

# SEMIANNUAL REPORT TO THE CONGRESS

APRIL 1, 2002 - SEPTEMBER 30, 2002



U.S. DEPARTMENT OF LABOR  
OFFICE OF INSPECTOR GENERAL



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United States Department of Labor  
Office of Inspector General



Semiannual Report to the Congress

April 1, 2002–September 30, 2002

Volume 48

**Selected Statistics of the OIG  
for the Period  
April 1, 2002–September 30, 2002**

Investigative Recoveries, Cost Efficiencies, Restitutions, Fines/Penalties, Forfeitures, and Civil Monetary Action .....	\$186.4 million
Total Questioned Costs.....	\$28.8 million
Outstanding Questioned Costs Resolved During this Period.....	\$13.3 million
Allowed.....	\$5.2 million
Disallowed.....	\$8.1 million
Audit Reports Issued.....	36
Evaluation Reports Issued .....	3
Cases Opened .....	194
Cases Closed.....	282
Cases Referred for Prosecution.....	170
Cases Referred for Administrative/Civil Action.....	78
Indictments.....	229
Convictions.....	205
Debarments.....	17

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

This Semiannual Report to the Congress represents the work of the U.S. Department of Labor (DOL) Office of Inspector General (OIG) during the six-month period April 1, 2002, through September 30, 2002. The OIG is committed to serving American workers and taxpayers by conducting audits, investigations, and evaluations that result in improvements in the effectiveness, efficiency, and economy of departmental programs and operations and detecting and preventing fraud and abuse in DOL programs and labor racketeering in the American workplace.

Our audit work during this period resulted in nearly \$30 million in total questioned costs. OIG audits continue to raise concerns about the performance and accountability of grants, particularly those administered by the Employment and Training Administration (ETA), which issues over \$10 billion in grants annually. For example, we conducted performance audits of several H-1B technical skills grants intended to help both employed and unemployed U.S. workers acquire technical skills for positions currently filled by foreign workers on H-1B visas. We found that some of the grantees failed to achieve their intended employment outcomes for participants or did not know what those employment outcomes were. In addition, several grantees had questionable expenditures that could have been avoided had detailed subcontractor program and budget information been provided and evaluated by both ETA and the grantees prior to the awarding of the grants. We also conducted a performance audit that found ETA has little assurance that state-reported Workforce Investment Act (WIA) performance outcomes data are either accurate or verifiable, making it difficult for ETA to adequately assess the effectiveness of WIA training programs. We are working with the Department to help assess these weaknesses in its grant accountability procedures and to draft potential solutions.

In this reporting period, we also evaluated the Department's Domestic Child Labor Program. Our evaluation found that the Department needs to update its listing of occupations in the non-agricultural sectors found to be particularly hazardous or detrimental to the health or well-being of young workers. In addition, the Department has not updated the management and investigative tools used to determine child labor law compliance.

During this reporting period, our investigative work resulted in over \$186 million in investigative recoveries, restitutions, fines, and penalties; 229 indictments; and 205 convictions. We continue to focus on corruption involving the monies in union-sponsored pension and health and welfare benefit plans. For example, a former FBI agent and investment advisor for an International Longshoremen's Association (ILA) local pled guilty to embezzlement and money laundering for his role in diverting over \$500,000 in pension fund money into personal real estate investments. Also, two California investment brokers for Capital Access, Inc., were ordered to pay nearly \$2 million each in restitution for their roles in a \$4 million investment scheme in which the money was diverted into ventures other than what was represented and then used to support their lifestyles. Cases in the labor racketeering area include an indictment of 17 members of the Gambino Crime Family for various crimes, including racketeering and extortion, that involved corruptly influencing ILA locals and members on the New York and New Jersey waterfronts, among others. We also continue to see a proliferation of fraud schemes committed against DOL programs such as the Black Lung program and the foreign labor certification programs. For example, two Virginia doctors were sentenced and ordered to pay \$2 million in restitution for their role in defrauding the Black Lung program of over \$1.5 million by billing for excessive and unnecessary medical treatments and supplies. In another case, a Virginia immigration attorney was sentenced and ordered to pay restitution for defrauding clients who were seeking work visas of over \$350,000.

## Inspector General's Message

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In addition, we complemented our traditional audit and investigative work by providing the Department with Unemployment Insurance and Federal Employees' Compensation Act fraud training at the national and state levels, as well as technical assistance to improve a number of management functions, particularly with respect to grant accountability, data validation, and employee security.

I am proud of the diligent work of all OIG employees and their continued commitment to serving American workers and taxpayers. My staff and I look forward to continuing to work constructively with the Secretary and the DOL team to further our common goal of ensuring the effectiveness, efficiency, and integrity of the programs that serve and protect the American workforce.



Gordon S. Heddell  
Inspector General

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## Employment and Training

The OIG looked at six grantees under the H-1B technical skills training grants, which received a total of \$15.4 million and were intended to serve nearly 3,000 participants. Overall, we found that training was implemented and target populations were served. However, none of the participants in two of the grants obtained employment or upgrades in occupations for which they were trained. Two other grantees did not track placements and, therefore, employment outcomes were unknown. In addition, we questioned over \$1.6 million in costs. .... 11

A former State Department engineer pled guilty after an investigation revealed that he was involved in preparing fraudulent applications for alien employment certification. .... 14

A Virginia store owner was sentenced for visa fraud after an investigation revealed that the majority of the labor certification applications he had filed were fraudulent. .... 15

Following the OIG's issuance of a March 2002 audit report, ETA terminated a \$4.7 million Welfare-to-Work competitive grant that had been awarded to Madison County, Alabama. As a result of the grant's termination, approximately \$3 million in unspent funds will be returned to the Department. .... 17

We conducted a performance audit to determine what oversight and monitoring procedures were in place to ensure that state-reported WIA performance data were accurate and supportable. We found that DOL has little assurance that the state-reported WIA performance outcomes data are accurate. .... 18

ETA has reported that states had large amounts of unspent WIA funds during FY 2002, while states have contended that ETA's financial portrayal was misleading and failed to consider valid financial obligations. We completed a review of Ohio, which received \$261 million in WIA grants, and found that the State had reported the entire \$261 million as obligated and had spent only \$93 million as of December 1, 2001. .... 19

## Worker Benefits Programs

Twelve of 23 individuals indicted in connection with an Unemployment Insurance check counterfeiting scheme have pled guilty and received sentences as of this semiannual reporting period. The group counterfeited Missouri State Unemployment Insurance checks as well as checks from the State of Illinois and other entities. .... 23

Two physicians were sentenced for their roles in defrauding the Black Lung program of over \$1.5 million. The investigation found that they billed and received payment from the Black Lung program for excessive office visits and unnecessary medical treatments and supplies. .... 25

The OIG conducted an evaluation of DOL's Domestic Child Labor program and recommended several changes to improve the program. For example, we found that DOL has not been consistent in the development and execution of outreach programs and beneficial relationships with Federal, state, and local employment issuance and regulatory agencies. .... 27



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

We conducted a performance audit to determine how effective the Occupational Safety and Health Administration (OSHA) was in establishing strategic partnerships and whether these partnerships were making an impact in improving safety and health conditions in the workplace. We identified examples of partnership successes but found that, despite OSHA’s outreach efforts, the program was having a limited national impact because of the relatively few partnerships that had been established and the small number of employers that were participating. .... 31

**Departmental Management**

During this reporting period, the OIG performed a number of computer security audits, in accordance with the Government Information Security Reform Act. While the efforts by the Department and its component programs are notable, we continue to identify areas where improvements are needed. .... 38

During this reporting period, the OIG forwarded to DOL 17 Single Audit Act audit reports for action and follow-up. These 17 reports questioned over \$27 million in DOL funds and contained 89 material findings. .... 40

**Labor Racketeering**

A physician was sentenced after being found guilty of defrauding 11 prominent Chicago-based union health and welfare funds, including those of the Teamsters, Laborers, and others, by billing in excess of \$400,000 in unnecessary and expensive medical services. .... 45

A former registered investment advisor for Indiana-based Local 1969 of the International Longshoremen’s Association (ILA), pled guilty to embezzlement from an employee benefit plan. The advisor admitted that he converted over \$500,000 of pension fund monies for his own use. .... 46

The principal owner of Capital Consultants, an investment company, pled guilty during this reporting period to mail fraud and assisting in the preparation of a false tax return. The investigation found that Capital Consultants defrauded dozens of union pension funds. .... 47

Seventeen members and associates of the Gambino Organized Crime Family, including Gambino Family boss Peter Gotti, were charged in a 68-count indictment for crimes including racketeering, extortion, gambling, money laundering, and wire fraud. Allegedly, these individuals corruptly influenced unions and businesses on the New York and New Jersey waterfronts. .... 48

A former secretary-treasurer of ILA Local 1349 was sentenced after pleading guilty to embezzlement of labor funds by a union officer. The investigation revealed that he embezzled over \$91,000. .... 50

*At least annually, the OIG identifies and reports on what it considers to be the most serious management challenges facing the Department of Labor. Following is a synopsis of the top management challenges as of this semiannual reporting period. The full report is included in the appendix of this Semiannual Report.*

### **Grant Accountability, Performance, and Effectiveness**

The Department continues to face challenges in providing accountability for the costs and results of its grant programs, which comprise some \$9.5 billion in funding. The OIG has worked with ETA, DOL's largest grantor agency, to help assess weaknesses in its grant accountability procedures and to develop potential solutions. Recent OIG audits detailed in this report serve to illustrate accountability problems in the grant award, execution, reporting, and oversight processes. In April 2002, ETA took a significant step toward improving accountability when it issued a grant/contract administration implementation plan that addressed many of the OIG's concerns. In addition, concerns previously raised with Bureau of International Labor Affairs' grant program have largely been addressed, with financial information improvements remaining.

### **WIA Program Implementation**

Both increased accountability and state and local flexibility are among the seven key principles embodied in the Workforce Investment Act of 1998. As WIA reauthorization is debated in 2003, the Department will be challenged to work with the Congress in drafting replacement legislation and issuing implementing regulations that strike an appropriate balance between the sometimes competing interests of accountability and flexibility that have resulted in inconsistent program guidance.

### **Financial Performance**

Over the past several years, the Department has achieved a high level of financial management discipline that has resulted in clean audit opinions on its financial statements since FY 1997. Nonetheless, the Department faces significant challenges in producing timely financial information that can be used in its day-to-day management. Another challenge in this area is the adequacy of information being provided to the Department via audit reports conducted by independent public accountants or state auditors under the Single Audit Act (SAA). In our reviews of six audits conducted under the SAA, we found serious deficiencies, including inadequate sampling, which would make the reports unreliable.

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

Performance budgeting is a major focus of the President's Management Agenda, which calls for further integrating budget and performance to foster a results-oriented Department that is guided by performance rather than process. To this end, the Department has taken initial steps toward instituting a performance budget for FY 2004. Key to the Department's success in this area is effective strategic planning and development of the capability to generate reliable, timely, and auditable performance results and cost data for its programs.

### **Security of Pension Assets**

Currently, there are over 6 million private employee benefit plans covering 150 million people and containing nearly \$5 trillion in assets. Given the size of this universe, protecting pension assets poses a significant challenge for the Department. Over the years, the OIG has advocated that ERISA be amended in order to increase protections for pension plan participants. In particular, we have recommended that provisions in ERISA that allow auditors to exclude certain assets from the audit scope be repealed and that plan auditors be required to report any ERISA violations directly to the Department. More recently, we have identified the need for more clarity and guidance relative to the computation of participant benefits with respect to cash balance plans, a growing segment of the pension universe.

Another area of concern involves the security of the billions of dollars in assets in private pension plans, which are an attractive target to organized crime elements, corrupt pension plan officials, and individuals who influence the investment activity of pension assets. In particular, OIG labor racketeering investigations continue to show that the security of the assets within Taft-Hartley plans, which are jointly administered by labor union representatives and management representatives, is at risk.

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

Safeguarding Federal employee benefits programs administered by the Department of Labor is a formidable challenge, given the existing vulnerabilities and the sheer scope of these programs, which affect the lives of millions of workers and retirees and involve billions of taxpayer dollars. The OIG continues to identify vulnerabilities involving financial stability and program integrity within the unemployment insurance and disability compensation programs of the Department.

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

The expansion of electronic government is also among the aims of the President's Management Agenda. This presents challenges for the Department, such as the security of its information technology (IT) assets, the seamless implementation of its new IT architecture, and the integrity of its benefits programs in an electronic government environment.

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

The Department's foreign labor certification programs provide employers access to foreign labor. OIG investigations continue to identify fraud in these programs, particularly the H-1B program, which may result in economic harm to American workers and businesses, exploitation of foreign workers, and security risks associated with aliens who are admitted to this country by fraudulent means. The OIG believes that if the Department is to have a meaningful role in the labor certification process, it should have corresponding statutory authority, not currently available, to ensure the integrity of the process, including by verifying the accuracy of information provided on labor condition applications.

### **Human Capital Management**

The management of human capital presents a significant challenge to the Department due to anticipated workforce and skills shortages. As many Federal workers become eligible for retirement, the Department's ability to recruit and retain highly qualified people will be essential to the successful accomplishment of its mission. The Department has instituted a number of policies to maximize its recruitment and retention of talented people. There are a number of specific legislative, regulatory, and policy changes that would be helpful to Federal agencies like DOL in more effectively competing with private industry for highly-skilled personnel and in retaining qualified employees.

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

In January 2001, the OIG listed enhancing the effectiveness of programs administered by the Mine Safety and Health Administration (MSHA) as a management challenge to the Department. Prior evaluations by the OIG had identified a number of issues needing the Department's attention to ensure that programs that protect miners from injury or death operate efficiently and effectively. MSHA has taken significant steps toward addressing the recommendations that resulted from those evaluations and will be challenged in the coming year to fully implement outstanding recommendations, some of which require rulemaking.



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for America's  
Workforce*

# **Employment and Training**

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

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

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

*In addition to the application certification process, the Department administers grants that are financed through a \$1,000 user fee imposed on employers for every H-1B visa application filed. These grants, established by the American Competitiveness and Workforce Improvement Act of 1998 (ACWIA), are intended to help both employed and unemployed U.S. workers acquire technical skills for occupations that are in demand and are currently being filled by foreign workers on H-1B visas. ACWIA established these grants to train and to place workers directly into highly skilled H-1B occupations and to create programs that would continue after the grants expired.*

### **H-1B Technical Skills Training Grants Did Not Achieve Intended Employment Outcomes**

DOL has conducted three rounds of grant competition and awarded 43 technical skills training grants totaling approximately \$96 million through 2000. We conducted performance audits of six of these grants,



which totaled \$15.4 million and were intended to serve nearly 3,000 participants. The overall audit objective was to evaluate whether grantees were meeting the intent of the H-1B Technical Skills Training Program and the requirements of their grants. The audits were designed to evaluate project implementation, outcome achievement, and fiscal accountability.

Overall, we found that training was implemented and target populations were served. However, none of the participants in two of the grants obtained employment or upgrades in occupations for which they were trained. Two other grantees did not track placements, and therefore employment outcomes were unknown. Further, just three of the six grantees demonstrated that their projects could continue to operate after the current grants ended, a requirement of the grants. In addition, we questioned over \$1.6 million in costs, or 29% of reported Federal outlays to date. The following chart summarizes our findings for the six grantees we audited.

Grantee*	Implementation			Outcomes		Questioned Costs
	Technical Skills Training	Target Population	Sustainable	Achieved	Measured/ Reported	
SELACO	In progress	Yes	Yes	Unknown	No	\$ 0
SFPIC	Yes	Yes	Yes	No	Yes	915,985
REB	Yes	Yes	No	No	No	0
Work Alliance	Yes	Yes	No	No	Yes	231,675
WorkPlace	No	No	No	Unknown	No	140,000
TUF	Yes	Yes	Yes	Unknown	No	359,462
<b>TOTAL</b>						<b>\$1,647,122</b>

\*SELACO Southeast Los Angeles County Workforce Investment Board  
 SFPIC San Francisco Private Industry Council  
 REB Metro North Regional Employment Board (Malden, Massachusetts)  
 Work Alliance (New York, New York)  
 WorkPlace (Bridgeport, Connecticut)  
 TUF The League/Service Employee International Union 1199 Training and Upgrading Fund (New York, New York)

**Project Implementation**

In general, training was implemented and target populations were served in accordance with the grant conditions. However, while grantees implemented training utilizing local educational institutions, innovative training methods (the unique aspect of the grants) were not fully developed, and in one case were not established at all. We also found that some targeted groups, such as unemployed and underemployed individuals, were being excluded and therefore not being served as specified. Finally, we found that the program’s sustainability was an issue for half of the grantees audited. This was mainly due to problems

with the innovative aspects of the projects, such as partnerships with industry, which severely diminished over time.

### Outcome Achievement

We found that training either failed to achieve employment outcomes or had unknown outcomes. The following chart shows the participant placement or upgrade rates for the six audited grantees.

Grantee	Months Elapsed	Placement or Upgrade		
		Planned	Actual	Rate
SELACO	13	500	Unknown	Unknown
SFPIC	20	205	94	46%
REB	13	345	0*	0%*
Work Alliance	10	220	2	1%
WorkPlace	15	448	Unknown	Unknown
TUF	10	550	Not Yet Known	

\*REB had no upgrades and did not measure placements.

We questioned over \$1.6 million because the costs were not allocable, allowable, or reasonable. Future costs may be questioned if matching requirements (grantees have to match 25% of the Federal outlays using non-Federal funds) are not satisfied. Most of the questioned costs could have been avoided had detailed subcontractor program and budget information been provided and evaluated by both ETA and the grantees prior to the grant award. Some examples of questioned costs include:

- \$140,000 spent on “soft skill” training not associated with a technical skill curriculum;
- \$154,025 for curriculum development that was unnecessary and unallowable since a comparable curriculum already existed; and
- \$915,985 for computer labs using an inappropriate cost basis that included an element of profit and duplicative costs, rather than actual lab costs.

We recommended that ETA recover the \$1.6 million in questioned costs and take steps to ensure that grantees operate their projects in accordance with the intent and requirements of their grants. The grantees generally responded that they were operating as intended under their grant agreements and that progress has been made in accomplishing grant goals since our audits. ([OA Report No. 02-02-207-03-390](#), issued March 26, 2002; [OA Report No. 02-02-211-03-390](#), issued September 30, 2002; [OA Report No. 02-02-212-03-390](#), issued September 26, 2002; [OA Report No. 02-02-213-03-390](#), issued September 30, 2002; [OA Report No. 02-02-214-03-390](#), issued September 30, 2002; [OA Report No. 02-02-215-03-390](#), issued September 30, 2002)

*The OIG continues to identify fraud in the foreign labor certification programs. These cases involve fraudulent applications that are filed with DOL on behalf of fictitious companies and corporations, individuals who file petitions using the names of legitimate companies and corporations without their knowledge or permission, and immigration attorneys and labor brokers who collect fees and file fraudulent applications on behalf of aliens. ETA has provided significant assistance in these types of cases.*

### **Former State Department Employee Pleads Guilty in Virginia**

On August 20, 2002, Ronald Bogardus, a former State Department engineer, pled guilty to one count each of conspiracy, labor certification fraud, money laundering, immigration fraud, and extortion. Soon after the close of the reporting period, on October 18, 2002, Bogardus was sentenced to over eight years in prison and, per his plea agreement, will forfeit over \$4 million in cash, real property, and other property. The investigation revealed that Bogardus was involved in preparing fraudulent applications for alien employment certification that an attorney (who is a co-defendant in this case) later presented to DOL. Bogardus went to restaurants and obtained managers' names and signatures, which he later used on the applications without the managers' knowledge. The extortion count of his guilty plea concerned written threats that Bogardus made to an immigrant in an attempt to persuade the immigrant to withdraw a lawsuit against the attorney and others. This investigation is being conducted with the Department of State, the IRS, the Immigration and Naturalization Service (INS), and the Fairfax County Police Department. *U.S. v. Bogardus* (E.D. Virginia)

### **Virginia Immigration Attorney Sentenced**

On August 2, 2002, immigration attorney S. Anita Ryan was sentenced to six years' imprisonment and four years' supervised release and was ordered to pay nearly \$400,000 in restitution to her clients. Over the past eight years, Ryan defrauded clients who were seeking work visas and permanent resident status of more than \$350,000. Ryan sold approved labor certifications and work visas without notifying the original applicants. She continued to bill and collect fees from the original applicants even though their approved documents had been sold or their cases terminated without their knowledge. *U.S. v. Ryan* (E.D. Virginia)

### Virginia Grocery Store Owner Sentenced for Visa Fraud

On July 12, 2002, Choudhry Tariq Bashir, the owner of Star Grocery and Halal Meat, was sentenced to 13 months' incarceration and 2 years' supervised release after pleading guilty to visa fraud. Since 1999, Bashir filed 36 labor certification applications for Halal meat cutters. The investigation revealed that the majority of these applications were fraudulent and that undocumented workers had paid Bashir as much as \$14,000 to file on their behalf. In a related case, on May 21, 2002, Abdul Hameed, an associate of Bashir, pled guilty to conspiracy and tampering with a witness. The OIG was assisted in this case by the U.S. Postal Inspection Service, the Fairfax County Police Department, and the Herndon Police Department. *U.S. v. Bashir, U.S. v. Hameed* (E.D. Virginia)

*The purpose of the Welfare-to-Work (WtW) program, which is administered by the Employment and Training Administration (ETA), is to prepare hard-to-employ long-term welfare recipients and other eligible individuals for, and place them into, lasting unsubsidized employment. WtW activities should be grounded in the “work-first” philosophy of the Temporary Assistance for Needy Families program established under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the legislative centerpiece of welfare reform. In FYs 1998 and 1999, \$3 billion was authorized for WtW grants and approximately \$700 million of this amount was awarded to grantees selected through a competitive grant process carried out in three separate rounds, with the remainder distributed by formula to the states. The competitive grants were intended to be used to develop innovative approaches to serve the targeted population.*

### **Columbus Urban League’s Competitive WtW Grant**

The Columbus Urban League (CUL) received a \$3.1 million competitive WtW grant in January 1999 to place a minimum of 480 welfare recipients into subsidized employment while engaging them in career development activities to help increase their earning potential and economic stability. The goal was to place 346 of the 480 individuals into unsubsidized employment upon completion of the career development segment. As permitted by law, the grant period was extended by two years; however, the goal for unsubsidized employment was reduced from 346 to 228.

We audited CUL’s grant from its inception through June 30, 2001. We found that CUL did not have a participant management information system in place and therefore was unable to accurately track participant enrollment or properly allocate expenditures. These inaccuracies caused CUL to overstate the number of participants being served. In addition, we questioned nearly \$140,000 because staff salaries and fringe benefits totaling \$91,516 were based on budget estimates rather than actual time worked, and technology items totaling \$48,000 were purchased without the required preapproval of ETA. CUL concurred with our findings and recommendations and has begun taking actions to correct the problems identified in our report. ([OA Report No. 05-02-003-03-386, issued August 19, 2002](#))

## **ETA Terminates \$4.7 Million WtW Grant with Madison County, Alabama**

Following the OIG's issuance of a March 26, 2002, audit report, ETA terminated a \$4.7 million WtW competitive grant that had been awarded to Madison County, Alabama. As a result of the grant's termination, approximately \$3 million in unspent funds will be returned to the Department. The purpose of the \$4.7 million grant was to place 640 non-custodial parents in unsubsidized employment over a 30-month period. The OIG recommended that the grant not be extended because of concerns about the program's effectiveness.

## **Connecticut Defendants Sentenced to Repay over \$1 Million**

Sandra Naclerio and Milton Greengas were sentenced for defrauding the Community Action Agency of New Haven (CAANH), a nonprofit corporation that provides services to low-income families, of over \$1 million. Greengas and Naclerio each received seven years' incarceration and five years' probation and were ordered to make restitution to CAANH in the amounts of \$573,000 and \$468,000, respectively. Naclerio, the former finance director of CAANH, and Greengas, a retired printer, pled guilty in February 2002 to larceny for defrauding CAANH. The investigation revealed that between 1998 and 2001 CAANH improperly paid more than \$1 million to printing companies owned by Greengas, of which over \$52,000 was derived from WtW grant funds awarded to CAANH. The monies were paid to Greengas largely through invoices approved by Naclerio. In turn, Greengas kicked back at least \$235,000 to Naclerio. This was a joint investigation with the Department of Housing and Urban Development OIG and the Connecticut State's Attorney's Office. *U.S. v. Naclerio, U.S. v. Greengas* (D. Connecticut)

*The Workforce Investment Act (WIA) became effective on July 1, 2000. WIA established a new comprehensive workforce investment system that is intended to be customer-focused in order to give individuals access to information and tools they need to manage their careers, and to help U.S. companies find skilled workers.*

### **ETA Has Little Assurance That State-Reported WIA Performance Outcomes Data Are Either Accurate or Verifiable**

To assess the effectiveness of job training programs, WIA Title 1, Subpart B, established a comprehensive performance accountability system comprising indicators of performance for each major program component (adult, dislocated worker, and youth). The WIA and implementing regulations also require that states submit an annual progress report on the performance measures required for each of the three programs that can be validated and verified as accurate. ETA and the states are responsible for monitoring this performance information.

We conducted a performance audit to determine what oversight and monitoring procedures were in place to ensure that state-reported WIA performance data were accurate. Our audit covered procedures at the ETA's national and regional offices, 4 states (Colorado, Louisiana, Kentucky, and California), and 12 Workforce Investment Boards/One-Stop Centers within those states.

We found that ETA has little assurance that the state-reported WIA performance outcomes data are either accurate or verifiable. At the local level, none of the 12 One-Stops had adequately documented procedures for validation of participant performance data. At the state level, two of the four states had not monitored performance data at the One-Stop case file level, and none of the four states had formal data validation procedures to ensure the accuracy of reported performance data. At the Federal level, ETA limited its regional and national monitoring procedures over WIA outcomes data to desk reviews and computer edit checks.

We concluded that ETA cannot ensure that the WIA performance outcomes reported since the inception of the program are accurate. This is due to: (1) the lack of monitoring in the first year of WIA performance reporting; (2) the lack of a statistically valid data validation approach; and (3) the lack of clear documentation requirements and definitions of key program terms. ETA has initiated a data validation and verification computer program that seeks to strike the proper balance between data integrity and efficiency. One of the project



objectives includes determining what will constitute sufficient proof that the data are correct. However, until the proposed program is implemented, ETA will continue to operate without any substantive assurance that the performance results that it reports for WIA are reliable.

We recommended that ETA:

- continue its current efforts to establish a standardized statistical method for WIA performance data validation and require the states to either use this method or have an equivalent documented method in place to ensure data integrity;
- provide the states with consistent definitions and documentation guidelines to ensure that all states are reporting consistent data; and
- have regional ETA representatives require the states to include data validation in their monitoring of policies/programs, establish minimum documentation standards to support the activities and outcomes reported, and independently calculate the reported performance measures as part of their performance monitoring.

ETA agreed with our conclusions and responded that it is currently developing an effective strategy for validating and verifying performance outcomes data. However, ETA did not indicate whether data validation would be mandatory for all states. Unless it is made mandatory, ETA still will have no assurance that national performance data are accurate because states will not be required to validate data. ([OA Report No. 06-02-006-03-390, issued September 30, 2002](#))

## Review of State WIA Funding

ETA has reported that states had large amounts of unspent WIA funds during FY 2002. States have contended that ETA's financial portrayal was misleading and failed to consider valid financial obligations, such as orders placed, and contracts issued that the states or their local workforce boards would eventually need grant funds to pay.

In order to provide useful information to the Administration and the Congress for resolving and reconciling the conflicting viewpoints as budgets are debated and decided, the OIG is compiling financial information reported by all states on WIA programs and is currently reviewing how this information was prepared in a sample of nine states and Puerto Rico. Our review includes the period from the inception of WIA through December 31, 2001. We have completed a review of the State of Ohio, and work continues in Pennsylvania, South Carolina, Tennessee, North Carolina, Maryland, Michigan, California, Louisiana, and Puerto Rico.

The State of Ohio received WIA awards totaling \$261 million as of December 31, 2001. The State reported that the full \$261 million of its grant was obligated. However, we found that only \$93 million of the funds had been spent. We found that obligations were overstated because Ohio had reported the entire amount of the grant award as obligated. According to ETA, obligations should have been limited to those items for which the local area incurred a legal liability to spend funds.

In addition, our review found problems with some of Ohio's financial reporting. Some inconsistencies were the result of inadequacies in the reporting procedures of both the State and its local workforce boards relating to financial obligations. However, it was not evident that ETA had adequately communicated reporting requirements to the states or provided them with consistent guidance on what constitutes obligations. Consequently, some inconsistencies may have resulted from confusion over what to report.

We also found that, in Ohio, WIA program expenditures had been reported only when cash was disbursed (cash basis accounting) to pay the obligation. ETA requires that expenditures be reported when a liability has been created through delivery of goods or services (accrual basis accounting), irrespective of when cash payment is made. Based on past spending rates and irrespective of additional WIA annual allocations that may be received, Ohio had over two years of WIA funding available on December 31, 2001. Finally, we found that Ohio was drawing down WIA cash faster than was needed, creating large cash balances. The Cash Management Improvement Act limits cash advances to the minimum amounts required for immediate cash needs. However, as of December 31, 2001, Ohio had drawn down six months of cash in excess of costs incurred.

The State of Ohio generally agreed with the information presented in this report. When the OIG has finalized the reports for the remaining states and Puerto Rico, we will issue formal recommendations to ETA. ([OA Report No. 04-02-004-03-390, issued September 20, 2002](#))

### **Identification of Potential Conflicts of Interest Leads to Better Use of nearly \$93 Million**

In April 2002, the OIG completed its investigation of potential conflict of interest violations by Maximus, Inc., which was awarded several grants by the New York City Human Resources Administration (HRA). These grants, which totaled over \$109 million, included monies from the Federal WtW, Job Training Partnership Act, and WIA programs. Among the potential conflicts of interest was Maximus's giving things of value to a high-level official at HRA. After the results of the investigation were released to the City of New York, the contracts were reduced to approximately \$16 million, or nearly \$93 million less than originally awarded.



*Promoting the  
Economic  
Security of  
Workers and  
Families*

# **Worker Benefits Programs**

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

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

*Enacted over 60 years ago as a Federal-state partnership, the Unemployment Insurance (UI) program is the Department's largest income maintenance program. This multibillion-dollar program assists individuals who have lost their jobs through no fault of their own. While the framework of the program is determined by Federal law, the benefits for individuals are dependent on state law and are administered by State Workforce Agencies (SWAs) in 53 jurisdictions covering the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, under the oversight of ETA. The OIG continues to expand its investigative efforts to detect and investigate fictitious or fraudulent employer schemes used to defraud the UI program. We are also focusing on other ways, such as identity theft, by which the program is being defrauded. In recent years, the program has suffered losses in the millions of dollars as a result of these various types of schemes. Highlighted below are some of our accomplishments in this area.*

### **Defendants Sentenced in Missouri for Counterfeiting Scheme**

Twelve of 23 individuals indicted in connection with a UI check counterfeiting scheme have pled guilty and received sentences as of this semiannual reporting period. The group counterfeited Missouri State Unemployment Insurance checks as well as checks from the State of Illinois and other entities. To date, over 200 counterfeit checks totaling over \$200,000 have been identified. Of the 200 checks, 77 were UI checks. This investigation was conducted with assistance from the FBI, the Social Security Administration (SSA) OIG, the IRS Criminal Investigations Division (CID), the ATF, and state and local entities. *U.S. v. Rogers, et al.* (E.D. Missouri)

### **Defendants Sentenced in Fictitious Employer Scam**

On September 4, 2002, Zackary Epps was sentenced to 12 months' imprisonment and 2 years' supervised release and was ordered to pay back more than \$320,000 that he fraudulently obtained from the New Jersey Unemployment Insurance program. Epps pled guilty to mail fraud in March 2002 for defrauding the UI program over a seven-year period. Three of Epps' co-conspirators either pled guilty or were found guilty of mail fraud. One of the co-conspirators, Alvin Patterson, was sentenced in July 2002 to 14 months' incarceration for his part in the scheme.

The investigation found that Epps registered four fictitious companies, which were used by Epps and his co-conspirators to file false UI applications claiming that they had been laid off from the companies and were entitled to benefits. Using a false name to disguise his involvement, Epps sent false wage and employment information to local unemployment offices to verify that those involved had been employed. In return, the co-conspirators agreed that they would split their UI checks with Epps. This investigation was conducted jointly with the U.S. Postal Inspection Service. *U.S. v. Epps* (D. New Jersey)

### **Defendants in California Sentenced for Identity Fraud**

Eddie Johnson was sentenced on June 24, 2002, after pleading guilty to two counts of mail fraud in a scheme to defraud the State of California Unemployment Insurance program. Johnson was sentenced to 18 months' incarceration and 3 years' supervised release and was ordered to pay nearly \$135,000 in restitution. Johnson's girlfriend, Leella Robertson, who also pled guilty for her role in the scheme, was sentenced on May 20, 2002, to three years' probation and was ordered to pay over \$17,000 in restitution.

The investigation revealed that Johnson had orchestrated an identity theft scheme designed to obtain UI benefits and had filed over 30 fraudulent UI claims totaling more than \$130,000. Victims of the scheme included Los Angeles City and County employees whose identities were stolen from a credit union. Johnson filed fraudulent UI claims using stolen identities and had benefit checks sent to his residence. This investigation was conducted jointly with the California Employment Development Department and the U.S. Postal Inspection Service. *U.S. v. Johnson, U.S. v. Robertson* (C.D. California)

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

## Medical Provider Fraud

*Fraud by medical providers is generally perpetrated by submitting claims for services or goods not provided or delivered, billing for treatment not related to the approved medical condition or disability, double-billing, upcoding (billing under a more expensive treatment service code than that for the treatment actually provided), or unbundling (breaking one service into several services with separate charge codes) to fraudulently obtain reimbursement. The following cases are illustrative of our work in this area.*

### Virginia Physicians Sentenced for Scam of over \$1.5 Million

On September 20, 2002, physicians Vinodchandra "Vinod" Modi and Kailas Modi were sentenced for their roles in defrauding the Black Lung program of over \$1.5 million. Vinod Modi was sentenced to 37 months' imprisonment and 3 years' probation and was ordered to pay fines of \$75,000 and to surrender his medical license for life. Kailas Modi was sentenced to five years' probation and six months' home confinement and was ordered to pay fines of \$20,000 and to surrender her medical license for five years. The Modis were ordered to jointly pay \$2 million in restitution, of which \$1.5 million will go to the Department of Labor. They were also ordered to forfeit an additional \$1.5 million.

The Modis were indicted in July 2001 and pled guilty in April 2002 to unlawful distribution of controlled substances. Vinod Modi also pled guilty to conspiracy to commit mail fraud and money laundering. The investigation found that the Modis billed and received payment from the Black Lung program for excessive office visits and unnecessary medical treatments and supplies. The investigation was conducted by a task force comprised of the IRS CID, the DOL OIG, the Health and Human Services OIG, the Virginia State Police, the Virginia Department of Health Professionals, the Virginia Attorney General's Medicaid Fraud Control Unit, the FBI, and the DEA's Drug Diversion Unit. *U.S. v. Modi* (W.D. Virginia)



**Defendant Sentenced in  
District of Columbia**

On June 18, 2002, Theresa A. Adams, the owner of Columbiatech Nursing Service, Inc., was sentenced to five months' incarceration, five months' home detention, and three years' supervised release after pleading guilty in December 2001 to mail fraud charges. Adams was also ordered to pay \$48,000 in restitution. From February 1998 through April 2000, Adams submitted false invoices to the Office of Workers' Compensation Programs, causing DOL to pay Columbiatech over \$78,000 in fees to which it was not entitled. Adams billed OWCP for physical therapy services that she did not actually provide to an OWCP claimant. The investigation was conducted jointly with the FBI and the Washington, D.C., United States Attorney's Office. *U.S. v. Adams* (D. Dist. of Columbia)

**Claimant Fraud**

*Claimant fraud involves the concealment or false reporting of employment and income by an individual who continues to receive program benefits or services. In the FECA program alone, over \$2.2 billion in medical and death benefits and wage loss compensation was paid from July 1, 2001, to June 30, 2002, with over half of these benefits paid to injured employees of the U.S. Postal Service, the Department of the Navy, and the Department of the Army. The OIG continues to work joint cases with other Federal investigative agencies and advise them on how to conduct FECA investigations more efficiently and effectively. This has been especially true, most recently, with Department of Defense criminal investigative units from the U.S. Army and Navy. It is important to note that the removal of a single fraudulent claimant from Federal benefit rolls creates, on average, a \$300,000 to \$500,000 savings for the government. The following case is illustrative of our work in this area.*

**Defendant Ordered to Pay Nearly  
\$90,000 in Restitution**

On April 3, 2002, Eliud Morfin was sentenced to serve 30 days in jail and 60 days' home confinement for workers' compensation fraud. He was also sentenced to 3 years' probation and 500 hours of community service and was ordered to pay over \$90,000 in fines and restitution to the Office of Workers' Compensation Programs. The investigation disclosed that Morfin, a former civilian employee at Hill Air Force Base (HAFB) in Utah who received workers' compensation, was also self-employed. Morfin earned over \$25,000 in known income over several years, which he failed to report to OWCP. This joint investigation was conducted with the HAFB Office of Special Investigations. *State of Utah v. Morfin*

*ESA's Wage and Hour Division (WHD) is responsible for protecting 130 million workers by ensuring compliance with labor standards in more than 7 million workplaces through its enforcement program, as well as promoting voluntary compliance through education. Its domestic child labor program is divided into two industrial areas, nonagricultural and agricultural.*

## Evaluation of the Domestic Child Labor Program

The OIG conducted an evaluation of WHD's Domestic Child Labor Program. Our evaluation found that the Nonagricultural Child Labor Hazardous Occupation Orders (NACLHO) used by WHD to determine the most significant child labor hazards need to be updated. We believe that with the advances made in technology and in industry in the last five years, WHD has been remiss in not reviewing the NACHLO to ensure that they are up-to-date and reflect current hazardous industry occupations. WHD asked the National Institute for Occupational Safety and Health to recommend changes to the orders. We believe that an in-depth review by WHD is needed to ensure that appropriate industries are covered by the orders and that youth work activities are consistently protected.

Additionally, our review determined that the management and investigative tools used by WHD to identify and substantiate child labor law compliance have not been reviewed and updated. We believe that WHD needs to conduct a best-practices evaluation of each regional and district office's child labor initiatives to assess their effectiveness; evaluate all regional and district offices' inventories to identify all requisite equipment necessary for WHD to carry out its mission and program goals; and pursue developing formal relationships with public and private data collection agencies to gain access to employer data for WHD mission-related actions.

Our review also determined that WHD has not been consistent in the development and execution of outreach programs and beneficial relationships with Federal, state, and local employment issuance and regulatory agencies. We found that WHD has not consistently worked with state and local agencies that are responsible for issuing youth employment certifications. We recommended that WHD establish and maintain formal relationships with permit-issuing officials/agencies to ensure that youth and employers have clear information on both Federal and state child labor laws and requirements. Further, formal and informal relationships with Federal, state, and local regulatory agencies that augment and enhance WHD mission-related goals should be developed. The agency generally agreed in principle with our findings and has begun steps to implement our recommendations. ([OCIE Report No. 2E-04-420-0001, issued September 26, 2002](#))





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

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

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

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

*The mission of the Occupational Safety and Health Administration (OSHA) is to ensure safe and healthful working conditions for working men and women by authorizing enforcement of the standards developed under the Occupational Safety and Health Act; assisting and encouraging the states in their efforts to ensure safe and healthful working conditions; and providing for research, information, education, and training in the field of occupational safety and health. OSHA protects more than 100 million workers and is responsible for the safety and health of workers in nearly every workplace in the United States.*

## **OSHA Strategic Partnerships Have Limited National Impact**

In the 1990s, OSHA added new alternatives to its traditional enforcement approach, such as expanded compliance assistance and opportunities for partnerships to address workplace safety issues. The OSHA Strategic Partnerships program was part of this. Although partnerships have been encouraged and had grown to a total of 159 in February 2002, they continue to represent only a small portion of OSHA's total cooperative assistance program.

We conducted a performance audit to determine how effective OSHA was in establishing these partnerships through its outreach efforts and whether partnerships were making an impact in improving safety and health conditions in the workplace. We identified examples of partnership successes, but we found that despite OSHA's outreach efforts, the program is having a limited national impact because of the relatively few partnerships that have been established and the small number of employers that are participating. We also found that OSHA had been inconsistent in the application of policies and procedures, data collection, and enforcement of the program requirements. Furthermore, OSHA had not obtained corroborating information that would help ensure the integrity of reported lost work day injury (LWDI) data, which is used as a measure of workplace safety and health.

We recommended that, in order to realize more fully the potential benefits of the program, OSHA refocus existing outreach efforts and develop specific strategies to enlist more employers so that these partnerships can become a more prominent part of OSHA's cooperative program. We also recommended that OSHA ensure that partnership policies and procedures are effectively communicated to all area and field offices and consistently applied in negotiating partnerships and enforcing the program evaluation and verification inspection requirements. Furthermore, we recommended that OSHA share the encouraging preliminary results of the partnership program with

potential partnership employers and explore procedures for obtaining information to corroborate LWDI information supplied by all partnerships as part of the program evaluation reports. Finally, we recommended that OSHA correct and update the partnership log information and transfer information to a database system.

In response to our draft report, OSHA noted that the Strategic Partnerships program is but one of many program alternatives for providing compliance assistance and outreach and is a relatively new program that has undergone material changes and refinements during the period in which the OIG conducted the audit. OSHA expects that these changes, many of which address concerns identified by the OIG, will enable it to improve the program. Moreover, with respect to corroborating LWDI information, OSHA stated, "Though OSHA does not agree with the specific OIG recommendation, the agency will continue to explore alternative means of securing information for use in program evaluation reports." ([OA Report No. 05-02-007-10-001, issued September 30, 2002](#))

## **OSHA Violations Yield Sentencing**

Within the OIG's jurisdiction, we assist OSHA in investigating labor violations involving the health and safety of workers. The OIG has provided this assistance in several cases in which an employer violated OSHA standards resulting in the death of employees. On June 13, 2002, Moshe Junger was sentenced after pleading guilty to willfully violating OSHA standards in connection with the April 2001 death of an immigrant worker who was crushed by a steel beam. Junger, the owner of Brooklyn, New York-based Mordechai Rubbish, Inc. (MRI), was sentenced to four months in prison and one year's supervised release and was ordered to pay a \$100,000 fine. In addition, MRI foreman Ramon Acosta was sentenced on April 15, 2002, to 24 months' probation for making false statements to an OSHA compliance officer during an OSHA investigation into the death. *U.S. v. Junger, U.S. v. Acosta* (E.D. New York)



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

## **Construction Company and Its Owner Sentenced**

Michael F. Persons and his company, KAJACS Contractors, Inc., were sentenced on June 24, 2002, for their conviction on mail fraud charges. Persons was sentenced to three years' probation and KAJACS to five years' probation. In addition, Persons and KAJACS were ordered to pay over \$250,000 in fines, \$670 to employees whose wages were withheld, and over \$13,000 in restitution to insurance companies. Moreover, KAJACS has been suspended from any future Federal government contracting work. In addition to the nearly \$7 million in Federal contracts named in an August 2001 indictment, the company had several other ongoing or proposed public works contracts with various governmental agencies totaling in excess of \$21 million.

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





*Maintaining a  
Departmental  
Strategic  
Management  
Focus*

# **Departmental Management**

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

*The Department currently operates 82 mission-critical applications and general support systems, and in FY 2001 alone the Department's information technology (IT) budget exceeded a quarter of a billion dollars. DOL relies on these critical information systems to monitor and analyze the nation's labor market and economic activities, manage workforce services, and protect and compensate American workers. During the second half of FY 2002, the OIG continued to assist the Department in its efforts to enhance computer security controls. Recent audits revealed specific vulnerabilities in computer security and protection of assets.*

*Overall, the Department has improved its information security program. The Department has provided much-needed direction and implementation of related processes, which are resulting in a more coordinated and comprehensive approach to the implementation of the Department's security plan. In addition, while we continued to identify information security weaknesses during FY 2002, the Department is improving its management of its information security program, in accordance with OMB Memorandum 02-09. The Department is recognized for its leadership in tracking the performance level of each security plan and for its ability to integrate security performance results within its planning and investment process and its enterprise architecture. These accomplishments are helping to ensure that security issues are being addressed throughout each phase of a system's life cycle.*

*In addition, departmental working groups are helping to ensure that input is received and buy-ins are obtained from component programs prior to the release and enforcement of new or changed security policies or guidelines. These working groups also provide a forum for component programs to share common concerns, experiences, and best practices during implementation. Major focus areas include:*

- certification and accreditation;*
- contingency planning/disaster recovery planning;*
- security awareness and training;*
- planning and investment enhancements; and*
- E-Gov initiatives.*

**DOL IT Security Audits**

The OIG issued a summary report to the Office of Management and Budget (OMB) on 16 computer security audits performed in FY 2002 encompassing application and general support systems in accordance with the Government Information Security Reform Act (GISRA). These included two systems security tests covering a subset of DOL's 82 sensitive systems, such as mission-critical systems. In addition, the OIG performed one independent verification and validation of the Department's Plan of Actions and Milestones process for the period October 2001 through June 2002. The following table characterizes the subsets OIG audited, evaluated, and/or reviewed in FYs 2001 and 2002, where applicable.

Subset of System Audits, Evaluations, and Other Security Reviews						
System Categories by DOL Business Functions	Application Systems		General Support Systems		Other	
	09/10/01	09/16/02	09/10/01	09/16/02	09/10/01	09/16/02
Payment and Benefits	1	2	-	-	-	-
Economic/Statistical	1	-	-	-	-	-
Financial	-	12	-	-	-	-
Enforcement	4	-	-	-	-	-
Operational	4	-	-	-	-	-
Security Tests and Evaluation	-	-	6	2	-	-
Other Security Reviews	-	-	-	-	2	1
<b>Total Subset Examined</b>	<b>10</b>	<b>14</b>	<b>6</b>	<b>2</b>	<b>2</b>	<b>1</b>

In the year since we issued our last report to OMB (September 10, 2001), the Department has established an information security program that complies with OMB direction and GISRA requirements and adopts recognized guidelines. If this focus is maintained, it should lead to assurances that DOL computer systems are reliable and adequately safeguarded and should result in uninterrupted delivery of benefits and services to the public.

While the efforts by the Department and its component programs are notable, we continue to identify areas where improvements are needed. This will be the case for some time as the management of the system development life-cycle process continues to evolve and mature in the Department, particularly within the component programs. For example, the OIG's vulnerability assessment of the Department's core financial system identified significant system security vulnerabilities, including information that was inappropriately placed on the public Internet and password policy and settings with inadequate controls.

Also, the OIG's examination of the GISRA FY 2002 subset identified repeat system security vulnerabilities and other weaknesses in the following areas: (1) entity-wide security program planning and management; (2) access controls; (3) application software development and change control; (4) system software; and (5) service continuity.

Despite these vulnerabilities, we believe that the Department and its component programs are making progress toward a fully integrated and comprehensive security program. Departmental officials and program component security officials are considering any potential security vulnerabilities to be serious issues and are taking immediate steps to ensure that the vulnerabilities are addressed and corrected. However, the Department will face challenges within the next few years as new technologies emerge, interrelated systems grow, and business practices change. While meeting these challenges, the Department must continue to improve in assessing risks; implementing preventive and/or detective management, operational, and technical controls; and identifying vulnerabilities through iterative testing and management of the related mitigation plans and activities. ([OA Report No. 23-02-015-50-598, issued September 16, 2002](#))



*In FY 2002, the Department of Labor had an annual appropriation of nearly \$55 billion. Because over 85% of DOL's annual expenditures are spent by non-Federal entities, the audit of Federal funds at these entities is of paramount importance to DOL and the OIG. The majority of these funds are covered by the Single Audit Act (SAA) Amendments of 1996. The Act requires that non-Federal entities spending \$300,000 or more in Federal funds receive an independent audit in accordance with the Act. The purpose of the SAA audits is to determine whether Federal funds are spent in accordance with applicable laws and regulations and to make this determination without subjecting an entity to audits from multiple agencies; hence, the Act requires a "single" audit. The OIG receives, from the Federal Audit Clearinghouse, SAA audit reports that contain findings related to DOL programs. The OIG provides SAA audits to DOL program agencies for resolution and participates with other Federal agencies on quality control reviews conducted for single audits of DOL recipients and subrecipients. We have initiated several studies to determine the reliability and usefulness of SAA audits to the Department, including use by the OIG in its annual audit of the Department's financial statements, as well as the most efficient and effective method of making such a determination on a recurring basis. Specifically, we are conducting studies to determine:*

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

## **Quality of Single Audit Reports**

During this reporting period, the OIG forwarded to DOL 17 single audit reports for action and follow-up. These 17 reports questioned over \$27 million in DOL funds and contained 89 material findings. The most common deficiencies found were that entities: (1) failed to adhere to the Federal reporting requirements; (2) charged costs to the DOL programs that did not meet the Federal cost principles; (3) lacked evidence of participants' eligibility; (4) did not adhere to Federal cash management requirements; (5) did not properly monitor the subrecipient activities; and (6) did not follow procurement regulations. We also received nine initial

determinations and closed three single audit reports after receiving final determinations from the program officials during this period.

In addition, as discussed in the last Semiannual Report, the OIG previously conducted comprehensive quality control reviews (QCRs) of the independent auditors' work pertaining to six single audit reports involving DOL funds. The objectives of our evaluation were to determine: (1) whether the single audits performed met the requirements of OMB Circular No. A-133 and the SAA Amendments of 1996; and (2) whether sufficient audit work was performed in single audits pertaining to various DOL programs selected for major program testing in accordance with OMB Circular No. A-133. The results of our QCRs indicated that all six of these audits had serious deficiencies that would make the resultant reports unreliable. We found that auditing standards were not met in various areas (e.g., there was inadequate sampling). As a result, we are increasing our monitoring of those single audits for which the OIG has been assigned direct oversight responsibility.

In addition to our increased QCR work, we are coordinating with OMB and the National Single Audit Coordinators Committee to propose a government-wide statistical sample of single audits for consideration by the President's Council on Integrity and Efficiency. This sample would be projected to all single audits and would provide valuable information to assess the effectiveness of the single audit process overall.





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

# **Labor Racketeering**

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

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

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

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

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

*In addition to investigating corruption involving general union funds, the OIG is responsible for combating corruption involving the monies in union-sponsored benefit plans. These pension plans and health and welfare benefit plans comprise hundreds of billions of dollars in assets. Our investigations have shown that these vast sums of money remain vulnerable to corrupt union officials and organized crime influence. Service providers to union benefit plans continue to be a strong focus of the OIG's investigations, particularly those servicing pension plans. The cases summarized in this section include examples of both health plan and pension plan corruption.*

### **Health and Welfare Fund Medical Provider Sentenced to 14 Years in Prison**

On September 11, 2002, Dr. Felix Vasquez-Ruiz of Chicago, Illinois, was sentenced to 14 years' imprisonment and 3 years' supervised release. He was also ordered to pay \$4 million in restitution, \$2,700 in fines, and \$69,000 in forfeitures. Dr. Vasquez-Ruiz was found guilty on 7 counts of mail fraud and 20 counts of health care fraud. He had defrauded 11 prominent Chicago-based union health and welfare funds, including those of the Teamsters, Laborers, and others, by billing in excess of \$400,000 in unnecessary and expensive medical services. The investigation revealed that the doctor targeted Hispanic union members and enticed them with promises of free laboratory screening exams. He then subjected them to painful, unnecessary tests while failing to provide the proper treatment for actual complaints. The investigation was jointly worked with the Pension and Welfare Benefits Administration (PWBA) and the FBI. *U.S. v. Vasquez-Ruiz* (N.D. Illinois)

### **Florida Man Sentenced for Selling Unlicensed Insurance Policies**

On August 2, 2002, David Weinstein, chief organizer of a Pennsylvania health insurance company, was sentenced to 36 months' probation for mail and wire fraud. He was also ordered to pay \$600,000. Weinstein sold thousands of Multiple Employer Welfare Arrangement health insurance policies to Florida residents and left approximately 1,600 claims, totaling \$4.3 million, unpaid. He marketed the insurance as if it were a qualified Employee Retirement Income Security Act (ERISA) plan that was exempt from state regulation, when it was not. Weinstein is banned for life from selling insurance and is prohibited from participating in any banking and insurance industry activities in Florida. The case was worked jointly with the Florida Department of Insurance, Insurance Fraud Division. *State of Florida v. Weinstein*

## Defendant Pleads Guilty to Embezzlement

John Dunsmoor, a former registered investment advisor for Indiana-based Local 1969 of the International Longshoremen's Association (ILA), pled guilty on June 21, 2002, to embezzlement from an employee benefit plan under ERISA and to violations of the Federal money-laundering statute. By entering the guilty plea, Dunsmoor admitted that he converted over \$500,000 of pension fund monies for his own use through various Nevada real estate investments. He also admitted having laundered over \$67,000 of converted pension funds through offshore bank accounts to purchase a luxury yacht. Dunsmoor is a former FBI special agent, county prosecutor, and defense attorney.

Dunsmoor's business partner, Michael Daher Sr., was charged with embezzlement from an employee benefit plan under ERISA and wire fraud. Daher pled guilty in May 2001 and was sentenced on July 31, 2002, to 41 months' incarceration and 36 months' supervised release. He was also ordered to make restitution to the ILA Local 1969 pension fund of over \$1.6 million. This was a joint case with PWBA. *U.S. v. Dunsmoor* (N.D. Indiana), *U.S. v. Daher* (D. Colorado)

## Investment Advisors Sentenced to Pay Nearly \$2 Million Each

On August 14, 2002, Stephen Gaines and Neal Katz, investment brokers from California-based Capital Access, Inc., received identical sentences of 18 months in prison, 3 years' supervised release, and a fine of \$10,000 and were ordered to pay over \$1.8 million each in restitution. In April 2001, Gaines and Katz pled guilty to mail fraud and money laundering relating to an investment scheme. Gaines and Katz solicited more than \$4 million of investors' funds, including funds from ERISA-covered profit-sharing plans, which they claimed would be invested in "bank trading programs" involving the buying and selling of commercial paper issued by European banks. Instead, they invested the funds in other ventures and used them to support their lifestyles. To prevent detection of the fraud and to induce additional investments, Gaines and Katz made "lulling payments" to investors, which they falsely claimed represented the proceeds of the bank trading program investment. *U.S. v. Gaines*, *U.S. v. Katz* (N.D. California)



## Defendants Sentenced in Oregon for Defrauding Union Pension Plans

Jeffrey Grayson, principal owner of Capital Consultants, an investment company, pled guilty in April 2002 to mail fraud and assisting in the preparation of a false tax return. Grayson was indicted in October 2001 for the payment of over \$200,000 to John Abbott, a trustee for Laborers union pension plans that invested with Grayson's company. Grayson was also charged with devising a scheme to defraud the pension plans of their right to "honest services." The investigation revealed that between 1990 and 1998 Grayson and Abbott engaged in a conspiracy whereby Grayson secretly provided money and other things of value to Abbott.

In May 2002, a hearing was held in U.S. District Court regarding the substantial assistance provided to the prosecution by Barclay Grayson, Capital Consultants' former president and Jeffrey Grayson's son. Barclay's sentence was lowered from 24 months to 18 months in Federal prison, and he was ordered to pay \$500,000 in restitution.

In August 2002, a Capital Consultants employee and two former union plan trustees were charged in a 41-count indictment for influencing the operations of an employee benefit plan. The investigation found that the employee provided hunting and fishing trips to the employee benefit plan trustees. Also in August, two more trustees of union pension funds managed by Capital Consultants pled guilty to charges related to filing false reports with DOL. John Lontine, former trustee of Sheet Metal Workers Local 9, and Robert Mayhew, trustee of the International Brotherhood of Electrical Workers Eighth District pension fund, were charged with failing to disclose that they received gifts from Capital Consultants. This investigation is a joint effort with the IRS, the FBI, and DOL's PWBA and Office of Labor-Management Standards (OLMS). *U.S. v. Grayson, et al.* (D. Oregon)

## Owner of Trucking Company Sentenced for Embezzling Funds

On May 3, 2002, Frank Campanella, a Colombo LCN associate, was sentenced to over four years in prison and was ordered to pay a \$5,000 fine for embezzling funds in violation of the RICO statute. Campanella acknowledged that he knowingly underreported to Production Workers Union Local 400 the number of employees and hours worked at his New York trucking company. He deprived Local 400's health and welfare and pension funds of nearly \$2 million. This is a joint effort with the FBI, the IRS, and the INS. *U.S. v. Campanella* (E.D. New York)

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

### **Organized Crime Boss and 16 Others Indicted for Extortion**

On June 4, 2002, seventeen members and associates of the Gambino Organized Crime Family, including Gambino Family boss Peter Gotti, were charged in a 68-count indictment for crimes including racketeering, extortion, gambling, money laundering, and wire fraud. Allegedly, these individuals corruptly influenced unions and businesses on the New York and New Jersey waterfronts. Victims of the extortion included the International Longshoremen's Association, two ILA Local unions, ILA members, MILA (the ILA health plan), Howland Hook Marine Terminal, and waterfront businessmen. One associate was indicted for allegedly paying a \$400,000 kickback to associates of the Gambino and Genovese LCN Families in exchange for the awarding of the pharmaceutical program benefit contract for MILA. This investigation was conducted by a task force composed of the DOL OIG, the U.S. Attorney's Office (E.D. New York), the FBI, the Waterfront Commission of New York Harbor, the NYC Organized Crime Task Force, the Richmond County District Attorney's Office, and the NYC Police Department. *U.S. v. Gotti, et al.* (E.D. New York)

### **Union Business Manager Sentenced in Georgia**

Stephen Jones, former Iron Workers Local 387 business manager, was sentenced on April 11, 2002, to six months' incarceration and three years' probation. In addition, Jones was ordered to pay \$90,000 in restitution to Iron Workers Local Union 387 and is barred from holding union office for 13 years following the completion of his sentence. In October 2001, Jones pled guilty to embezzlement from a union and embezzlement from an employee benefit plan under ERISA. The investigation, conducted jointly with PWBA and OLMS, revealed that Jones received unauthorized funds from the union's general and pension benefit plan. *U.S. v. Jones* (N.D. Georgia)

## Ohio Businessman Ordered to Pay over \$1 Million

On June 4, 2002, Anthony Bucci, owner of Prime Contractors, Inc., was sentenced to two years' probation and six months' home confinement and was ordered to pay over \$1 million in restitution. Bucci pled guilty to conspiracy charges in May 1999 for the fraudulent use of minority business enterprises on highway construction projects. His company obtained over \$8 million worth of contracts from the Ohio Department of Transportation for highway construction. In order to obtain the contracts and meet the requirements, Bucci used minority-owned businesses as "fronts" to make it appear they were receiving at least 7% of the contracts. In fact, the companies did no work on the projects and were paid a small fee by Bucci for the use of their names on the documents required to be filed with the State of Ohio.

Anthony Bucci's sentencing was originally scheduled in 1999 but was postponed due to his cooperation in ongoing criminal investigations of public officials in Youngstown, Ohio. Bucci testified in the trial of former U.S. congressman James Traficant Jr. of Youngstown, Ohio. The DOL OIG, the IRS, the FBI, and the Department of Transportation (DOT) OIG participated in the investigation.

In a related case, James R. Sabatine, the former owner of Hardrives Paving and Construction, Inc., was sentenced in August 2002 to five months' incarceration and two years' supervised release. He was also ordered to pay a \$7,500 fine, restitution of almost \$19,000, and about \$67,000 in taxes due to the IRS. Sabatine pled guilty in August 2001 to violating the Federal RICO and tax statutes for making a \$2,400 payment to then congressman Traficant in exchange for his assistance in contacting railroad officials to obtain access to a rail line near Sabatine's asphalt plant. The DOL OIG, the DOT OIG, the IRS, the FBI, and PWBA participated in this investigation.

Former congressman Traficant was sentenced on July 30, 2002, less than one week after his removal from office. He was sentenced to eight years' incarceration and three years' supervised release, fined \$150,000, and ordered to pay \$96,000 in forfeitures and \$19,600 in unpaid taxes. In April 2002, Traficant was found guilty on all 10 counts charged in an October 2001 superseding indictment. Among the charges were racketeering, bribery, and tax fraud. The investigation revealed that he sought bribes from established businesspeople in the Youngstown area in exchange for his political influence. The OIG assisted the FBI and the IRS in this investigation. *U.S. v. Bucci*, *U.S. v. Sabatine*, *U.S. v. Traficant* (N.D. Ohio)

**Former Union Official Sentenced  
in Louisiana**

On April 19, 2002, Willie Ray Walker, former secretary-treasurer of International Longshoremen's Association Local 1349, was sentenced to one year in prison and three years' supervised release. Walker began repaying ILA Local 1349 prior to sentencing and was ordered to continue paying over \$68,000 in restitution. In addition, he will be debarred from holding office or a position of trust with a union for 13 years following his release from prison.

In January 2002, Walker pled guilty to embezzlement of labor funds by a union officer. The investigation revealed that he embezzled over \$91,000 dating back to January 1997. Walker admitted that he wrote checks for fictitious union expenses to himself and used the money for his personal benefit. He forged the second signature required on union checks. Walker also reported that he destroyed union documents and records in order to conceal his criminal activity. This case was worked jointly with DOL's OLMS and the FBI. *U.S. v. Walker* (W.D. Louisiana)

**New York City Plumbing Inspectors  
Plead Guilty to Extortion**

As of August 2002, six New York City Department of Buildings plumbing inspectors have pled guilty to extortion charges for conspiring to extort payoffs from plumbing contractors. In a June 2002 indictment, 19 plumbing inspectors were charged under the Hobbs Act with extortion. By paying to have the inspectors overlook possible violations and expedite inspections, contractors could avoid discontinuance of the plumbing work, citations, and inspectors' refusal to sign off on plumbing jobs. This investigation is one of a series of cases being conducted as part of the ongoing industry probe into corruption in the construction industry. This is a joint investigation with the FBI, the New York State Organized Crime Task Force, the NYPD, and the Waterfront Commission of New York Harbor. *U.S. v. Ferrara, et al.* (E.D. New York)



*Strengthening  
Departmental  
Programs*

# **Legislative Recommendations**

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

At a time of shifting spending priorities, it is imperative that training programs produce the results that Congress intended and that benefits be properly allocated. Toward that end, the Department of Labor needs the legislative authority to gain unimpeded access to Unemployment Insurance (UI) and Social Security Administration (SSA) wage records. Such access would allow the Department to measure the long-term impact of employment and training services on job retention and earnings and to identify individuals who are receiving workers' compensation disability benefits despite working. Our experience has been that outcome information is very difficult to obtain, especially if agencies cannot access UI and SSA wage records. If access to such wage records were granted, an automated SSA wage record crossmatch could be conducted annually, which could help the Department better identify, and remove from the disability rolls, FECA claimants who fraudulently conceal income earnings. We estimated in a September 2000 audit report that the Department could save over \$3.5 million in FECA administrative expenses over 10 years if such an annual crossmatch were conducted. With respect to UI, while the OIG has the authority to issue subpoenas to obtain UI wage records (but not to obtain SSA wage records), this subpoena authority does not always enable us to obtain them in a timely and useful manner, as states may invoke Federal UI confidentiality policies and/or state non-disclosure statutes to hinder our access.

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

### **Strengthen and Make More Consistent the Criminal Penalties in Title 18 of the U.S. Code to Better Protect Employee Pension Plans Subject to ERISA**

Statutes under Title 18 prohibit the embezzlement or theft from employee pension and welfare plans (18 USC 664), the making of false statements and concealing of facts in documents required by ERISA (18 USC 1027), and the giving or acceptance of bribes or graft payments in connection with the operation of employee pension or welfare benefit plans covered by ERISA (18 USC 1954). These statutes are the primary criminal enforcement tools for protecting the millions of plans under ERISA and their assets. Currently, violators of Sections 664 and 1027 are subject to five years' imprisonment, while those who violate

Section 1954 are subject to three years' imprisonment. We believe that raising the maximum penalties to 10 years for all three violations would serve as a greater deterrent and further protect employee pension plans than what currently exists.

### **Repeal the Limited-Scope Audit Provision**

For over 10 years, the OIG has recommended that Congress repeal the limited-scope audit exemption from ERISA. The limited-scope audit exemption allows those plan assets that are invested in banks, savings and loans, insurance companies, and the like to be excluded from audits of employee benefit plans. At the time ERISA was passed over two decades ago, it was assumed that all of the funds invested in those regulated institutions were being adequately reviewed. Unfortunately, as we have found from the savings and loan crisis, that is not always the case.

Currently, because of this provision, independent public accountants conducting audits of pension plans cannot render an opinion on the plans' financial statements in accordance with professional auditing standards. It is important to note that the disclaimer of any opinion on the financial statements includes even those assets that are not held by financial institutions. These "no opinion" audits provide no substantive assurance of asset integrity to benefit participants or the Department.

### **Require Direct Reporting of Any ERISA Violations to the Department**

The public accounting profession and plan administrators have a responsibility to be cognizant of potential fraud and other illegal acts in financial statement audits. However, under current law, a plan auditor who finds a potential ERISA violation is not responsible for ensuring that it is reported to DOL. Therefore, in the interests of plan participants, we recommend that plan administrators or auditors be required to ensure that any potential ERISA violations are promptly reported to DOL. This would enhance oversight of pension plan assets, ensure the timely reporting of violations, and involve accountants in the kind of active role that they are supposed to play in the safeguarding of pension assets. Direct reporting would also provide a first line of defense to plan participants through the timely and direct reporting of potential problems with employee benefit plans.



## **Permanent Statutory Law Enforcement Authority**

The Senate recently passed S. 2530, which amends the Inspector General Act of 1978 (5 U.S.C. App) and establishes statutory law enforcement authority for certain Inspector General agents engaged in official duties. This permanent authority for OIG agents extends no new authorities but would simply recognize in statute authorities that are already being exercised and remove the need for temporary authorization, which the OIG has operated under for many years. Temporary law enforcement authority has been provided first through case-by-case deputation and currently with an organizational blanket deputation through a memorandum of understanding (MOU) with the Department of Justice (DOJ). Permanent law enforcement authority would provide certainty and permanence for OIG enforcement activities for on-going and lengthy investigations; would be consistent with and promote the continued independence of the OIG; and would address efficiency issues by removing the need to obtain blanket authorization on a yearly or case-by-case basis. The OIG supports legislation that could mirror the framework under which our agents are currently deputized under the MOU and could require the OIG to continue to follow DOJ operational guidelines, conform to DOJ's training and qualification requirements, and coordinate extensively through the cognizant U.S. Attorney's Office.

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

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

- Moving people into a form of retirement (FECA annuity or Office of Personnel Management retirement) after a certain age if they are still injured. There is an unintended incentive in the FECA program for claimants to remain on the disability rolls because their tax-free benefits may be greater than their taxable benefits in a Federal retirement program.
- Returning a 3-day waiting period to the beginning of the 45-day continuation of pay process to require employees to use accrued sick leave or leave without pay before their FECA benefits begin. Currently this waiting period is at the end of the claims process.
- Granting authority to the Department to access Social Security wage records in order to identify claimants defrauding the program.



*Reports  
and  
Statistics*

# **Appendix**

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

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At least annually, the OIG identifies and reports on what it considers to be the most serious management challenges facing the Department of Labor. Following are the top management challenges as of this semiannual reporting period.

### Grant Accountability, Performance, and Effectiveness

The Department continues to face challenges in effectively providing accountability for the costs and results of its grant programs. The Department provides almost \$9.5 billion in grants each year, mostly in the employment and training area. However, there are inherent risks associated with these grants because a large share of the funding is passed down to subgrantees and contractors, making it difficult to provide direct Federal oversight. In addition, many of the grantees are relatively small and/or new to administering Federal grants. The President's Faith-Based and Community Initiative expanded the small grantee universe; the Department recently awarded a first wave of \$17.5 million in grants to small and newcomer organizations. Recent OIG audits highlight our concerns about accountability over DOL grants in the following areas under this initiative:

**Preaward/Award:** Federal program regulations establish requirements related to procurements, including the use of competitive procurement procedures in selecting and awarding funds to entities to provide services. We have identified instances where subgrants and contracts were awarded without competition, contrary to program requirements. We have also found weak internal controls over the awards process, and instances where services were performed in the absence of a contract or grant agreement. For example, our March 2002 audit of a Welfare-to-Work (WtW) grantee that received over \$500,000 in WtW funds found that procurement procedures were not followed in selecting the grantee as a WtW service provider. We also determined that the grantee was not financially solvent, and had not demonstrated success in administering Federal grant funds, which the OIG concluded adversely affected the quality of training provided.

**Grant Execution:** The purpose and objectives of Federal grant programs are set out in statutes, regulations, and grant agreements. These grants and subgrants establish performance levels that must be achieved. In addition, program laws, regulations, and individual agreements impose requirements that affect allowable costs. We have identified numerous deficiencies related to inadequate performance and/or unallowable charges. For example, an OIG audit found that only 59 participants were served under two WtW contracts that were expected to serve 170. Our March 2002 audit of a WtW competitive grantee found payments were made for costs that were: incurred before contracts were effective; in excess of grant limitations; inadequately supported; and/or not authorized by the grant agreement or individual contracts. After the issuance of this audit report, ETA did not extend this grant.

**Reporting:** Recipients of Federal funds are required to maintain systems capable of recording and reporting accurate and timely financial, participant, and performance information. However, our November 2001 audit of DOL grants to assist trade-affected dislocated workers in El Paso, Texas, found that the grantee's management information system overstated the placement rate as 81%, as opposed to a rate of 36.2% as determined by our audit. In another WtW audit, the OIG found that required Federal reports were sporadically submitted, and those that were received were inaccurate.

**Oversight:** Because grant funds are spent by entities outside the Federal government, appropriate agency guidance, monitoring, and oversight of grantees are key to providing accountability over such funds. During our audits of several grants awarded to State Workforce Agencies to assure Y2K readiness, we learned ETA had informally issued guidance to the states that appeared to confuse, or even contradict, prior ETA instructions on the use of funds. In addition, our recent audits of selected states' obligation and expenditure of WIA funds found that ETA had not issued clear definitions and reporting instructions regarding the reporting of obligations.

Recently, the OIG has worked with ETA, DOL's largest grantor agency, to help assess weaknesses in its grant accountability procedures and to develop potential solutions. In April 2002, ETA took a significant step toward improving accountability when it issued a grant/contract administration implementation plan that addressed many of the OIG's concerns. The plan included a comprehensive list of issues, recommendations, timelines,

responsible offices, and budgetary needs and identified specific, measurable strategies to be implemented. The OIG will continue to work with ETA and the Department to improve accountability over DOL grants so that funds are properly managed.

The OIG previously identified the rapid expansion of the Bureau of International Labor Affairs (ILAB) as one of the top management challenges facing the Department. While ILAB has improved its grant accountability by implementing most of the recommendations from prior OIG audits and evaluations, additional improvements are needed. Specifically, actions need to be taken to improve internal controls and system security over the Activity Tracking System, which ILAB developed to provide day-to-day project financial information. In addition, DOL's Office of Administration and Management, Office of the Chief Financial Officer, and ILAB need to work together to ensure that ILAB is able to obtain pertinent, timely information from DOL's Core Financial Management System.

### WIA Program Implementation

The Department also faces significant challenges associated with WIA training and employment programs for youth, adults, and dislocated workers. Designed to improve the occupational skills, employment prospects, and earning potential of participants, these programs are funded at billions of dollars annually. The upcoming reauthorization of WIA and related rulemaking, as well as OIG recommendations on WIA activities, present opportunities to make needed improvements to the operation of these key programs.

**Resolving Inconsistencies in WIA:** Traditionally, a tension has existed between providing states and local governments maximum flexibility in running employment and training programs and assuring financial and performance accountability for such programs. Both increased accountability and state and local flexibility are among the seven key principles embodied in the Workforce Investment Act of 1998, which superseded the Job Training Partnership Act on July 1, 2000.

In implementing WIA, the Department left many key terms and definitions to state discretion. Some of these impact on reporting against performance measures. For example, credential attainment is a performance measure for the WIA adult, dislocated worker, and youth training programs, and states compete for incentive money based on their achievement of this and other performance measures. However, the states have wide latitude in determining the definition of "credential." As a result, depending on states' policies, credentials could encompass anything from a two-week word processing course to a two-year associate's degree. Also, the OIG's recent audits of selected states' obligations and expenditures of WIA funds found confusion exists over ETA's definition of what constitutes a local obligation that states are required to report on Financial Status Reports. In fact, we found disagreement existed even within ETA, which administers WIA, over this key reporting term. We noted states interpreted ETA's definition differently, which resulted in inconsistent reporting of this item. ETA is considering ways to clarify definitions of key financial reporting terms.

WIA authorizes appropriations through FY 2003. As WIA reauthorization is debated next year, the Department will be challenged to work with the Congress in drafting replacement legislation and issuing implementing regulations that strike an appropriate balance between the sometimes competing interests of accountability and flexibility.

### Financial Performance

One of the goals of the President's Management Agenda is improved financial management. The Department has made great strides in financial reporting and has received clean audit opinions on its financial statements since FY 1997. This progress is reflected in the Department's improved rating on the OMB Scorecard that measures progress toward implementing the Agenda. Previously rated as "red" in the category of financial management, the DOL recently received a score of "yellow" for its progress in this area. Nevertheless, the

Department faces significant challenges in producing timely financial information that can be used in its day-to-day management. To do so, the Department must stress proactive management of its financial records over financial statement preparation. Financial events and transactions need to be recorded when they occur rather than at year-end. There have been improvements in this area as the Department has complied with OMB's required semiannual financial statements. However, key to the proactive management of the Department's financial records is vesting the necessary authority in the Department's Chief Financial Officer (CFO) to provide direct oversight of all financial management operations of the various DOL agencies. Historically, the CFO has not had this authority.

Another challenge in this area is the adequacy of information being provided to the Department via audit reports conducted by independent public accountants or state auditors under the Single Audit Act. Over 90% of the Department's expenditures are audited under the Single Audit Act by independent public accountants or state auditors throughout the country. The Department relies on the Single Audit Act to provide audits for grant costs as well as for Unemployment Insurance (UI) benefit costs and employer tax receipts at each of the states. During FY 2002, in addition to its scheduled single audit reviews, the OIG conducted comprehensive quality control reviews of six single audits. The results of these reviews indicate that all six had serious deficiencies, including inadequate sampling, which would make the reports unreliable. As a result, the OIG is increasing our monitoring and evaluation of single audits, and will be working with DOL's grantor agencies to improve their monitoring and evaluation activities. Further, in coordination with OMB, the OIG will continue our multi-year review of single audit reports to determine the adequacy of the audit coverage and whether DOL can continue relying on them for financial management purposes.

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

Performance budgeting is also a major focus of the President's Management Agenda, which calls for further integrating budget and performance to foster a results-oriented Department that is guided by performance rather than process. To this end, the Department has taken initial steps toward instituting a performance budget for FY 2004. Key to the Department's success in integrating budget and performance will be effective strategic planning, as envisioned by the Government Performance and Results Act (GPRA), and the ability to improve the quality and accessibility of program and cost data, including data reported by entities below the Federal level, which serve as a basis for determining the results achieved by programs and operations. Another important tool in the effort to link budget to program outcomes is the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standard Number 4, which is aimed at providing reliable and timely accounting for the full cost of Federal programs and activities.

**Quality of Program Data:** The Department is limited in its ability to access and control the quality of program results data used to determine the attainment of its strategic plan goals. This includes difficulties associated with ensuring the quality of the myriad data provided by states and other sources below the Federal level, where 90% of the Department's budget is actually spent. For example, past OIG audits of the WtW Competitive Grants, Dislocated Worker, and Trade programs disclosed high error rates in performance data reported to the Department by its state partners and other grantees. The errors affected performance measures, including participants' wages, training activities, and successes in obtaining jobs, that serve as key indicators in determining the outcomes and success of the program. ETA has initiated a data validation project to create more precise programming specifications and standards for use in validating that the state data concerning WtW, WIA, and other ETA programs are correctly reported to ETA. The OIG will continue to follow ETA's progress in implementing the data validation project to assure the reliability of program data.

**Access to Data:** Two important tenets of GPRA are that agencies must evaluate program effectiveness and validate performance data. In the employment and training area, it is particularly important to know whether programs have resulted in individuals becoming self-sufficient by obtaining long-term unsubsidized employment at livable wages. Two important tools that may be used to this end are UI and Social Security Administration wage records of individual program participants. However, the Department is limited in its ability

to obtain such data for program evaluation and validation purposes. To enhance its ability to conduct program evaluation and validation in this and other equally important areas, the Department needs to have statutory authority to easily obtain and utilize these types of records, including the information contained in the National Directory of New Hires, which is administered by the Department of Health and Human Services.

**Managerial Cost Accounting:** Once performance data are determined to be reliable, managerial cost accounting, which matches cost information with program results, is the next step in managing for results. During FY 1999, the Department began implementing the managerial cost accounting standard through agency pilot programs. It was planned that the low-level structures developed in the pilot studies would ultimately be aggregated to result in an integrated agency-wide cost accounting system. However, during FY 2001, the Department abandoned this “bottom-up” approach and began focusing on initiating a “top-down” alternative approach to the implementation of managerial cost accounting. This effort was to be defined by disaggregating high-level agency activities into their components.

The OIG has recently reviewed the implementation efforts of these revised FY 2001 cost accounting plans, and found that overall, the project has had little impact on DOL’s managerial cost accounting system, practices, or capabilities. With the notable exception of the Bureau of Labor Statistics, agency and program managers have been reluctant to either begin the cost accounting process or advance beyond participating in isolated pilot cost studies. The OIG recognizes that an important step in assuring the proper implementation of a managerial cost accounting system was taken in early September 2002, when the Deputy Secretary of Labor asked that the CFO oversee the Department’s cost accounting policy and program. Another important element for matching the full cost of program activities to program results (cost-effectiveness) is the ability to associate employee time with specific activities (activity-based costing), and it was hoped that this element would be included in DOL’s new payroll system. However, activity-based costing was not included in the payroll system, which was implemented in August 2002.

The OIG plans to review the CFO’s plans for the implementation of cost accounting and specific agency or program implementation efforts. In order for DOL’s GPRA reporting to be credible, it is important for DOL to ensure that the performance and cost information generated is accurate, accessible, and auditable.

### Security of Pension Assets

The Department is responsible for administering and enforcing the fiduciary, reporting, and disclosure provisions of Title I of the Employee Retirement Income Security Act of 1974 (ERISA). The goal of Title I is to protect the interests of participants and their beneficiaries in employee benefit plans. Currently, there are over 6 million private employee benefit plans, which cover approximately 150 million people, with nearly \$5 trillion in assets. Given the size of this universe, protecting pension assets poses a significant challenge for the Department. The OIG has identified the following areas as particularly problematic:

**Safeguards to Protect Pension Assets:** Over the years, the OIG has advocated that ERISA be amended in order to increase protections for pension plan participants. In particular, we have recommended that Section 103(a)(3)(C) of ERISA be repealed. This section contains a provision that results in inadequate auditing of pension plan assets because it exempts from audit all pension plan funds that have been invested in institutions such as savings and loans, banks, or insurance companies regulated by Federal or state governments. Currently, because of this limited scope provision, plan auditors conducting audits of pension plans cannot render an opinion on the plans’ financial statements in accordance with professional auditing standards. These “no opinion” audits provide no substantive assurance of asset integrity to benefit participants or the Department. The Department has concurred with our recommendation through the years and has submitted legislative proposals that would repeal this provision. We urge the Department to continue to push for legislative change in order to adequately protect pension assets.



Further, we have recommended that plan auditors be required to report any ERISA violations directly to the Department. The public accounting profession has a responsibility to be cognizant of potential fraud and other illegal acts in financial statement audits. However, under current law, a plan auditor who finds a potential ERISA violation is not required to report it to the Department. In the interests of plan participants, plan auditors or administrators should be required to promptly report to the Department any ERISA violations.

In addition, we believe that more clarity and guidance is needed on computing participant benefits, particularly with respect to cash balance plans, a growing segment of the pension universe. Industry sources estimate that, since the mid-1980s, 300 to 700 traditional defined benefit pension plans have converted to cash balance plans, potentially affecting over 8 million working Americans and involving over \$334 billion in pension assets. The OIG recently audited a judgmental sample of cash balance plan conversions and found that while the conversions adequately protected accrued benefits, some of the sampled cash balance plans were underpaying benefits after the conversions. This was due to employer errors made while projecting participant benefits and cost-of-living allowances. We also found that while the Pension and Welfare Benefits Administration (PWBA) focused on disclosure and education, it did not review the manner in which plans calculated accrued benefits for those employees who left before normal retirement age (usually age 65). We recommended that PWBA direct more enforcement resources toward protecting the benefits of cash balance plan participants, and work with the IRS in developing improved guidance on calculating participant accrued benefits. By taking a more active role in protecting cash balance plan participant benefits, PWBA can help prevent future losses and correct underpayments for workers participating in cash balance plans.

In response, PWBA stated that its enforcement oversight responsibilities are statutorily restricted. Although the IRS has the exclusive authority to issue regulations regarding participant benefits, PWBA has concurrent enforcement authority and fiduciary responsibility over participant benefits, and we believe that it should work with the IRS on such regulatory issues.

**Pension Plan Enforcement:** Another area of concern involves the security of the billions of dollars in assets in private pension plans, which are an attractive target to organized crime elements, corrupt pension plan officials, and individuals who influence the investment activity of pension assets.

In particular, OIG labor racketeering investigations continue to show that the security of the assets within Taft-Hartley plans, which are jointly administered by labor union representatives and management representatives, is at risk. Our investigations have uncovered multi-million dollar fraud enterprises committed against these plans by financial and investment service providers, who have the opportunity and ability to structure complex financial schemes to conceal their criminal activity. Abuses by service providers are of particular concern because of the potential for multi-million dollar losses since they typically provide investment or financial advice for more than one plan. A clear illustration is the Capital Consultants, Inc., case, one of the largest pension frauds in history, in which hundreds of millions of dollars were bilked from dozens of union pension funds.

In addition, we have renewed concern about the security of the assets in employer-sponsored 401(k) plans. In 1997, OIG testimony highlighted the problem of employers failing to promptly and appropriately deposit employee contributions into 401(k) plans. At that time, we believed PWBA needed to improve the targeting of its investigative resources toward plans with the most serious potential for abuse. The OIG believes that it is imperative that the Department have in place an effective targeting plan in order to meet the challenges posed by such fraud. Within our jurisdiction, the OIG is developing investigative casework on the growing 401(k) plans that are jointly administered by union and management trustees, and we will continue to monitor the Department's targeting efforts in this area.



### Protection of Worker Benefit Funds

Safeguarding Federal employee benefits programs administered by the Department of Labor is a formidable challenge, given the existing vulnerabilities and the sheer scope of these programs, which affect the lives of millions of workers and retirees and involve billions of taxpayer dollars. The OIG has identified vulnerabilities involving financial stability and program integrity within four of the Department's major worker benefit programs.

#### **Funding Concerns**

**Unemployment Trust Fund:** The unemployment trust fund (UTF) was created in 1935 to protect workers during temporary periods of unemployment by providing income maintenance benefits. States provide temporary financial assistance, which is financed by employer taxes. This program paid over \$44 billion in benefits in FY 2002.

Recent circumstances have heightened the OIG's concern that states may not have adequate reserves to meet the demands on their trust funds. After several years of decreasing unemployment, the national unemployment rate has increased over the last two years from 4% in FY 2000 to a current rate of over 5.5%. The Department has estimated that, should a severe recession occur, UTF net assets would decline by \$60 billion, or 68%, over four years. Last year, we reported our concern that 19 states' trust funds were reported by the Department in its financial statements as minimally solvent in FY 2002, which was a period of economic expansion, and were therefore vulnerable to depletion during a recession. Currently, 26 states are being reported as minimally solvent. Based on a review of equity balances, the OIG believes (based on the Department's criteria) that as many as five additional states could soon be added to the list.

Another issue affecting UTF assets relates to the Department of the Treasury's charges to the UTF for its work in collecting and processing unemployment taxes and administering the fund. In a 1999 audit, the OIG determined that the Treasury had overcharged the UTF \$48 million during FYs 1996, 1997, and 1998. This audit found that Treasury's method of charging for administrative costs was fragmented, cumbersome, and unreliable. The OIG recommended that the Departments of Labor and Treasury negotiate an alternative method for charging administrative costs. As a result of our audit, the Treasury Inspector General for Tax Administration is currently looking at Treasury's charges to the UTF. In addition, the OIG is facilitating, and DOL and Treasury officials are pursuing, an agreement on a new methodology for determining Treasury's administrative costs. Once agreement is reached, the OIG will continue to work with the involved parties to ensure that the new methodology is implemented and the \$48 million in overcharges we identified in 1999—and any overcharges for subsequent periods—are credited to the UTF.

In addition, overpayment problems in the UI program are of significant concern. As part of our audit of the DOL FY 2001 financial statements, we noted that the Benefits Accuracy Measurement (BAM) system, which was developed by the Department as a management tool to identify overpayment problems, projected overpayments of \$2.3 billion for FY 2001. For the same period, actual overpayments identified through states' Benefit Payment Control (BPC) activities—under which each state identifies and investigates benefit overpayments, establishes receivables, and collects overpayments—totaled \$669 million, or less than one-third of the amount estimated by BAM activities. We also noted that overpayment rates projected by BAM have remained relatively flat at approximately 8.5% over the past 12 years. This raised a concern that the BAM system was not being utilized to reduce the amount of overpayments, and the OIG's ongoing audit work in this area continues to indicate that the information provided by BAM is not being utilized fully to prevent overpayment problems. ETA intends to provide more accountability and oversight with respect to UI overpayments, in part by developing a related outcome goal within the Department's GPRA framework.

**Black Lung Trust Fund Deficit:** DOL administers the Black Lung Trust Fund to provide disability benefits and medical services to eligible workers in the coal mining industry, when a mine operator cannot be determined liable for providing such benefits. The OIG is concerned with the escalating indebtedness of the trust fund. The Department's consolidated financial statements for FY 2001 reflect that the trust fund was in debt by

\$7.3 billion to the U.S. Treasury. This debt resulted from advances provided to the program, which have become an annual necessity for the trust fund to operate. Currently, the excise taxes are sufficient to pay benefits and administrative costs; however, the trust fund must continue to borrow from the Treasury to pay the interest due on past advances.

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

**Energy Employees Occupational Illness Compensation Programs:** The Energy Employees Occupational Illness Compensation Program Act of 2000 authorized compensation for certain illnesses suffered by employees of the Department of Energy, its predecessor agencies, and contractors who performed work for the nuclear weapons program. Presently, the program is in the developmental stages with payments expected to increase dramatically over the next several years, presenting a significant challenge to the Department. While the Department is relying on OMB's initial PAYGO cost estimate for its calculation of the actuarial liability for the current year, the Department anticipates that its actuarial model to project liability will be completed in late October 2002.

#### **Program Integrity**

**Unemployment Insurance:** The integrity of the UI program is also of concern to the OIG. As with any multi-billion dollar benefit payment program, there are those who benefit from the UI program illegally. Through our UI investigative activities, we have identified a number of methods used to defraud the program and have focused on four schemes in particular: (1) fictitious and/or fraudulent employer schemes; (2) internal embezzlement schemes; (3) identity theft or imposter schemes; and (4) counterfeiting of UI benefit checks. We are particularly concerned with identity theft or imposter schemes, which occur when individual identities are stolen and then used to apply for UI benefits. Further, our investigations have disclosed that the ability to file electronic and mail claims creates a vulnerability because individuals have the opportunity to defraud multiple states from a single location. Schemes against the UI program have resulted in substantial losses to the UTF. In addition, systemic weaknesses pose problems for the UI system that need to be addressed, including loss of contributions due to the inability of states to search for hidden wages paid by employers who misclassify workers as independent contractors, employers who fail to report all wages paid, or employers who misrepresent their claims experience.

Recent OIG testimony on the integrity and abuse of the UI program highlighted several recommendations to the Department for strengthening the program. Among our recommendations are enhancing fraud detection and investigative training for state personnel who are responsible for benefit payment control and internal security. This training should focus on fraud prevention and detection, information sharing regarding common fraud schemes, and dissemination of best practices used by the states. This transfer of knowledge would assist the states in their efforts to improve their enforcement and oversight capabilities.

**Federal Employees' Compensation Act:** Recent OIG testimony highlighted some of our management and operational concerns regarding the Federal Employees' Compensation Act (FECA) program, which provides compensation and medical care for Federal employees who suffer job-related injuries, diseases, or death. While the Department has initiated several measures to enhance the integrity of the \$2 billion FECA program, OIG investigations continue to disclose the vulnerabilities to fraud committed by medical providers and claimants. Fraudulent activities by medical providers include billing the government for services that were not rendered, charging multiple times for the same procedure, billing for non-existent illnesses or injuries, and overcharging for services. Claimant fraud activities include reporting false injuries, recovering but then continuing to claim benefits, and failing to report or underreporting outside employment income to the Department.

### Information Technology and Electronic Government

The expansion of electronic government is also among the aims of the President's Management Agenda. This presents challenges for the Department, such as the security of its information technology (IT) assets, the seamless implementation of its new IT architecture, and the integrity of its benefits program in an electronic government environment.

Pursuant to the Government Information Security Reform Act, we provided to the Office of Management and Budget the OIG's Executive Summary Report on the results of OIG IT audits and evaluations during FY 2002. Based on 16 audits and evaluations, including systems security tests, and the independent verification and validation of the Department's Plans of Action and Milestones, we found DOL is improving upon its information security program. The Department has provided much needed direction for its information security program, resulting in a more coordinated and comprehensive approach in implementing system security. However, while the efforts by the Department and program components are notable, the OIG continues to identify areas needing improvement. The Department will continue to be challenged in assessing risks; implementing preventive and/or detective management, operational, and technical controls; and identifying vulnerabilities through iterative testing and managing the related mitigation activities.

**Security of IT Assets:** DOL currently operates 82 sensitive systems, including mission-critical information systems, encompassing application and general support systems. The Department relies on these systems to monitor and analyze the nation's labor market and economic activities, manage workforce services, and protect and compensate American workers. Recent OIG audits revealed specific vulnerabilities in computer security and protection of assets. Further, the Department is also implementing a new IT enterprise-wide architecture and is modernizing its IT systems accordingly. Although the Department has been proactive in moving to correct weaknesses as they are identified, the Department needs to be more vigilant in securing its major systems against threats and loss of assets at the system level. This requires a chief information officer (CIO) with sufficient authority and organizational independence from other agencies within the Department. Currently, the CIO is the Assistant Secretary for Administration and Management, who is also responsible for numerous administrative functions of the Department that may either divert attention from or conflict with IT responsibilities.

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

### Integrity of Foreign Labor Certification Programs

The Department's foreign labor certification programs provide employers access to foreign labor. The permanent H-2A and H-2B programs are designed to ensure that the admission of alien workers does not adversely affect the job opportunities, wages, and working conditions of American workers or legal resident aliens. The H-1B Visa Specialty Workers program helps employers compete in the global market by giving them access to highly qualified individuals in specialty occupations. Abuses of these programs may result in economic harm to American workers and businesses, exploitation of foreign workers, and security risks associated with aliens who are admitted to this country by fraudulent means.

The Department's ability to enhance the integrity of the H-1B program is severely challenged because it lacks the authority to validate information on applications completed by program participants. Under the program,

employers who intend to temporarily employ foreign specialty-occupation workers are required to file labor condition applications with the Department stating that appropriate wage rates will be paid and workplace guidelines followed. DOL is statutorily required to certify applications unless it determines them to be "incomplete or obviously inaccurate." Under current law, the Department's role in reviewing labor condition applications amounts to a rubber stamp.

The OIG believes that if the Department is to have a meaningful role in the labor certification process, it should have corresponding statutory authority to ensure the integrity of the process, including verifying the accuracy of information provided on labor condition applications. This is critical because the OIG continues to identify fraud in the foreign labor certification programs, particularly the H-1B program. These cases involve fraudulent petitions filed with DOL on behalf of fictitious companies and corporations, petitions that use the names of legitimate companies and corporations without their knowledge or permission, and immigration attorneys and labor brokers who collect fees and file fraudulent applications on behalf of aliens. For example, a recent joint investigation led by the OIG found that a Virginia attorney, with the help of associates, filed 1,400 fraudulent labor certification applications. For one small restaurant, he filed 238 applications for cooks over a period of 17 months. The attorney was indicted in September 2002, on charges including labor certification and immigration fraud.

### Human Capital Management

The management of human capital will present a significant challenge to the Department over the next decade, due to anticipated workforce and skills shortages. As many Federal workers become eligible for retirement, the Department's ability to recruit and retain highly qualified people will be essential to the successful accomplishment of its mission. The Department projects that 27% of its workforce, as well as about 50% of its supervisors, are eligible to retire within the next five years. The resulting need for human capital planning across government has been highlighted both in the President's Management Agenda and a 2001 General Accounting Office report that added strategic human capital management to its list of Federal programs and operations identified as high risk.

Recognizing this challenge, the Department has instituted a number of policies to maximize its recruitment and retention of talented people. These include increased use of special hiring programs, telework, flexible work schedules, payment of student loans, transportation and childcare subsidies, training and professional development, succession planning, and retention and recruitment bonuses. The Department also has indicated that it plans to implement a Department-wide strategy to address succession planning, core competency analysis and training, and the further use of personnel flexibilities. Maximizing the efficiency and utilization of these programs must remain a priority if the Department is to be truly effective in attracting and keeping the best people.

The OIG recently evaluated both the Department's telework program and its participation in the Presidential Management Internship program, which is designed to attract individuals with advanced degrees to Federal service. In these studies, we identified ways to improve the use of these programs as recruitment and retention tools.

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

### Effectiveness of Mine Safety and Health Programs

In January 2001, the OIG listed enhancing the effectiveness of programs administered by the Mine Safety and Health Administration (MSHA) as a management challenge to the Department. Prior evaluations by the OIG had identified a number of mine health and safety issues needing the Department's attention to ensure programs that protect miners from injury or death operate efficiently and effectively. MSHA has taken significant steps toward addressing the recommendations that resulted from those evaluations, and will be challenged in the coming year to fully implement outstanding recommendations, some of which require rulemaking.

For example, an OIG evaluation found MSHA was unable to complete statutorily mandated inspections of Metal/Nonmetal mine operations because of the rapid growth in mine operations, reductions in the numbers of inspectors, and shifts toward compliance assistance. Chief among our recommendations was that MSHA study its enforcement and compliance assistance programs to determine which have been most effective in reducing injuries and fatalities. In response to our report, MSHA has completed this review. It is also developing a nationwide "Special Emphasis" program, based on input from district offices, to concentrate its safety and health inspectorate on mines with excessive incidence, injury, and illness rates. Additionally, MSHA has taken steps to reinstate the program for accident reduction or a derivation of that program.

MSHA has also developed a plan to encourage districts to achieve more consistency in inspections and enforcement nationwide. It also reviewed statistical data to better identify/forecast injury and fatality trends at mining operations, so as to focus their safety and health compliance specialists in areas where these events are more likely to occur.

In the area of hazard complaints, MSHA continues to implement recommendations from an OIG evaluation that found more needed to be done to improve the intake, management, tracking, and analysis of complaints. To that end, MSHA has completed a final review of its Hazard Complaint Procedures Handbook, which addresses these areas of concern. The handbook will be distributed to all enforcement personnel and integrated into inspector training modules at the National Mine Health and Safety Academy.

Finally, an OIG evaluation of MSHA's handling of inspections at the W.R. Grace & Company Mine in Libby, Montana, identified five areas where MSHA could do more to protect miners and their families against the health risks of exposure to asbestos. Three key recommendations require rulemaking: (1) lowering the permissible exposure limits for asbestos, (2) using a more effective method to analyze fiber samples that may contain asbestos, and (3) better addressing take-home contamination from asbestos. In response to these recommendations, MSHA issued an advance notice of proposed rulemaking on March 29, 2002, to request public comment. The benefits of rulemaking addressing these three areas would be the reduction or elimination of asbestos-related diseases arising from exposure to asbestos. Two additional recommendations pertaining to education and training have been resolved and closed based on MSHA's implementation of the OIG's recommendations.

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

	Number of Reports	Dollar Value (\$ millions)
A. For which no management decision had been made as of the commencement of the reporting period	6	2.2
B. For which a management decision was made during the reporting period	2	
• Dollar value of recommendations that were agreed to by management		1.2
• Dollar value of recommendations that were not agreed to by management		<u>0.1</u>
C. For which no management decision had been made as of the end of the reporting period	<u>4</u>	<u>0.9</u>
D. For which no management decision has been made within six months of issuance	<u>4</u>	<u>0.9</u>

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

	Number of Reports	Funds Recommended for Better Use (\$ millions)
A. For which final action had not been taken as of the commencement of the reporting period (as adjusted)	6	14.5
B. For which management decisions were made during the reporting period	<u>1</u>	<u>1.2</u>
<b>Subtotals (A + B)</b>	<b>7</b>	<b>15.7</b>
C. For which final action was taken during the reporting period	<u>3</u>	
• Dollar value of recommendations that were actually completed		3.2
• Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed		<u>0.1</u>
D. For which no final action had been taken by the end of the period	<u>4</u>	<u>12.4</u>

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

	Number of Reports	Questioned Costs (\$ millions)
A. For which no management decision had been made as of the commencement of the reporting period (as adjusted)	58	93.9
B. Which were issued during the reporting period	<u>14</u>	<u>28.8</u>
<b>Subtotals (A + B)</b>	<b>72</b>	<b>122.7</b>
C. For which a management decision was made during the reporting period	<u>28</u>	
• Dollar value of disallowed costs		8.1
• Dollar value of costs allowed		<u>5.2</u>
D. For which no management decision had been made as of the end of the reporting period	<u>44</u>	<u>109.4</u>
E. For which no management decision has been made within six months of issuance	<u>28</u>	<u>80.1</u>



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

	Number of Reports	Disallowed Costs (\$ millions)
A. For which final action had not been taken as of the commencement of the reporting period (as adjusted)	53	17.4
B. For which management or appeal decisions were made during the reporting period	<u>25</u>	<u>8.5</u>
<b>Subtotals (A + B)</b>	<b><u>78</u></b>	<b><u>25.9</u></b>
C. For which final action was taken during the reporting period*		
• Dollar value of disallowed costs that were recovered		4.4
• Dollar value of disallowed costs that were written off by management		<u>1.5</u>
D. For which no final action had been taken by the end of the reporting period	<u>55</u>	<u>20.0**</u>

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

\*\* Does not include \$19.4 million of disallowed costs that are under appeal.

**Delinquent Debts Owed to DOL  
(as of September 30, 2002)**

**Appendix**

Agency/Program	Accounts Receivable Current (\$ millions)	Accounts Receivable Delinquent (\$ millions)	Accounts Receivable Total (\$ millions)
BLS	0.0	0.1	0.1
ESA:			
Black Lung	37.4	2.8	40.2
FECA	22.9	20.4	43.3
Back Wage	2.1	9.8	11.9
Civil Monetary Penalties	1.5	6.1	7.6
ETA	0.8	3.6	4.4
MSHA	0.8	14.6	15.4
OSHA	8.8	42.5	51.3
PWBA	0.4	8.3	8.7
Total	<u>74.7</u>	<u>108.2</u>	<u>182.9</u>

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

# Appendix

## Unresolved Audits over Six Months Old

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

Agency/Program	Date Issued	Name of Audit	Report Number	Number of Recommendations	Questioned Costs (\$)
<b>Nonmonetary Recommendations and Questioned Costs:</b>					
<b>Being Resolved in Conjunction with DOL Consolidated Financial Statement Audit:</b>					
OASAM/Admin	6/15/95	FY 1994 DOL Consolidated Financials	12-95-004-07-001	2	0
CFO/Admin	2/27/98	FY 1997 Consolidated Financials	12-98-002-13-001	2	0
CFO/Admin	2/26/99	FY 1998 Consolidated Financials	12-99-002-13-001	1	0
CFO/Admin	9/02/99	FY 1998 Management Advisory Comments	12-99-009-13-001	3	0
CFO/Admin	2/29/00	FY 1999 DOL Consolidated Financial Statement	12-00-003-13-001	3	0
CFO/Admin	7/20/00	FY 1999 DOL Management Advisory Comments	12-00-006-13-001	6	0
CFO/Admin	3/27/02	DOL Consolidated Financial Statement Findings and Recommendations	22-02-004-13-001	10	0
CFO/Admin	2/22/00	DOL Consolidated Financial Statements	22-01-006-13-001	4	0
CFO/Admin	2/22/00	DOL Consolidated Financial Statements, FY 2000 Management Advisory Comments	22-01-009-13-001	1	0
CFO/Admin	3/27/01	DOL Managerial Costs	22-01-012-13-001	1	0
<b>Pending Indirect Cost Negotiations:</b>					
ETA/UIS	3/29/02	New Jersey Department of Labor Indirect Costs	03-02-002-03-315	4	6,166,318
ETA/UIS	9/21/01	Maryland DOL Licensing and Regulations Audit of Indirect Costs	03-01-006-03-315	10	9,833,059
ETA/DOWP	2/11/02	National Council on the Aging	02-02-202-03-360	13	614,375
ETA/DSFP	6/02/00	Central Valley Opportunity Center	09-00-003-03-365	13	535,579
<b>Final Management Decision Being Evaluated by OIG:</b>					
ETA/JTPA	3/06/00	Single Audit: State of Iowa-1998	18-00-529-03-340	4	0
<b>Final Management Decision Issued by Agency Did Not Resolve - OIG Negotiating with Program Agency:</b>					
ETA/UIS	9/22/00	Single Audit: Michigan Consumer and Industry	12-00-524-03-315	2	0
ETA/UIS	9/26/01	Security Testing and Evaluation Audit of the Office of Workforce Security System	23-01-004-03-315	6	0
ETA/SESA	8/23/00	Single Audit: State of Florida	12-00-514-03-325	4	0
ETA/JTPA	9/20/00	Florida Cash Management Practices	04-00-004-03-340	2	3,438,078
ETA/JTPA	9/22/99	New Mexico Service Delivery Area	06-99-008-03-340	2	0
ETA/JTPA	9/29/00	Single Audit: Commonwealth of Kentucky-1998	12-00-528-03-340	4	0
ETA/DINAP	6/08/00	Single Audit: Puyallup Tribe of Indians	12-00-525-03-355	4	0
ETA/OJC	9/22/99	Audit of Talking Leaves Job Corps Center	06-99-010-03-370	9	0
ETA/OJC	3/29/02	Job Corps' Student Transportation System	09-02-200-03-370	1	0
<b>Final Management Decision Not Yet Issued - Agency Awaiting Response from Internal Revenue Service:</b>					
PWBA	03/29/02	PWBA Cash Balance	09-02-001-12-121	2	0

# Appendix

## Unresolved Audits over Six Months Old

Agency/Program	Date Issued	Name of Audit	Report Number	Number of Recommendations	Questioned Costs (\$)
<b>Extension of Time Requested by Grantee to Respond to Grant Officer's Initial Determination:</b>					
ETA/UIS	3/22/02	Massachusetts Department of Labor and Workforce	03-02-001-03-315	5	1,340,544
ETA/DINAP	1/24/02	American Indian Community House, Inc.	02-02-204-03-355	2	293,419
ETA/DSFP	3/29/02	Proteus, Inc.	21-02-003-03-365	4	215,792
ETA/OJC	3/29/02	Hawaii Job Corps Center	03-02-003-03-370	10	0
ETA/WTW	3/26/02	Pinellas Florida Welfare-to-Work	04-02-002-03-386	1	858,674
ETA/WTW	3/18/02	City of Gary Welfare-to-Work	05-02-001-03-386	24	136,618
ETA/WIA	2/26/02	The Workplace H1-B Technical Grant	02-02-207-03-390	6	140,000
<b>Extension of Time Requested by Agency to Address Multi-Agency Issues:</b>					
ETA/Admin	7/25/01	Single Audit: State of Louisiana	22-01-506-03-001	28	23,201,664
ETA/WTW	3/26/02	Madison County Working Connection	04-02-001-03-386	3	358,229
<b>Elevated to DOL Audit Follow-up Official for Resolution:</b>					
ETA/UIS	2/26/01	New Mexico Department of Labor Year 2000 Grant Expenditures <sup>1</sup>	04-01-001-03-315	3	914,221
<b>Final Management Decision Being Appealed or Awaiting Office of Solicitor Opinion:</b>					
ETA/JTPA	9/25/98	Cherokee Nation	06-98-009-03-340	1	0
ETA/OJC	9/28/01	Audit of Loring Job Corps Center	02-01-212-03-370	4	691,220
<b>Final Management Decision Not Yet Issued by Agency:</b>					
ETA/Admin	11/29/99	Xpand Corporation	18-00-001-03-001	2	106,757
ETA/UIS	1/25/02	New York AUP Year 2000 Grant Expenditures	04-02-003-03-315	4	3,976,331
ETA/UIS	9/21/01	Ohio Department of Job and Family Services' Year 2000 Grant Expenditures	04-01-006-03-315	4	1,085,283
ETA/UIS	9/21/01	California Employment Development Department's Year 2000 Grant Expenditures	04-01-008-03-315	5	848,643
ETA/UIS	9/17/01	Montana Department of Labor and Industry's Year 2000 Grant Expenditures	04-01-010-03-315	3	132,743
ETA/UIS	4/17/00	Single Audit: State of Louisiana	18-00-534-03-315	6	2,429,691
ETA/SESA	12/08/99	Puerto Rico Department of Labor and Human Resources	02-00-203-03-325	9	15,814,678
ETA/SESA	9/28/01	Real Property Issues Related to Federal Equity Properties	06-01-003-03-325	4	0
ETA/JTPA	7/31/00	Single Audit: State of New Mexico 1998, 1999	12-00-500-03-340	12	0
ETA/JTPA	5/18/01	Single Audit: Government of Guam	22-01-505-03-340	2	229,816
ETA/DINAP	8/28/00	Single Audit: United Sioux Tribes of South Dakota	12-00-519-03-355	1	0
ETA/DSFP	9/26/00	Audit of Center for Employment and Training	09-00-006-03-365	15	5,797,229
ETA/WTW	5/22/00	Postaward Survey of Deveraux	03-00-006-03-386	1	0
ETA/WTW	3/26/02	CEDA Welfare-to-Work Competitive Grant	05-02-002-03-386	11	86,519
ETA/WTW	3/20/02	Industrial Exchange, Inc.	06-02-004-03-386	6	561,649
ETA/WIA	2/08/00	Vermont's One-Stop Readiness	02-00-205-03-390	4	0
ETA/WIA	2/22/00	Connecticut's One-Stop Readiness	02-00-206-03-390	5	0
ETA/WIA	2/22/00	New York's One-Stop Readiness	02-00-207-03-390	6	0
ETA/WIA	3/14/00	Illinois' One-Stop Readiness	02-00-209-03-390	3	0

<sup>1</sup> On October 2, 2002, the DOL follow-up official remanded the final determination to the ETA grant officer. The audit remains unresolved, pending the issuance of a revised final determination by the grant officer

# Appendix

## Unresolved Audits over Six Months Old

Agency/Program	Date Issued	Name of Audit	Report Number	Number of Recommendations	Questioned Costs (\$)
ETA/WIA	3/14/00	California's One-Stop Readiness	02-00-210-03-390	6	0
ETA/WIA	3/22/00	Florida's One-Stop Readiness	02-00-211-03-390	3	0
ESA/FECA	3/29/00	FECA Performance Measures	22-02-006-04-431	1	0
CFO/ADMIN	3/29/02	DOLAR\$ Application Control Review	23-02-003-13-001	11	0
DOL/MULTI	9/16/99	Milwaukee Area American Indian Manpower	05-99-009-50-598	25	352,693
DOL/MULTI	9/20/99	SER Corporation of Kansas	05-99-021-50-598	3	3,783
<b>Total Nonmonetary Recommendations and Questioned Costs:</b>				<b>356</b>	<b>80,163,605</b>
<b>Total Funds Recommended for Better Use:</b>					
<b>Elevated to DOL Follow-up Official for Resolution:</b>					
ETA/UIS	2/26/01	New Mexico Department of Labor Year 2000 Grant Expenditures	04-01-001-03-315	1	171,944
<b>Final Management Decision Issued by Agency Did Not Resolve -- OIG Negotiating with Program Agency:</b>					
ETA/OJC	3/29/02	Job Corps's Student Transportation System	09-02-200-03-370	1	200,000
<b>Final Management Decision Not Yet Issued by Agency:</b>					
ETA/JTPA	9/20/00	Florida Cash Management Practices	04-00-004-03-340	1	185,000
<b>Pending Negotiations Between Auditee and DOL Contracting Officer:</b>					
ETA/OJC	2/13/01	Memphis Cost Claim for Equitable Adjustment	04-01-003-03-370	1	332,611
<b>Total Funds Recommended for Better Use:</b>				<b>4</b>	<b>889,555</b>
<b>Total Nonmonetary Recommendations, Questioned Costs, and Funds Recommended for Better Use:</b>				<b>360</b>	<b>81,053,160</b>

# Appendix

## Final Audit Reports Issued by the OIG

<u>Strategic Goal</u> Program Name Name of Report	Date Issued	Report Number	Number of Non-Monetary Recommendations	Questioned Costs (\$)	Funds Put to Better Use (\$)	Other Monetary Impact (\$)
<b><u>Employment and Training</u></b>						
<b>Job Training Partnership Act</b>						
Single Audit: Commonwealth of Puerto Rico-1998	4-24-02	22-02-509-03-340	0	225,273	0	0
<b>Job Corps Program</b>						
Edison Job Corps Center Property Taxes	8-23-02	02-02-209-03-370	0	0	0	0
Treasure Island Job Corps Center Property Taxes	8-22-02	02-02-210-03-370	0	0	0	0
Acosta Job Corps Center	9-13-02	03-02-005-03-370	2	0	0	0
<b>Welfare-to-Work Program</b>						
Columbus Urban League Welfare-to-Work Program	8-19-02	05-02-003-03-386	3	48,000	0	0
Single Audit: Chattanooga Area Urban League	9-30-02	22-02-515-03-386	4	0	0	0
Single Audit: Nogales Unified School District	8-30-02	22-02-519-03-386	0	83,686	0	0
<b>Workforce Investment Act</b>						
New York Work Alliance H-1B Technical Skills Training Grant	9-30-02	02-02-211-03-390	5	231,675	0	0
Metro North Regional Employment Board						
H-1B Technical Skills Training Grant	9-26-02	02-02-212-03-390	3	0	0	0
San Francisco Private Industry Council						
H-1B Technical Skills Training Grant	9-30-02	02-02-213-03-390	2	915,985	0	0
League SEIU 1199 H-1B Technical Skills Training Grant	9-30-02	02-02-214-03-390	3	359,462	0	0
Southeastern Los Angeles H-1B Technical Skills Training Grant	9-30-02	02-02-215-03-390	4	0	0	0
State of Ohio: Evaluation of Grant Obligations, Expenditures and Payments	9-20-02	04-02-004-03-390	0	0	0	0
Performance Outcomes Reporting Oversight	9-30-02	06-02-006-03-390	5	0	0	0
Single Audit: State of Utah	6-12-02	22-02-511-03-390	8	58,547	0	0
Single Audit: Consorcio Del Suroeste	8-08-02	22-02-521-03-390	3	172,050	0	0
Single Audit: State of Maryland	9-30-02	22-02-522-03-390	3	963,440	0	0
<b>Labor Statistics</b>						
Security Test and Evaluation of BLS' General Support System	8-19-02	23-02-004-11-001	7	0	0	0
<b>Goal Totals</b>		<b>18</b>	<b>52</b>	<b>3,058,118</b>	<b>0</b>	<b>0</b>
<b><u>Worker Benefits Programs</u></b>						
<b>Unemployment Insurance Service</b>						
State of Maryland Workforce Agency:						
UI Tax and Benefit Information System Security Audit	9-13-02	23-02-008-03-315	14	0	0	0
State of North Carolina Workforce Agency:						
UI and Tax Benefit Information System Security Audit	9-13-02	23-02-009-03-315	17	0	0	0
<b>Goal Totals</b>		<b>2</b>	<b>31</b>	<b>0</b>	<b>0</b>	<b>0</b>

# Appendix

## Final Audit Reports Issued by the OIG

<i>Strategic Goal</i> Program Name Name of Report	Date Issued	Report Number	Number of Non-Monetary Recommendations	Questioned Costs (\$)	Funds Put to Better Use (\$)	Other Monetary Impact (\$)
<b><i>Worker Safety, Health, and Workplace Rights</i></b>						
<b>Occupational Safety and Health</b>						
Performance Audit of OSHA's Strategic Partnership Program	9-30-02	05-02-007-10-001	8	0	0	0
OSHA Software Management	8-19-02	23-02-005-10-001	3	0	0	0
<b>ESA Administration</b>						
Security Testing and Evaluation of ESA's General Support System	9-12-02	23-02-006-04-001	13	0	0	0
<b>Goal Totals</b>		<b>3</b>	<b>24</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b><i>Departmental Management</i></b>						
<b>ETA Management</b>						
Single Audit: District of Columbia Department of Employment Services	9-30-02	22-02-508-03-001	4	0	0	0
Single Audit: State of Alabama	5-08-02	22-02-510-03-001	1	50,864	0	0
Single Audit: State of New York	9-05-02	22-02-513-03-001	2	0	0	0
Single Audit: State of West Virginia	8-30-02	22-02-518-03-001	7	734,825	0	0
Single Audit: State of Maine	9-09-02	22-02-524-03-001	2	0	0	0
<b>OASAM Management</b>						
Independent Verification of Selected DOL Agencies' Plans of Action and Milestones for Information Technology Security	9-16-02	23-02-014-07-001	1	0	0	0
<b>CFO Management</b>						
Alert Report: Department of Labor Accounting and Related Systems - General Controls and Security	8-30-02	23-02-013-50-598	7	0	0	0
<b>Multi-Agency</b>						
Single Audit: State of Florida	8-06-02	22-02-512-50-598	21	23,843,607	0	0
Single Audit: State of Ohio	7-19-02	22-02-516-50-598	13	0	0	0
Single Audit: State of Missouri	8-06-02	22-02-517-50-598	2	0	0	0
Single Audit: State of Montana	8-30-02	22-02-520-50-598	8	1,032,569	0	0
Single Audit: State of Iowa	8-27-02	22-02-525-50-598	11	78,959	0	0
Government Information Security Reform Act Evaluation Report	9-16-02	23-02-015-50-598	0	0	0	0
<b>Goal Totals</b>		<b>13</b>	<b>79</b>	<b>25,740,824</b>	<b>0</b>	<b>0</b>
<b>Report Totals</b>		<b>36</b>	<b>186</b>	<b>28,798,942</b>	<b>0</b>	<b>0</b>

# Appendix

## Final Evaluation Reports Issued by the OIG

<i>Strategic Goal</i> Program Name Name of Report	Date Issued	Report Number	Number of Non-Monetary Recommendations	Questioned Costs (\$)	Funds Put to Better Use (\$)	Other Monetary Impact (\$)
<i>Worker Benefits Programs</i>						
Evaluation of the Domestic Child Labor Program	9-26-02	2E-04-420-00017	0	0	0	0
<i>Departmental Management</i>						
Evaluation of the DOL's Presidential Management Intern Program	9-26-02	2E-07-753-00025	0	0	0	0
Evaluation of the DOL's Telework Program	9-26-02	2E-50-598-00052	0	0	0	0



	<b>Division Totals</b>	<b>Totals</b>
<b>Cases Opened:</b>		
Program Fraud	126	
Labor Racketeering	68	194
<b>Cases Closed:</b>		
Program Fraud	214	
Labor Racketeering	68	282
<b>Cases Referred for Prosecution:</b>		
Program Fraud	126	
Labor Racketeering	44	170
<b>Cases Referred for Administrative/Civil Action:</b>		
Program Fraud	71	
Labor Racketeering	7	78
<b>Indictments:</b>		
Program Fraud	113	
Labor Racketeering	116	229
<b>Convictions:</b>		
Program Fraud	107	
Labor Racketeering	98	205
<b>Debarments:</b>		
Program Fraud	2	
Labor Racketeering	15	17
<b>Recoveries, Cost Efficiencies, Restitutions, Fines/Penalties, Forfeitures, and Civil Monetary Actions:</b>		
Program Fraud	\$114,067,660	
Labor Racketeering	\$72,351,980	\$186,419,640

<b>Recoveries:</b>	\$45,042,852
(The dollar amount/value of an agency's action to recover or reprogram funds or to make other adjustments in response to OIG investigations)	
<b>Cost Efficiencies:</b>	\$99,223,513
(The one-time or per annum dollar amount/value of management's commitment, in response to OIG investigations, to utilize the government's resources more efficiently)	
<b>Restitutions:</b>	\$8,616,769
(The dollar amount/value of restitutions resulting from OIG criminal investigations)	
<b>Fines/Penalties:</b>	\$32,596,841
(The dollar amount/value of fines, assessments, seizures, investigative/court costs, and other penalties resulting from OIG criminal investigations)	
<b>Civil Monetary Actions:</b>	\$939,665
(The dollar amount/value of forfeitures, settlements, damages, judgements, court costs, or other penalties resulting from OIG civil investigations)	
<b>Total:</b>	<u><u>\$186,419,640</u></u>

	Convicted	Sentenced	Monetary <sup>1</sup>
<b>FOREIGN LABOR CERTIFICATION</b>			
ADELEKE, EBENEZER	X	X	\$100
BOATENG, NOAH	X	X	
BOGARDUS, RONALD	X		
BUKOVCAK, IVO	X	X	\$100
FRANCOIS, SANDRA	X	X	
GESNER, PIERRE	X	X	
HAMEED, ABDUL	X		
KALEJAIYE, MATTHEW	X	X	\$100
LAKIREDDY, ANNAPURNA	X	X	\$2,000
LAKIREDDY, JAYAPRAKASH	X	X	\$30,000
LAKIREDDY, VIJAY	X		
"PRE-TRIAL DIVERSION" <sup>2</sup>	X	X	\$46,313
MUTIA, ALICIA	X	X	\$25,550
RYAN, ANTIA	X	X	<u>\$390,641</u>
TRAORE, ISMAEL	X	X	
<b>Total</b>	<b>15</b>	<b>12</b>	<b>\$494,804</b>
<b>EMPLOYEE MISCONDUCT</b>			
CLARKE, GEMMA	X	X	\$325,924
ENDERBY, JAMES	X	X	\$100
PEREZ, RICARDO	X	X	\$57,000
REILLY, BRIAN	X		
TOALA, SIRIA	X	X	<u>\$298,323</u>
<b>Total</b>	<b>5</b>	<b>4</b>	<b>\$681,347</b>
<b>ESA - BLACK LUNG</b>			
ALEXANDER, BRIAN	X	X	\$2,257
MODI, KAILAS, M.D.	X	X	\$20,300
MODI, VINOD, M.D.	X	X	<u>\$3,565,300</u>
<b>Total</b>	<b>3</b>	<b>3</b>	<b>\$3,587,857</b>
<b>ESA - FECA</b>			
ADAMS, THERESA	X	X	\$48,000
ALEXANDER, MARIA	X		
ALLMOND, CHARLES	X	X	\$1,553
ARAGON, JOLENE	X	X	\$3,474
ARAGON, MARK	X	X	\$100
BATTLE, RICHARD	X	X	\$2,757
BAYLOR, PATRICIA	X	X	\$16,477
BUCKLEY, JOSEPH	X	X	\$11,381
GIBBS, GLENDA	X		
GREENFIELD, BERNADETTE	X		
HAYES, ANTOINETTE	X		
HOWARD, LEROY	X		
JABLONSKI, VALENTINA	X	X	\$25,100
JEANE, JIMMY	X	X	\$35,629
LINCOLN, TIMMOTHY	X	X	\$13,561
LUCIA, JAMIE	X	X	\$27,270
MARTINS, LOUIS	X		
MATHEWS, KYLE	X	X	\$19,164
MCDONALD, JOHN	X	X	\$850
MITCHELL, KAREEM	X	X	\$10,142
MOORE, DOUGLAS	X		
MOORE, JOYCE	X	X	\$9,241
MORFIN, ELIUD	X	X	\$93,652
PENZO, LAURA	X		
PHILIPOSE, MARIAMMA	X		
RECOVERY ANALYSIS	X	X	\$178,346
SCHLUETER, DARRELL	X	X	\$113,000

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

<sup>2</sup> A pre-trial diversion is occasionally offered to first-time Federal offenders who are not considered risks to repeat their criminal behavior. The defendant is generally offered this option after they have been indicted for a specific crime. The defendant pleads guilty to the crime and is given a period of probation during which they are expected to make restitution for their crime and not to commit any other crime. If they successfully complete this period of probation, their guilty plea is removed from the record and all charges are dropped.

## Investigations Case List

	Convicted	Sentenced	Monetary
SCHULTZ, CHARLES	X	X	\$39,376
THOMPSON, AUDREY	X	X	\$8,734
VAUGHAN, MARGARET	X		
WILKINS, STEPHANIE	X	X	\$1,309
WILSON, JACK	X	X	\$31,000
<b>Total</b>	<b>32</b>	<b>22</b>	<b>\$690,116</b>
<b>ESA - LONGSHORE</b>			
BLOOM, BRYAN	X	X	\$15,047
<b>Total</b>	<b>1</b>	<b>1</b>	<b>\$15,047</b>
<b>ESA - WAGE AND HOUR</b>			
AZIZ, MOHAMMED	X		
FOSTER, JESSE	X	X	\$47,031
GORGES, EDWARD	X		
GREGOREK, ROBERT	X		
KAJACS CONTRACTORS, INC.	X	X	\$144,073
PERSONS, MICHAEL	X	X	\$139,072
SALKE, STEVE	X	X	
SAN LUIS GONZAGA CONST.	X		
SANDOR, ANDREW	X		
TALAO, GERARDINA	X		
TALAO, VIRGILIO	X		
<b>Total</b>	<b>11</b>	<b>4</b>	<b>\$330,176</b>
<b>ETA - JTPA</b>			
ALEXIS, KELVIN	X		
ALEXIS-DONAWA, PATRICIA	X		
ALVAREZ, CARLOS	X		
JONES, KEITH	X	X	\$9,086
KOONS, THOMAS	X		
<b>Total</b>	<b>5</b>	<b>1</b>	<b>\$9,086</b>
<b>ETA - UNEMPLOYMENT INSURANCE/SWA</b>			
ACOSTA, SHANE	X	X	\$3,515
ATKINS, MICHAEL	X	X	\$5,600
"PRE-TRIAL DIVERSION"	X	X	\$1,746
"PRE-TRIAL DIVERSION"	X	X	\$3,996
BLOUNT, CATHERYNE	X		
BOLES, KENNETH	X	X	\$196
BOLLIN, GERALD	X		
"PRE-TRIAL DIVERSION"	X	X	\$4,019
BOURGEOIS, JOSEPH	X	X	\$4,615
BOYD, TRACEY, SR.	X		
BRAZIEL, ALONZO	X	X	\$119,555
"PRE-TRIAL DIVERSION"	X		\$2,924
BROWN, PATRICIA	X	X	\$5,389
CARDENAS, JAVIER	X	X	\$11,817
CARDENAS, MARIA	X		
CARDENAS, RODRIGO	X	X	\$11,817
CLARKE, ANTHONY	X	X	\$22,610
COKER, ROCHELLE	X	X	\$1,110
CULLIER, TOMMY	X	X	
"PRE-TRIAL DIVERSION"	X	X	\$3,885
DAVIS, DENICE	X	X	\$2,607
DAVIS, LANCE	X		
"PRE-TRIAL DIVERSION"	X	X	\$4,394
DAY, ROCHELLE	X	X	\$1,114
EPPS, RAYMOND	X	X	\$7,045
EPPS, ZACK	X	X	\$321,339
FARRIA, ROY	X	X	\$4,615
FARRINGTON, DEBORAH	X	X	\$3,810
FINLEY, RODDIS	X	X	\$8,131
"PRE-TRIAL DIVERSION"	X	X	\$4,300
GASKINS, HENRY	X	X	\$4,185
"PRE-TRIAL DIVERSION"	X	X	\$3,095

	Convicted	Sentenced	Monetary
GINYARD, VIRGIL	X	X	\$4,238
GREEN, SHERIDAN	X	X	\$3,051
"PRE-TRIAL DIVERSION"	X	X	\$4,500
HARDISON, SYLVESTER	X	X	\$3,596
HAWKINS, MARK	X	X	\$4,720
HUDSON, DEVERICK	X		
JACKSON, MARLON	X	X	\$4,552
"PRE-TRIAL DIVERSION"	X	X	\$3,655
JOHNSON, EDDIE	X	X	\$135,169
JONES, CHARLES	X		\$824
LEONOR, PERLA	X		
LEWIS, TRACY	X	X	\$4,052
LEWIS, WILLIAM	X	X	\$3,397
MARBERRY, JEFFREY	X	X	
MARSHALL, KEVIN	X	X	\$4,400
MCCOY, SANDRA	X		
MORAN, RENELL	X	X	\$6,721
MUHAMMAD, TRACY	X	X	\$3,952
NEW, CAROLYN	X	X	\$1,306
NUNN, CANDACE	X	X	\$33,655
OBAN, DENNYSE	X	X	\$275
PATTERSON, ALVIN	X	X	\$28,613
PEOPLES, JEROME	X	X	\$4,238
RIOS-MEJIA, JORGE	X		
ROBERTSON, LEELLA	X	X	\$17,350
ROBINSON, WILLIE	X	X	\$49,862
SANCHEZ, LETICIA	X	X	\$2,661
SELLERS, DARRON	X	X	\$5,190
SHANNON, FRANK	X	X	\$4,715
"PRE-TRIAL DIVERSION"	X	X	\$4,388
SHEPARD, ANTHONY	X	X	\$23,428
SHEPARD, CRYSTAL	X		
SILVA, JESUS	X		
SILVA, MARIA	X		
SWANSON, JEFFERY	X	X	\$4,615
TOUSSAINT, JAKE, JR.	X	X	\$3,463
TRAVELLIN, RICHARD	X		
WHITE, MICHAEL	X	X	\$1,600
WILLIAMS, CARL, JR.	X	X	\$5,402
"PRE-TRIAL DIVERSION"	X	X	\$1,280
WILLIAMS, MARLA	X	X	\$3,414
WOODS, MARY	X		
<b>Total</b>	<b>74</b>	<b>58</b>	<b>\$949,711</b>
<b>ETA - WELFARE-TO-WORK</b>			
GREENGAS, MILTON	X	X	\$573,000
NACLERIO, SANDRA	X	X	\$468,000
<b>Total</b>	<b>2</b>	<b>2</b>	<b>\$1,041,000</b>
<b>OSHA</b>			
ACOSTA, RAMON	X	X	\$10
JUNGER, MOSHE	X	X	\$10
<b>Total</b>	<b>2</b>	<b>2</b>	<b>\$20</b>
<b>OTHER</b>			
ROMINE, LINDA	X		\$327
<b>Total</b>	<b>1</b>		<b>\$327</b>
<b>BENEFIT PLAN</b>			
AQUILA, FRANK	X		
BEAT PUBLICATIONS,	X	X	\$1,345,603
BIGHAM, EDWARD, JR.	X	X	\$5,000
BLUESTEN, DANIEL	X	X	\$143,554
BOELENS, MARTIN	X		
BOYD, ROBERT	X		
BROWNE, JAYMES	X	X	
BUCCI, ANTHONY	X	X	\$987,000

## Investigations Case List

	Convicted	Sentenced	Monetary
BUCCI, CHERYL	X		
CAMBRELEN, JAIME	X	X	\$3,500
CANDELARIA, MARIANA	X	X	\$76,856
CEASAR, SINCLAIR	X	X	\$900
CIPPERONI, JOSEPH	X	X	\$3,000
CLOSE, WILLIAM	X	X	\$444,951
CURRENT, STAN	X	X	\$1,345,603
DAHER, MICHAEL, SR.	X	X	\$1,682,410
DIXON, LINDA	X		
DUNCAN, EUGENE	X	X	\$100
DUNSMOOR, JOHN	X		
ESPOSITO, THOMAS	X	X	\$841,726
GAINES, STEPHEN	X	X	\$1,872,248
GLOBAL STAFFING SERV.	X	X	\$57,000
"PRE-TRIAL DIVERSION"	X	X	\$35,000
GRAYSON, BARCLAY	X	X	\$500,000
GRAYSON, JEFFREY	X		
HERNANDEZ, LUIS	X	X	\$33,839
ISELY, CHARLES, III	X		
JANITORIAL MAINTENANCE	X	X	\$24,000
KATZ, NEAL	X	X	\$1,872,248
KLIKAS, IRENE	X	X	\$27,244
KRAEMER, JOHN		X	
LONTINE, JOHN	X		
MARQUEZ-DELAPLATA, ROGER	X	X	\$135,508
MARZANO, DAVID	X	X	\$4,000
MARZANO, SHERRI	X	X	\$3,000
MAYHEW, ROBERT	X		
MICCICHE, ANTHONY	X		
NEWMAN, GRACE	X		
POWERS, CHRISTOPHER	X	X	\$3,000
PRYOR, SHAWNA	X	X	\$5,184
PRZYBYLSKI, WALDEMAR	X	X	\$2,000
RIOS, JANICE	X	X	\$33,879
RIOS, MIGUEL	X	X	\$36,088
ROACH, CHRIS	X	X	\$3,719,274
SAMUELS, DWAYNE	X	X	\$100
SHIPSEY, GEORGE	X		
SPENCER, THOMAS	X		
TRINGALE, RICHARD	X	X	\$3,719,074
VARIO, PETER	X		
VASQUEZ-RUIZ, FELIX, M.D.	X	X	\$4,071,700
VVSS COMPANY	X	X	\$21,000,000
WEINSTEIN, DAVID	X	X	\$601,300
WEIR, DONALD	X	X	\$160,796
<b>Total</b>	<b>52</b>	<b>38</b>	<b>\$44,796,685</b>
<b>INTERNAL UNION</b>			
BODE, MELANIO	X		
BURRESS, JOSEPH	X		
CAMPANELLA, FRANK	X	X	\$5,100
CARRILLO, GILBERT	X	X	\$1,000
CHARGOIS, LINDA		X	\$35,191
CREED, RHONDA	X		
DELANEY, LORRI	X		
D'ONOFRIO, JOSEPH, JR.	X		
FRICKER, WILLIAM	X		
GOCHIS, MICHAEL		X	
JOHNSTON, TERRELL	X	X	\$18,770
JONES, STEPHEN	X	X	\$90,000
JOSELYN, CATHY	X		
KIM, BYRAN	X	X	
LACY, DEE DEE	X	X	\$2,500
LOPEZ, JEREMIAS	X	X	\$10,839
MCCORMACK, JAMES	X		
MINERD, CHRIST	X	X	\$8,850
MINGIONE, JOHN	X		

	Convicted	Sentenced	Monetary
MURRAY, JOHN	X		
PANNUTTI, EDWARD	X	X	\$19,302
PORTORREAL, GEORGE	X	X	\$100
RAMSEY, EDWARD	X		
ROSARIO, DAVID	X	X	\$100
SABA, ALEX	X	X	\$11,800
SABATINE, JAMES	X	X	\$93,252
SAO, LAWRENCE	X	X	
SMITH, RENEE	X	X	\$400
TERLECKI, JOHN	X	X	\$1,000
TRAFICANT, JAMES, JR.	X	X	\$176,000
VASQUEZ, AGUSTIN	X	X	\$9,600
WALKER, WILLIE	X	X	<u>\$68,523</u>
<b>Total</b>	<b>31</b>	<b>22</b>	<b>\$552,327</b>
<b>LABOR MANAGEMENT</b>			
ABRUZZO, JOSEPH	X	X	\$3,600
ANTONIELLA, ANTHONY	X	X	
ARANCIO, STEPHEN	X		
BOOTHE, RICHARD	X	X	
BORGNONE, SALVATORE	X		
CAMPANELLA, JOHN, JR.	X	X	
CAMPANELLA, JOHN, SR.	X		
CAPICHANA, MARK	X	X	
CARACAPPA, PHILLIP	X		
CASTORE, RALPH	X		
CERCHIO, VINCENT	X	X	
CHEDDIE, CHRISTOPHER	X	X	
DAMBROSIA, DANIEL	X	X	\$6,000
DIBERARDINO, ANTHONY	X		
FERRARA, STEVEN	X		
GALLO, JAMES	X	X	
GASH, STANLEY	X	X	
GIACOBE, JOSEPH	X	X	
HANSEN, JOHN	X		
HASSAN, NORMAN	X		
JONES, GUITANA M.	X		
JULIANO, JOSEPH	X		
KAMINSKI, PETER	X		
LETO, FRANK	X		
MAGGIO, JOHN	X	X	
MIGLIORATO, JOSEPH	X	X	\$12,500
MURACA, JOSEPH	X		
PALOSCIO, WESTLEY	X		
PINSKY, ROBERT	X	X	\$6,000
RIVERA, FELIX	X	X	
ROMANO, VINCENT	X		\$2,000
SAHAKIAN, GREGORY	X		
SALVATA, THOMAS	X	X	\$2,000
SCLAFANI, JOSEPH	X	X	<u>\$2,500</u>
SGAMBATI, FRANK	X		
STRIPOLI, ANTHONY	X		
TIMPANO, DOMINICK	X		
TUFANO, LOUIS	X	X	
UNDERWOOD, WENDELL	X		
VOLPE, ROBERT	X	X	
WILSON, EUGENE	X		
<b>Total</b>	<b>41</b>	<b>19</b>	<b>\$34,600</b>
<b>WORKER EXPLOITATION</b>			
BONILLA, JOAQUINA	X	X	\$100
GARCIA BURGOS, PEDRO	X		
RUIZ CRUZ, RAFAEL	X		
SANCHEZ, MAGDALENA	X	X	<u>\$3,200</u>
<b>Total</b>	<b>4</b>	<b>2</b>	<b>\$3,300</b>

The OIG Hotline provides a communication link between the OIG and persons who want to report alleged violations of law, rules, or regulations; mismanagement; waste of funds; abuse of authority; or danger to public health and safety. During this reporting period, the OIG Hotline received a total of 1,867 contacts. Of these contacts, 358 allegations required additional review. Listed below is a breakdown of those 358 allegations.

**Total Contacts for This Period: 1,867**

**Allegation Reports by Source:**

Hotline Operations – Calls, Letters, and Walk-ins from Individuals or Organizations	307
Letters from Congress	11
Letters from DOL Agencies	13
Incident Reports from DOL Agencies	1
Reports by OIG Components	4
Letters from Non-DOL Government Agencies	16
Government Accounting Office	6
<b>Total</b>	<b>358</b>

**Allegation Reports by Referral:**

Referred to OIG Components	72
Referred to DOL Program Management	183
Referred to Other Agencies	71
No Further Action Required	32
<b>Total</b>	<b>358</b>



United States Department of Labor  
Office of Inspector General

# Report Fraud, Waste and Abuse



CALL THE HOTLINE



Phone #:  
202.693.6999  
1.800.347.3756

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

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

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