ 2,774,604
ETA	JTPA	05-91-012-03-340	SEATTLE KING CO OJT BROKER	2	29,221
ETA	JTPA	05-91-046-03-340	LOS ANGELES OJT PLACEMENTS	4	884,778
MULTI	ALLDOL	03-89-083-50-598	COMMONWEALTH OF PA	1	78,270
MULTI	ALLDOL	03-91-012-50-598	COMMONWEALTH OF PA	1	29,539
<b>Awaiting Resolution:</b>					
ETA	JTPA	05-91-054-03-330	SEL ELEM OF TAA ADMIN BY MESC <sup>1</sup>	12	394,825
ETA	JTPA	04-92-020-03-340	SAVANNAH/CHATHAM FUP <sup>2</sup>	6	287,051
ETA	JTPA	04-92-021-03-340	FL UNRESTRICTED FND BAL/COMP <sup>3</sup>	4	4,742,947
ETA	JTPA	05-92-003-03-340	JTPA PROG - JVS - CLEVELAND <sup>2</sup>	2	64,437
ETA	JTPA	05-92-007-03-340	CLEVELAND - CLASSROOM TRNG <sup>2</sup>	2	10,409
ETA	JTPA	05-92-009-03-340	INDIANAPOLIS NET CLSRM TRNG <sup>2</sup>	2	8,449
ETA	JTPA	06-91-003-03-340	ADEQUACY ETA FIN RPTING <sup>4</sup>	7	577,565
ETA	JTPA	06-91-013-03-340	NATIONAL ALLIANCE OF BUSINESS <sup>5</sup>	1	0
ETA	JTPA	06-91-019-03-340	DENVER SDA <sup>5</sup>	2	572,409
ETA	OJC	03-92-002-03-370	REG REV & PLACEMENT REV F/NY <sup>6</sup>	3	4,067
OASAM	ADMIN	12-91-009-07-001	FY 90 CONSOLIDATED FIN STMTS <sup>7</sup>	15	0
OASAM	OPS	12-92-015-07-754	MERIDIAN RESEARCH, INC <sup>8</sup>	21	492,097
<b>Pending Indirect Cost Negotiations:</b>					
OASAM	OPGM	05-90-049-07-735	ILLINOIS CMS, BCCS <sup>9</sup>	1	7,917,169
OASAM	OPGM	18-91-007-07-735	TAG - INDIRECT COSTS <sup>9</sup>	4	43,738
OASAM	OPGM	18-91-024-07-735	NATL GOVERNORS ASSOCIATION <sup>9</sup>	3	646,002
OASAM	OPGM	18-91-035-07-735	OIC OF AMERICA DIRECT & IND <sup>9</sup>	13	481,785
OASAM	OPGM	18-91-042-07-735	HOME BUILDERS INSTITUTE <sup>9</sup>	13	285,112
OASAM	OPGM	18-92-002-07-735	JOHNSON, BASSIN & SHAW <sup>9</sup>	2	83,812
OASAM	OPGM	18-92-013-07-735	HTB, INC - DMJM/HTB JOINT VEN <sup>9</sup>	1	213,905
OASAM	OPGM	18-92-016-07-735	NTL ASSOC OF COUNTIES <sup>9</sup>	3	694,785
<b>TOTAL AUDIT EXCEPTIONS:</b>				<u>129</u>	<u>\$21,316,967</u>

Notes are located on the following page.



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**Notes to "Unresolved Audits Over 6 Months Precluded From Resolution"**

<sup>1</sup>ETA issued a formal notice to the Michigan Employment Security Commission on March 20, 1992 in accordance with the TAA regulations at 20 CFR 617.52(c). OIG is reviewing ETA's action to determine whether it is sufficient to resolve the report.

<sup>2</sup>The States have 180 days to issue a Final Management Decision. Program Agencies and OIG have an additional 180 days to accept the State-level decision.

<sup>3</sup> Revised Initial Management Decision was issued and resolution is expected within 90 days.

<sup>4</sup>The OIG and ETA are in disagreement on ETA's use of the "First-In, First-Out" (FIFO) accounting method. The OIG will request an opinion from the Comptroller General. The report will remain unresolved until a decision is rendered.

<sup>5</sup> See the JTPA Section of this report for write-up on resolution.

<sup>6</sup>Management decision has been issued and resolution is expected in October 1992.

<sup>7</sup>Audit findings that are still unresolved from the FY 1990 consolidated audit report will not be resolved until we obtain results of the FY 1992 audit. Audit findings were carried forward to the FY 1991 audit which indicated problems addressed in the findings still exist.

<sup>8</sup>The Final Management Decision of the Contracting Officer has been forwarded to the contractor allowing most of the cost OIG questioned. We find the decision unacceptable and continue to request a legal opinion from the Solicitor's representative to OASAM.

<sup>9</sup>OMB Circular A-50 does not require resolution within 180 days.

**Summary of Final Action Activity  
Disallowed Costs  
April 1, 1992 - September 30, 1992**

Agency Program	April 1, 1992		Resolved		Final Action		September 30, 1992		
	Balance No Final Action Reports	Disallowed Dollars	Reports	(Increases) Disallowed	Reports	(Decreases) Write-Offs	Recovered	Balance No Final Action Reports	Dollars
OSEC	1	\$ 0	2	\$ 36,148	1	\$ 0	\$ 0	2	\$ 36,148
VETS	6	585,910	2	0	4	15,555	30,527	4	539,828
ETA:									
ADMIN	7	0	1	0	0	0	0	8	0
OFAM	2	129,099	1	1,485,911	1	0	0	3	1,615,010
UIS	11	59,000,981	1	0	1	2,427,075	1,448,447	11	55,125,459
USES	0	0	3	0	3	0	0	0	0
SESA	17	12,644,308	2	2,009,933	2	130,377	242,891	17	14,280,973
OTAA	1	1,911,839	0	0	0	0	0	1	1,911,839
JTPA	38	53,967,545	24	13,426,133	18	0	138,518	44	67,255,160
CETA	43	54,793,216	2	0	14	20,360,328	6,895,202	31	27,537,686
OSTP	12	3,822,527	0	0	5	2,656,305	71,000	7	1,095,222
DINAP	85	9,652,277	82	951,345	74	2,250,405	28,674	93	8,324,543
DOWP	6	426,139	9	0	7	0	0	8	426,139
DSFP	31	4,649,495	26	145,824	31	787,364	201,966	26	3,805,989
OIC	48	2,221,738	32	599,973	27	95,829	253,944	53	2,471,938
OSPPD	6	109,077	5	76,712	5	65,297	2,169	6	118,323
ESA	7	0	9	3,174	6	0	3,174	10	0
OLMS	0	0	0	0	0	0	0	0	0
MSHA	0	0	2	0	2	0	0	0	0
OASAM	23	13,905,033	15	501,992	18	0	183,412	20	14,223,613
SOL	0	0	1	0	0	0	0	1	0
OIG	0	0	1	0	1	0	0	0	0
OSHA	7	90,760	5	0	4	0	0	8	90,760
BLS	1	0	1	0	2	0	0	0	0
PWBA	1	0	2	0	1	0	0	2	0
Multi-Agency	57	5,711,168	37	6,777,797	22	0	67,087	72	12,421,878
Other Agency	0	0	4	0	4	0	0	0	0
<b>TOTAL</b>	<b>410</b>	<b>\$223,621,112</b>	<b>269</b>	<b>\$26,014,942</b>	<b>252</b>	<b>\$28,788,535</b>	<b>\$9,567,011</b>	<b>427</b>	<b>\$211,280,508</b>

AGENCY FINAL ACTIONS: An audit report is considered closed when management completes all actions necessary with respect to the audit findings and recommendations and reports that action to the OIG. If management concludes that no action is necessary, final action occurs when a management decision is made.

Section 106(b) of the Inspector General Amendments of 1988 (P.L. 100-504) requires that the Secretary of Labor report semiannually on the status of final actions on OIG recommendations for which management decisions have been made.

Recovered costs contain authorized repayment agreements totalling \$5,286,742 in the following reports: 02-84-060-03-345, 02-84-136-03-345, 02-85-039-03-345, 11-76-141-03-350, 11-76-171-03-350, 06-89-287-03-355, 06-91-206-03-355, 04-92-018-03-365, 09-85-047-03-365, and 09-85-049-03-365.

In a separate report, management will report to the Congress actions taken based on management decisions on OIG reports on questioned costs and recommendations that funds be put to better use. Management will also include statements on audit reports on which decisions were made but for which final actions are still incomplete after one year.

Differences between the beginning balance of this schedule and the ending balance of the previous *Semiannual Report* result from adjustments during the period.

**Summary of Final Action Activity  
Funds to Be Put to Better Use  
April 1, 1992 - September 30, 1992**

Agency Program	April 1, 1992		Resolved (Increases)		Final Action (Decreases)		September 30, 1992	
	<u>Balance No Final Action</u> Reports	Value	Reports	Mgmt Agreed	Reports	Not Impltd	<u>Balance No Final Action</u> Reports	Value
OSEC	0	\$ 0	0	\$ 0	0	\$ 0	0	\$ 0
ETA:								
UIS	1	99,314,000	0	0	0	0	1	99,314,000
SESA	1	296,000,000	0	0	0	0	1	296,000,000
CETA	1	634,746	0	0	0	0	1	634,746
DSFP	0	0	1	280,826	1	0	0	280,826
OJC	1	547,984	2	159,129	2	0	1	547,984
ESA	1	3,116,539	0	0	0	0	1	3,116,539
OASAM	0	0	1	12,436	1	0	0	12,436
Multi-Agency	1	54,000	0	0	0	0	1	54,000
<b>TOTAL</b>	<b>6</b>	<b>\$399,667,269</b>	<b>4</b>	<b>\$452,391</b>	<b>4</b>	<b>\$0</b>	<b>6</b>	<b>\$399,667,269</b>

**Final Audit Reports Issued**  
**April 1, 1992 - September 30, 1992**

<b>Audit Report Number</b>	<b>Agency</b>	<b>Program</b>	<b>Date Sent to Program Agency</b>	<b>Name of Audit/Auditee</b>
02-92-234-02-210	VETS	VETSPM	20-MAY-92	City of Hartford, Conn. - SA
02-92-249-03-315	ETA	UIS	21-MAY-92	The Virgin Islands U.I. Automation Grant
02-92-244-03-340	ETA	JTPA	24-APR-92	Hempstead/Longbeach Consortium
02-92-258-03-340	ETA	JTPA	22-JUN-92	New York City SDA
02-92-222-03-345	ETA	CETA	14-SEP-92	City of Newark, New Jersey - SA
02-92-259-03-345	ETA	CETA	24-AUG-92	City of Elizabeth - SA
02-92-260-03-345	ETA	CETA	24-AUG-92	City of Elizabeth - SA
02-92-261-03-345	ETA	CETA	24-AUG-92	City of Elizabeth - SA
02-92-210-03-355*	ETA	DINAP	27-MAY-92	American Indian Community House, Inc - SA
02-92-211-03-355*	ETA	DINAP	26-MAY-92	American Indian Community House, Inc - SA
02-92-236-03-355*	ETA	DINAP	24-AUG-92	Native Amer Comm Svces of Erie & Niagara Co. - SA
02-92-241-03-355*	ETA	DINAP	04-MAY-92	Abenaki Self-Help Association, Inc - SA
02-92-252-03-355	ETA	DINAP	03-JUN-92	Indian Township Tribal Government - SA
02-92-263-03-355*	ETA	DINAP	16-SEP-92	Mashpee Wampanoag Indian Tribal Council, Inc - SA
02-92-235-03-380	ETA	SPPD	24-AUG-92	City of Syracuse - SA
02-92-250-03-380	ETA	SPPD	20-JUL-92	City of Waterbury - SA
02-92-256-03-380	ETA	SPPD	22-JUN-92	City of Waterbury, Dept Educ & Grants Mgmt - SA
02-92-239-50-598*	MULTI	AL/DOL	21-APR-92	State of New Hampshire - SA
02-92-242-50-598*	MULTI	AL/DOL	07-MAY-92	Training and Development Corp - SA
02-92-245-50-598	MULTI	AL/DOL	21-MAY-92	State of Vermont - SA
02-92-246-50-598*	MULTI	AL/DOL	10-JUN-92	Training and Development Corp - SA
02-92-251-50-598	MULTI	AL/DOL	10-JUN-92	State of Maine - SA
02-92-257-50-598	MULTI	AL/DOL	11-SEP-92	Commonwealth of Massachusetts - SA
03-92-037-03-340	ETA	JTPA	28-SEP-92	PA Program Results and Auditors Compilation
03-92-044-03-340	ETA	JTPA	23-APR-92	OJT Training in West Virginia
03-92-054-03-340	ETA	JTPA	01-JUL-92	PIC of West Virginia
03-92-057-03-340*	ETA	JTPA	23-SEP-92	Mattaponi-Pamunkey Monacan Inc. - SA
03-92-036-03-360*	ETA	DOWP	11-SEP-92	National Council of Senoir Citizens, Inc. - SA
03-92-059-03-360*	ETA	DOWP	29-SEP-92	Green Thumb, Inc. - SA
03-92-063-03-360*	ETA	DOWP	30-SEP-92	American Association of Retired Persons - SA
03-92-006-03-370	ETA	OJC	06-APR-92	Los Angeles JCC AUP Report & Related Info PY 88
03-92-007-03-370	ETA	OJC	06-APR-92	Los Angeles JCC AUP Report & Related Info PY 89
03-92-010-03-370	ETA	OJC	10-APR-92	Los Angeles JCC Program Results Stmtts PY 88 & 89

**Final Audit Reports Issued  
April 1, 1992 - September 30, 1992**

Audit Report Number	Agency	Program	Date Sent to Program Agency	Name of Audit/Auditee
03-92-034-03-380*	ETA	SPPD	09-SEP-92	National Assoc of Rehabilitation Facilities, Inc - SA
03-92-039-03-380*	ETA	SPPD	11-SEP-92	Goodwill Industries - SA
03-92-052-04-001	ESA	ADMIN	30-JUN-92	FY 91 ESA Financial Statements
03-92-046-04-431	ESA	FECA	17-JUL-92	FECA AUP Seattle District Office FY 91
03-92-047-04-431	ESA	FECA	10-SEP-92	Disbursements for Div. of Fed Employees' Comp
03-92-048-04-431	ESA	FECA	17-JUL-92	FECA AUP Boston District Office FY91
03-92-049-04-431	ESA	FECA	17-JUL-92	FECA AUP Dallas District Office FY 91
03-92-050-04-431	ESA	FECA	17-JUL-92	FECA AUP New York District Office FY 91
03-92-051-04-431	ESA	FECA	29-JUL-92	FECA AUP Washington District Office FY 91
03-92-053-04-433	ESA	CMWC	30-JUN-92	FY 91 Black Lung Fin Stmt and Auditors Rpt
03-92-042-06-610	MSHA	CMSH	30-SEP-92	Imprvmnts Can Be Made in Spcl Investigations Prog
03-92-055-50-598*	MULTI	AL/DOL	20-JUL-92	State of West Virginia - SA
03-92-062-50-598	MULTI	AL/DOL	22-SEP-92	State of Delaware - SA
04-92-040-02-210	VETS	VETSPM	16-JUN-92	City of Jacksonville - SA
04-92-043-03-320	ETA	USES	30-SEP-92	Survey of TJTC in Tennessee
04-92-056-03-320*	ETA	USES	30-SEP-92	South Carolina Employ Security Commission - SA
04-92-057-03-320*	ETA	USES	30-SEP-92	South Carolina Employ Security Commission - SA
04-92-030-03-340	ETA	JTPA	01-SEP-92	Dennis and Associates, Inc.
04-92-035-03-340	ETA	JTPA	16-APR-92	Mobile Consortium
04-92-037-03-340*	ETA	JTPA	28-MAY-92	Kentucky Domestic Violence Association, Inc. - SA
04-92-039-03-340	ETA	JTPA	22-JUN-92	Gulf Coast Business Services Corp.
04-92-045-03-340	ETA	JTPA	29-SEP-92	Kentucky Literacy Commission
04-92-046-03-340	ETA	JTPA	29-SEP-92	Kentucky Counseling Contracts
04-92-036-03-355*	ETA	DINAP	20-MAY-92	Lumbee Regional Development Association - SA
04-92-041-03-365*	ETA	DSFP	17-JUN-92	MS Delta Council for Farmworkers Opp Inc - SA
04-92-042-03-365*	ETA	DSFP	07-JUL-92	Homes in Partnership - SA
04-92-052-03-365*	ETA	DSFP	03-SEP-92	LEE County Housing Authority - SA
04-92-053-03-365*	ETA	DSFP	03-SEP-92	LEE County Housing Authority - SA
04-92-050-10-101	OSHA	OSHAG	30-SEP-92	Special Examination of North Carolina OSHA Grants
04-92-054-10-101*	OSHA	OSHAG	14-SEP-92	Georgia Institute of Technology - SA

## Final Audit Reports Issued April 1, 1992 - September 30, 1992

Audit Report Number	Agency	Program	Date Sent to Program Agency	Name of Audit/Auditee
04-92-034-10-103*	OSHA	H/S ST	20-APR-92	Greater Orlando Chamber of Commerce - SA
04-92-048-50-598	MULTI	AL/DOL	30-JUL-92	State of South Carolina - SA
04-92-055-50-598	MULTI	AL/DOL	28-SEP-92	Commonwealth of Kentucky - SA
04-92-044-98-599*	OT AGY	NO/DOL	14-JUL-92	City of Louisville - SA
04-92-047-98-599*	OT AGY	NO/DOL	27-AUG-92	Brevard County - SA
05-92-214-02-201	VETS	CONTR	09-JUL-92	Milwaukee County - SA
05-92-016-03-330	ETA	OTAA	28-SEP-92	Trade Adjustment Assistance Prog - WI DILHR
05-92-011-03-340	ETA	JTPA	20-MAY-92	Washington, D.C. JTPA Classroom Trng
05-92-012-03-340	ETA	JTPA	30-SEP-92	Baltimore - JTPA Classroom Trng
05-92-108-03-355*	ETA	DINAP	30-APR-92	Indian Center, Inc. - SA
05-92-112-03-355*	ETA	DINAP	07-JUL-92	MI Indian Employment & Training Services - SA
05-92-113-03-355*	ETA	DINAP	10-SEP-92	Nebraska Indian Inter-Tribal Development Corp - SA
05-92-114-03-355*	ETA	DINAP	11-JUN-92	Wisconsin Indian Consortium - SA
05-92-210-03-355	ETA	DINAP	11-JUN-92	Bois Forte Reservation Business Committee - SA
05-92-211-03-355	ETA	DINAP	11-JUN-92	Fond Du Lac Reservation Business Committe - SA
05-92-212-03-355	ETA	DINAP	17-JUN-92	Bois Forte Reservation Business Committee - SA
05-92-215-03-355	ETA	DINAP	10-JUL-92	Stockbridge-Munsee Community - SA
05-92-218-03-355	ETA	DINAP	21-JUL-92	Fond Du Lac Resrevation - SA
05-92-220-03-355	ETA	DINAP	23-JUL-92	Lac Courte Oreilles Band of Lake Superior - SA
05-92-221-03-355	ETA	DINAP	24-JUL-92	Sac and Fox Tribe of the Mississippi in Iowa - SA
05-92-222-03-355	ETA	DINAP	30-JUL-92	Red Lake Band of Chippewa Indians - SA
05-92-223-03-355	ETA	DINAP	30-JUL-92	Oneida Tribe of Indians of Wisconsin - SA
05-92-224-03-355	ETA	DINAP	30-JUL-92	Grand Traverse Band of Ottawa & Chippewa Ind - SA
05-92-225-03-355	ETA	DINAP	31-JUL-92	Inter-Tribal Council of Michigan, Inc - SA
05-92-226-03-355	ETA	DINAP	31-JUL-92	Inter-Tribal Council of Michigan, Inc - SA
05-92-213-03-360	ETA	DOWP	17-JUN-92	Indiana Department of Human Services - SA
05-92-109-03-365*	ETA	DSFP	18-MAY-92	Rural Missouri, Inc - SA
05-92-111-03-365*	ETA	DSFP	17-JUN-92	Proteus Employment Opportunities, Inc - SA
05-92-013-03-370	ETA	OJC	28-SEP-92	Detroit Job Corps Center
05-92-014-10-001	OSHA	ADMIN	29-SEP-92	FY 91 OSHA Financial Statements
05-92-209-10-101	OSHA	OSHAG	11-JUN-92	Ozark Foothills Regional Planning Commission - SA

## Final Audit Reports Issued

### April 1, 1992 - September 30, 1992

Audit Report Number	Agency	Program	Date Sent to Program Agency	Name of Audit/Auditee
05-92-110-50-598*	MULTI	AL/DOL	20-MAY-92	Indiana Department of Labor - SA
05-92-216-50-598	MULTI	AL/DOL	10-JUL-92	Kansas, State of - SA
05-92-217-50-598	MULTI	AL/DOL	15-JUL-92	Iowa, State of - SA
05-92-219-50-598	MULTI	AL/DOL	22-JUL-92	Wisconsin, State of - SA
06-92-003-03-340	ETA	JTPA	17-JUL-92	Servicios De La Raza
06-92-005-03-340	ETA	JTPA	06-APR-92	Office of Rural Job Training
06-92-006-03-340	ETA	JTPA	22-JUN-92	Cameron County PIC
06-92-007-03-340	ETA	JTPA	22-JUN-92	East Texas Council of Governments
06-92-008-03-340	ETA	JTPA	12-JUN-92	Office of Rural Job Training
06-92-010-03-340	ETA	JTPA	25-SEP-92	East Texas Council of Governments
06-92-119-03-340*	ETA	JTPA	04-JUN-92	Job Training Administration - SA
06-92-117-03-355*	ETA	DINAP	27-MAY-92	American Indian Center of Arkansas, Inc - SA
06-92-118-03-355*	ETA	DINAP	28-MAY-92	Montana United Indian Association - SA
06-92-122-03-355*	ETA	DINAP	24-JUN-92	Four Tribes Consortium - SA
06-92-129-03-355*	ETA	DINAP	21-SEP-92	Oklahoma Tribal Assistance Program, Inc - SA
06-92-227-03-355	ETA	DINAP	20-APR-92	Standing Rock Sioux Tribe - SA
06-92-228-03-355	ETA	DINAP	20-APR-92	Flandreau Santee Sioux Tribe - SA
06-92-229-03-355	ETA	DINAP	20-APR-92	Oglala Sioux Tribe - SA
06-92-230-03-355	ETA	DINAP	30-APR-92	All Indian Pueblo Council, Inc - SA
06-92-233-03-355	ETA	DINAP	26-MAY-92	Lower Brule Sioux Tribe - SA
06-92-234-03-355	ETA	DINAP	26-MAY-92	Ponca Tribe - SA
06-92-239-03-355	ETA	DINAP	01-JUL-92	Alamo Navajo School Board, Inc - SA
06-92-240-03-355	ETA	DINAP	08-JUL-92	United Sioux Tribe of SD Dev Corp - SA
06-92-241-03-355	ETA	DINAP	12-JUL-92	Santa Clara Pueblo - SA
06-92-243-03-355	ETA	DINAP	29-JUL-92	Sisseton-Wahpeton Sioux Tribe - SA
06-92-244-03-355	ETA	DINAP	05-AUG-92	Southern Ute Indian Tribe - SA
06-92-245-03-355	ETA	DINAP	17-AUG-92	Citizens Band of Potawatomi Indians - SA
06-92-246-03-355	ETA	DINAP	19-AUG-92	Lower Brule Sioux Tribe - SA
06-92-247-03-355	ETA	DINAP	19-AUG-92	Confederated Salish & Kootenai Tribes - SA
06-92-248-03-355	ETA	DINAP	20-AUG-92	Fort Belknap Indian Community - SA
06-92-249-03-355	ETA	DINAP	20-AUG-92	Ute Mountain Ute Tribe - SA
06-92-250-03-355	ETA	DINAP	28-AUG-92	Ramah Navajo School Board, Inc - SA
06-92-252-03-355	ETA	DINAP	16-SEP-92	Assiniboine & Sioux Tribes - SA
06-92-254-03-355	ETA	DINAP	16-SEP-92	Inter-Tribal Council, Inc - SA
06-92-255-03-355	ETA	DINAP	18-SEP-92	Cherokee Nation - SA
06-92-256-03-355	ETA	DINAP	21-SEP-92	Caddo Indian Tribe - SA
06-92-257-03-355	ETA	DINAP	22-SEP-92	Mescalero Apache Tribe - SA
06-92-258-03-355	ETA	DINAP	22-SEP-92	United Tribes Technical College - SA
06-92-231-03-360	ETA	DOWP	01-MAY-92	New Mexico State Agency on Aging - SA

**Final Audit Reports Issued**  
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Audit Report Number	Agency	Program	Date Sent to Program Agency	Name of Audit/Auditee
06-92-236-03-360	ETA	DOWP	02-JUN-92	Arkansas Dept of Human Services - SA
06-92-242-03-360	ETA	DOWP	13-JUL-92	Dept of Health & Social Service - SA
06-92-108-03-365*	ETA	DSFP	14-APR-92	Colorado Rural Housing Development Corp - SA
06-92-110-03-365*	ETA	DSFP	14-APR-92	Tierra Del Sol Housing Corp - SA
06-92-111-03-365*	ETA	DSFP	16-APR-92	Oro Development Corp - SA
06-92-112-03-365*	ETA	DSFP	16-APR-92	Rocky Mountain SER/Jobs for Progress, Inc - SA
06-92-113-03-365*	ETA	DSFP	24-APR-92	Colorado Rural Housing Development Corp - SA
06-92-114-03-365*	ETA	DSFP	20-APR-92	Colorado Rural Housing Development Corp - SA
06-92-120-03-365*	ETA	DSFP	04-JUN-92	Home Education Livelihood Program, Inc - SA
06-92-121-03-365*	ETA	DSFP	24-JUN-92	San Patricio County Comm on Youth Education - SA
06-92-123-03-365*	ETA	DSFP	08-SEP-92	Motivation Education & Training, Inc - SA
06-92-238-06-601	MSHA	GRTEES	18-JUN-92	Energy, Minerals & Natural Resources Dept - SA
06-92-253-10-101	OSHA	OSHAG	16-SEP-92	Health & Environment Dept - SA
06-92-116-11-111*	BLS	BLSG	14-MAY-92	Arkansas Workers' Compensation Commission - SA
06-92-109-50-598*	MULTI	AL/DOL	13-APR-92	Arkansas Employment Security Division - SA
06-92-115-50-598*	MULTI	AL/DOL	28-APR--92	Job Service North Dakota - SA
06-92-125-50-598*	MULTI	AL/DOL	11-SEP-92	New Mexico Dept of Labor - SA
06-92-126-50-598*	MULTI	AL/DOL	15-SEP-92	Dept of Employment - SA
06-92-127-50-598*	MULTI	AL/DOL	11-SEP-92	New Mexico Dept of Labor - SA
06-92-128-50-598*	MULTI	AL/DOL	17-SEP-92	Wyoming Employment Security Commission - SA
06-92-226-50-598	MULTI	AL/DOL	03-APR-92	Utah, State of - SA
06-92-232-50-598	MULTI	AL/DOL	14-MAY-92	South Dakota, State of - SA
06-92-235-50-598	MULTI	AL/DOL	26-MAY-92	Louisiana, State of - SA
06-92-237-50-598	MULTI	AL/DOL	18-JUN-92	Colorado, State of - SA
06-92-251-50-598	MULTI	AL/DOL	14-SEP-92	Texas, State of - SA
09-92-001-03-315	ETA	UIS	25-AUG-92	UCX Verification and Payment Process CAEDD
09-92-200-03-340	ETA	JTPA	12-JUN-92	Fresno PIC
09-92-540-03-340*	ETA	JTPA	15-APR-92	San Diego Consortium & PIC - SA
09-92-544-03-355*	ETA	DINAP	06-APR-92	Maniilaq Manpower - SA
09-92-546-03-355*	ETA	DINAP	08-APR-92	Organization of the Forgotten American - SA
09-92-547-03-355*	ETA	DINAP	20-APR-92	Southern California Indian Center - SA
09-92-548-03-355*	ETA	DINAP	30-SEP-92	American Indian Center of Santa Clara Valley - SA
09-92-549-03-355*	ETA	DINAP	20-APR-92	American Indian Assoc of Tucson, Inc - SA
09-92-550-03-355*	ETA	DINAP	20-APR-92	Indian Human Resource Center, Inc - SA



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09-92-554-03-355	ETA	DINAP	18-MAY-92	Pascua Yaqui Tribe - SA
09-92-556-03-355	ETA	DINAP	03-JUN-92	Confederated Tribes of Siletz Indians - SA
09-92-557-03-355	ETA	DINAP	03-JUN-92	Confederated Tribes of Siletz Indians - SA
09-92-559-03-355*	ETA	DINAP	26-JUN-92	Candelaria American Indian Council - SA
09-92-560-03-355	ETA	DINAP	27-MAY-92	Gila River Indian Community - SA
09-92-561-03-355	ETA	DINAP	27-MAY-92	Confederated Tribes of the Warm Springs Res - SA
09-92-563-03-355	ETA	DINAP	26-JUN-92	Nez Perce Tribe - SA
09-92-564-03-355	ETA	DINAP	14-JUL-92	Kenaitze Indian Tribe - SA
09-92-565-03-355*	ETA	DINAP	10-AUG-92	Las Vegas Indian Center - SA
09-92-566-03-355*	ETA	DINAP	10-AUG-92	Las Vegas Indian Center - SA
09-92-567-03-355*	ETA	DINAP	10-AUG-92	Kawerak, Inc - SA
09-92-568-03-355	ETA	DINAP	29-JUL-92	Ya-Ka-Ama Indian Ed & Dev - SA
09-92-570-03-355	ETA	DINAP	29-JUL-92	Colorado Indian Tribes - SA
09-92-571-03-355	ETA	DINAP	29-JUL-92	Cook Inlet Tribal Council - SA
09-92-572-03-355	ETA	DINAP	31-JUL-92	Hoopa Valley Tribe - SA
09-92-573-03-355	ETA	DINAP	04-AUG-92	Hoopa Valley Tribe - SA
09-92-574-03-355	ETA	DINAP	03-AUG-92	Aleutian/Pribilof Islands Assoc - SA
09-92-578-03-355	ETA	DINAP	10-SEP-92	Hopi Tribe - SA
09-92-580-03-355*	ETA	DINAP	16-SEP-92	Northern California Indian Dev Council - SA
09-92-582-03-355	ETA	DINAP	14-SEP-92	White Mountain Apache - SA
09-92-585-03-355	ETA	DINAP	14-SEP-92	Lummi Business Council - SA
09-92-586-03-355	ETA	DINAP	22-SEP-92	Tule River Tribal Council - SA
09-92-581-03-360*	ETA	DOWP	17-SEP-92	National Assoc for Hispanic Elderly - SA
09-92-545-03-365*	ETA	DSFP	15-APR-92	Central Valley Opportunity Center - SA
09-92-552-03-365*	ETA	DSFP	18-MAY-92	Idaho Migrant Council - SA
09-92-558-03-365*	ETA	DSFP	26-JUN-92	Self-Help Enterprises - SA
09-92-562-03-365*	ETA	DSFP	17-SEP-92	PPEP - SA
09-92-569-03-365	ETA	DSFP	29-JUL-92	Rural Community Assistance Corp - SA
09-92-575-03-365*	ETA	DSFP	11-SEP-92	California Human Development Corp - SA
09-92-584-03-365*	ETA	DSFP	14-SEP-92	Proteus - SA
09-92-587-03-365	ETA	DSFP	22-SEP-92	County of Kern - SA
09-92-576-03-370*	ETA	OJC	10-SEP-92	Young Women's Christian Assoc LA - SA
09-92-577-03-370*	ETA	OJC	10-SEP-92	Young Women's Christian Assoc LA - SA
09-92-002-12-121	PWBA	ENFORC	26-JUN-92	PWBA Terminations Statement of Fact
09-92-523-50-598	MULTI	AL/DOL	26-JUN-92	Government of Guam - SA
09-92-538-50-598*	MULTI	AL/DOL	03-APR-92	Arizona, State of - SA
09-92-551-50-598*	MULTI	AL/DOL	20-APR-92	Idaho Department of Employment - SA

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09-92-553-50-598*	MULTI	AL/DOL	27-MAY-92	Arizona DES - SA
09-92-555-50-598	MULTI	AL/DOL	27-MAY-92	Alaska, State of - SA
09-92-579-50-598	MULTI	AL/DOL	14-SEP-92	Commonwealth of Northern Mariana IS - SA
09-92-588-50-598*	MULTI	AL/DOL	22-SEP-92	Hawaii Dept of Labor & Ind Relations - SA
12-92-021-03-001	ETA	ADMIN	25-AUG-92	Unemployment Trust Fund FY 91
12-92-022-03-001	ETA	ADMIN	25-AUG-92	FY 91 ETA Financial Statements
12-92-007-03-370	ETA	OJC	09-JUN-92	Women in Community Service
12-92-028-04-431	ESA	FECA	14-AUG-92	Premiums Remitted to Healthplus of Maryland
12-92-001-06-001	MSHA	ADMIN	30-JUN-92	FY 91 MSHA Financial Statements
12-92-031-06-001	MSHA	ADMIN	27-MAY-92	MSHA Management Letter
12-92-002-07-001	OASAM	ADMIN	28-AUG-92	FY 91 Financial Statements and Related Reports
12-92-030-07-710	OASAM	COMP	19-AUG-92	Working Capital Fund Financial Statements
12-92-027-07-711	OASAM	OA	14-AUG-92	Premiums Remitted to Healthplus of Maryland
12-92-029-07-711	OASAM	OA	01-SEP-92	Accts Payable, Undelivered Orders & Disbursements
12-92-019-07-735	OASAM	OPGM	28-MAY-92	ITT Federal Services Corp Compensation Review
12-92-033-07-735	OASAM	OPGM	03-SEP-92	Mathematica - DCAA Indirect
12-92-018-98-599	OT AGY	NO/DOL	24-APR-92	DOL Child Development Center, Inc
12-92-026-98-599	OT AGY	NO/DOL	12-MAY-92	Healthplus of Maryland
17-91-006-03-370	ETA	OJC	01-APR-92	Gainseville AUP/Related Financial
17-92-006-07-770	OASAM	DCR	25-SEP-92	Effectiveness of DCR Complaint & Compliance Sys
18-92-022-01-001	OSEC	ADMIN	31-JUL-92	PCEPD - Status Report as of May 15, 1992
18-92-018-03-340	ETA	JTPA	01-JUN-92	Association of Retarded Citizens
18-92-025-03-340	ETA	JTPA	25-JUN-92	SER-Jobs for Progress, Inc
18-92-028-03-340	ETA	JTPA	02-AUG-92	OIC of America - AUP

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18-92-019-03-355	ETA	DINAP	01-JUN-92	American Indian Bus Assoc of Chicago & Midwest
18-92-020-03-355	ETA	DINAP	01-JUN-92	Indian Development District of AZ, Inc
18-92-029-03-355	ETA	DINAP	13-AUG-92	Grand Rapids Inter-Tribal Council
18-92-031-03-360	ETA	DOWP	17-AUG-92	Natl Pacific/Asian Resource Ctr on Aging
18-92-017-03-365	ETA	DSFP	09-APR-92	Rural Alabama Dev Corp - Weaknesses Cash Mgmt
18-92-030-03-365	ETA	DSFP	20-AUG-92	Rural Alabama Dev Corp Fin & Perf 7/89-12/91
18-92-027-03-370	ETA	OJC	10-SEP-92	Leo A. Daly - FY 87 Indirect Costs
18-92-032-03-370	ETA	OJC	29-SEP-92	Natl Plastering Ind Jt Apprenticeship Fund
18-92-033-03-370	ETA	OJC	29-SEP-92	Natl Plastering Ind Jt Apprenticeship Fund
18-92-034-03-370	ETA	OJC	04-SEP-92	Natl Maritime Union
18-92-023-07-735	OASAM	OPGM	03-JUN-92	Natl Governor's Association AUP
18-92-024-07-735	OASAM	OPGM	22-JUN-92	Natl Conference of Black Mayors
18-92-026-07-735	OASAM	OPGM	24-AUG-92	Technical Assistance Group
18-92-021-10-101	OSHA	OSHAG	01-JUN-92	John Gray Institute 9/90-7/91
19-92-010-07-710	OASAM	COMP	18-AUG-92	Weaknesses Identified in the Recert Pay Process
19-92-007-07-720	OASAM	DIRM	17-JUN-92	Computer Viruses in DOL
19-92-011-07-720	OASAM	DIRM	30-SEP-92	Host Computer Resources Utilization
19-92-009-09-001	OIG	ADMIN	14-AUG-92	Computer Viruses in OIG

\*DOL has cognizant responsibility for specific entities under the Single Audit Act. Reports listed and asterisked above indicate those entities for which DOL has cognizance. More than one audit report may have been issued or transmitted for an entity during this time period. Reports are issued or transmitted based on the type of funding and the agency/program responsible for resolution.

## ABBREVIATIONS USED IN THIS REPORT

ADMIN	Agency Administration
AICPA	American Institute of Certified Public Accountants
AL/DOL	All DOL agencies involved in the audit
ASAM	Assistant Secretary for Administration and Management
EAT	Bureau of Apprenticeship Training (ETA)
BL	Black Lung Benefits Program (ESA)
BLDTF	Black Lung Disability Trust Fund (ESA)
BLS	Bureau of Labor Statistics
CETA	Comprehensive Employment and Training Act (ETA)
CMWC	Coal Mine Workers' Compensation (ESA)
COMP	Comptroller
DBRA	Davis Bacon and Related Acts
DFEC	Division of Federal Employees' Compensation (ESA)
DINAP	Division of Indian and Native American Programs (ETA)
DIRM	Directorate of Information Resources Management (OASAM)
DOJ	Department of Justice
DOL	Department of Labor
DOLARS	Department of Labor Accounting and Related Systems (OASAM)
DOWP	Division of Older Workers Program (ETA)
DSFP	Division of Seasonal Farmworker Programs (ETA)
DVOP	Disabled Veterans Outreach Program (VETS)
ECN	Executive Computer Network
EEOC	Equal Employment Opportunity Commission
ERISA	Employee Retirement Income Security Act
ESA	Employment Standards Administration
ETA	Employment and Training Administration
FECA	Federal Employees' Compensation Act
FMFIA	Federal Managers' Financial Integrity Act
FLC	Foreign Labor Certification
FY	Fiscal Year
GAO	Government Accounting Office
GAAP	Generally Accepted Accounting Principles
GRTEES	Grantees
ILO	International Labor Organization
ILAB	Bureau of International Labor Affairs
ILGWU	International Ladies Garment Workers' Union
JFMIP	Joint Financial Management Improvement Program
JTPA	Job Training Partnership Act (ETA)
LAN	Local Area Network
LMRDA	Labor Management Reporting and Disclosure Act
MEWA	Multiple Employer Welfare Arrangement
MSHA	Mine Safety and Health Administration
MSHAG	Mine Safety and Health Administration Grantees
MSPB	Merit Systems Protection Board
NCOA	National Council on the Aging
NO/DOL	No DOL funds involved in the audit
OASAM	Office of Assistant Secretary for Administration and Management
OI	Office of Investigations (OIG)
OIC/A	Opportunities Industrial Centers of America, Inc.
OIG	Office of Inspector General

OJC	Office of Job Corps
OJT	On-the-Job Training
OLMS	Office of Labor-Management Standards
OLR	Office of Labor Racketeering (OIG)
OMB	Office of Management and Budget
OPGM	Office of Procurement and Grant Management (OASAM)
ORMLA	Office of Resource Management and Legislative Assessment (OIG)
OSEC	Office of the Secretary
OSHA	Occupational Safety and Health Administration
OSHAG	Occupational Safety and Health Administration Grantees
OT AGY	Agency other than DOL
OWCP	Office of Workers' Compensation Programs (ESA)
PFCRA	Program Fraud Civil Remedies Act of 1986
PIC	Private Industry Council
PWBA	Pension and Welfare Benefits Administration
SESA	State Employment Security Agency
SDA	Service Delivery Area
SOL	Solicitor of Labor
SPPD	Strategic Planning and Policy Development Office (ETA)
TAA	Trade Adjustment Act
UIS	Unemployment Insurance Service (ESA)
VETS	Veterans' Employment and Training Services

**Copies of this report may be obtained  
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Office of Inspector General,  
Room S-5508  
200 Constitution Ave., N.W.  
Washington, D.C. 20210**

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