

Semiannual Report to the Congress *Highlights*



Office of Inspector General U.S. Department of Labor

Gordon S. Heddell, Inspector General

October 1, 2002–March 31, 2003

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It is a privilege to transmit this *Semiannual Report to the Congress* covering the period October 1, 2002, through March 31, 2003, summarizing the significant audit and investigative activities of the Office of Inspector General (OIG), U.S. Department of Labor (DOL). Moreover, I am pleased to introduce a new format for our report that makes use of advances in information technology and moves the OIG forward in the e-government environment. Readers will now receive a “Highlights” summary that emphasizes key audits and investigations conducted by the OIG. The Highlights contains information on how to visit our website and download the complete report. Our goal is to allow you to review snapshots of our work and quickly access those issues of most interest to you.

Of special note during this reporting period was the inclusion of statutory law enforcement authority for our investigators in the Homeland Security Act of 2002 (P.L. 107-296). This authority enhances our ability to investigate labor racketeering and fraud against pension plans, which has become increasingly important as other Federal law enforcement agencies redirect their resources toward homeland security activities.

Among our significant investigative accomplishments during this period was the indictment of 42 individuals including members and associates of the Genovese and Colombo La Cosa Nostra (LCN) organized crime families and Locals 14 and 15 of the Operating Engineers, for unlawful labor payments as well as other charges. Another investigation led to guilty pleas by associates of the Gambino LCN Family. In total, during this reporting period, our investigative work resulted in 337 indictments, 191 convictions, and over \$55.6 million in monetary accomplishments.

From an audit perspective, we issued a series of reports during this period related to the Workforce Investment Act (WIA) including youth training programs, individual training accounts, and the amount of WIA funding available to states. We hope that these reports and recommendations will offer valuable information as the Congress considers WIA reauthorization. We also reported the results of our work with respect to Florida’s closeout of its job training grants, which identified significant discrepancies between the State’s financial status reports and its official accounting records. Also significant this period was our follow-up audit of overcharges by the Internal Revenue Service to the Unemployment Trust Fund that totaled \$174 million for fiscal years (FYs) 1999–2002. This targeted work, as well as other audit work, identified nearly \$184 million in questioned costs.

I am proud of the 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 rights and benefits of American workers and retirees.

A handwritten signature in black ink that reads "Gordon S. Heddell". The signature is written in a cursive, flowing style.

Gordon S. Heddell
Inspector General

The complete *Semiannual Report to the Congress* can be viewed at www.oig.dol.gov

OIG audits conducted during this period offer lessons and insights that should be considered in the WIA reauthorization process.

The Workforce Investment Act of 1998 (WIA) created a system of coordinated employment and training services and activities to replace Job Training Partnership Act (JTPA) programs. Authorization for WIA appropriations is set to expire in September 2003. Proposals are under consideration to reauthorize and revise the act to better achieve its goals. OIG audits conducted during this period offer lessons and insights that should be considered in the WIA reauthorization process.

CHANGES TO WIA TRAINING PROVISIONS WOULD IMPROVE CONSUMER CHOICE

Under WIA's "consumer choice" concept, most training services for adults and dislocated workers are provided through individual training accounts. Participants can use these accounts to select individualized training from lists of approved eligible training providers. The OIG assessed the training activities under the adult and dislocated worker programs for program year 2000 in six states.

We found that our sample of WIA participants generally received appropriate assistance and training options and found jobs. However, compared with JTPA participant numbers, the numbers of WIA participants trained have declined. In addition, we found that WIA requirements and state and local policies discouraged training providers' participation and may have affected the quality of training. Concerns cited by providers included costly and burdensome performance reporting requirements and Privacy Act issues. We recommend that WIA be modified to encourage the participation of training providers. We would also support amendments to resolve uncertainty about the release of WIA participants' personal identifying information for WIA reporting purposes.

STATE AND LOCAL REPORTING OF WIA OBLIGATIONS

A debate about the level of funds available to states has highlighted the way that WIA obligations (legal commitments) and expenditures are reported and the question of which is the better basis for making allotments to states. The OIG looked at nine states and Puerto Rico to determine the status of obligations and expenditures at December 31, 2001. The nine states and Puerto Rico reported unexpended balances that would permit them to operate for about 19 months even without the influx of new funds. At the same time the states reported unobligated balances that would permit only about five more months of operation. In addition, we found reported obligations were generally overstated and reported expenditures were generally understated.

If obligations accurately reflect legal commitments and are consistently reported, obligations are the more useful measure for assessing states' current WIA funding availability. The OIG believes that the Employment and Training Administration (ETA) should work with the states to improve reporting, which would enhance ETA's ability to measure and manage WIA resource consumption.

MORE EDUCATION AND TRAINING ACTIVITIES WOULD STRENGTHEN WIA'S YOUTH OPPORTUNITY PROGRAM

Between March 2000 and June 2002, the Department awarded \$465 million in WIA Youth Opportunity grants to provide education and job training services to young people living in depressed areas. A prior OIG audit found that vocational skills training was a significant factor in youths attaining employment and earnings goals. We conducted an audit of 12 Youth Opportunity grantees who received \$160 million in grant funds to determine what educational services and vocational skills training were being provided in this program. We found that approximately 62% of the out-of-school youth we sampled received no educational or vocational training activities. Moreover, we identified inconsistencies in the records grantees provided related to out-of-school youth enrolled in the program. ETA agreed to our recommendations to strengthen this program.

The OIG proposes the following legislative recommendations that would enhance WIA:

- ***Improve state and local reporting of WIA obligations.***
- ***Modify WIA to encourage the participation of training providers.***
- ***Resolve uncertainty about the release of WIA participants' personal identifying information for WIA reporting purposes.***
- ***Include standard definitions that allow for consistent measure of performance across the states.***

FLORIDA'S CLOSEOUT OF JTPA RAISES QUESTIONS ABOUT RELIABILITY OF ITS FINANCIAL REPORTS

The OIG looked at the closeout of the State of Florida's JTPA grants for program years 1997–1999. Our purpose was to determine if JTPA funds had been properly closed out and if costs included on closeout reports were reasonable and supported. We identified numerous problems, including: expenditures reported to ETA in the closeout package were \$22.6 million more than in earlier final reports, administrative costs were not included in the closeout, and JTPA expenditures recorded in the State's official accounting system were \$12.1 million less than those reported to ETA.

OVER \$2.6 MILLION IN QUESTIONED COSTS IDENTIFIED IN AUDIT OF WtW GRANTEE

The OIG conducted a closeout audit of a Welfare-to-Work (WtW) competitive grant awarded to Private Industry Council SDA-V and the Training Plus Foundation of Pittsburg, Kansas. Overall, we questioned over \$2.6 million in costs due in part to unreported program income and inadequate reporting of participants served. We recommended that ETA recover the questioned costs.

VIRGINIA ATTORNEY SENTENCED TO 10 YEARS' IMPRISONMENT

A Virginia attorney was sentenced on March 7, 2003, to 10 years' imprisonment and was ordered to forfeit \$2.3 million to pay restitution to his victims. In December 2002, he was convicted of conspiracy, labor certification fraud, false statements, immigration fraud, and money laundering. The investigation revealed that he submitted thousands of applications for labor certifications on behalf of businesses that had no knowledge of the filings. As a result of the scheme, the attorney and his co-defendant made more than \$11 million during an 18-month period.

TEXAS MAN SENTENCED FOR EMBEZZLING AND OIG QUESTIONS \$570,000 IN COSTS

On January 30, 2003, the director of the Senior Texans Employment Program (STEP) was sentenced to 18 months in prison and three years' supervised release and was ordered to pay nearly \$120,000 in restitution. The director maintained control of the financial operations of STEP, enabling him to embezzle approximately \$120,000 from the organization during a five-year period. Subsequent to this criminal investigation, the OIG conducted a financial audit of the program's administrative and financial activities. We identified unallowable or questionable costs and recommended that ETA disallow nearly \$570,000 in questioned costs.

Top Department of Labor Management Challenges

The Reports Consolidation Act of 2000 requires the OIG to identify the most serious management challenges faced by DOL. These challenges include the following:

- Grant accountability, performance, and effectiveness
- WIA program implementation
- Financial performance
- Accountability: budget and performance integration
- Security of pension assets
- Protection of worker benefit funds
- Information technology and electronic government
- Integrity of foreign labor certification programs
- Human capital management
- Effectiveness of mine safety and health programs

A complete discussion and DOL's response are posted on the OIG's website: www.oig.dol.gov.

THE OIG ESTIMATES THE IRS OVERCHARGED THE UNEMPLOYMENT TRUST FUND \$174 MILLION

Over the past 15 years, the OIG has repeatedly reported problems with the amount of costs the IRS charges to administer the Unemployment Trust Fund (UTF). In 1999, the OIG reported that the IRS did not have a cost accounting system to capture actual UTF-related costs and had overcharged the UTF in FYs 1996–1998. While the IRS returned these overcharges to the UTF, ETA was unable to get the IRS to resolve the issues regarding its UTF charging process. The OIG recently completed a followup audit of the IRS's process for identifying administrative costs charged to the UTF. We found that for FYs 1999–2002, the IRS did not have adequate support for these costs.

The IRS recently proposed an alternative cost recovery methodology. We raised questions with one aspect of this methodology, and we recommended that ETA work with the IRS to address this issue and adopt an acceptable methodology. Using the IRS's proposed methodology, the IRS would have charged only \$126 million rather than the nearly \$300 million it actually charged. The IRS has already reimbursed the UTF for \$57 million of these overcharges. We recommended that ETA request that the IRS reimburse the UTF for the remaining overcharges. ETA agreed with our findings and recommendations.

WASHINGTON MAN ORDERED TO PAY NEARLY \$700,000

In January 2003, a Washington State man was sentenced to 45 months' incarceration and three years' probation and was ordered to pay nearly \$700,000 in restitution. This sentence was in connection with Unemployment Insurance (UI) fictitious employer, private insurance, and credit card schemes that he carried out for more than 10 years. The investigation revealed that he set up multiple fictitious businesses in Washington State and submitted false quarterly wage reports, enabling him to draw more than \$100,000 in UI benefits.

\$1 MILLION RESTITUTION ORDERED IN UNEMPLOYMENT INSURANCE FRAUD SCHEME

A California couple were sentenced for their participation in a UI identity fraud scheme that at its peak netted about \$60,000 a week. The couple were ordered to pay \$1 million in restitution, and the husband and wife were sentenced to four years' and 18 months' imprisonment, respectively. They used various individuals to file the fraudulent UI claims with the California Employment Development Department using the stolen identities.

UI CHECK COUNTERFEITER SENTENCED

In January 2003, a Missouri man was sentenced to 41 months' incarceration and two years' supervised release and was ordered to pay more than \$150,000 in restitution. He previously pled guilty to charges of conspiracy to possess counterfeit securities of approximately \$200,000. He led a counterfeit check scheme that defrauded the Missouri Division of Employment Security and other entities.

DOL's Financial Statements

UNQUALIFIED AUDIT OPINION ON DOL'S FINANCIAL STATEMENTS

For the sixth year in a row, the OIG issued an unqualified audit opinion on DOL's consolidated financial statements. Our tests disclosed no instances of noncompliance with Federal laws and regulations except for the Federal Financial Management Improvement Act (FFMIA). This act emphasizes the need for agencies to implement and maintain systems that provide timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. In our opinion, DOL substantially complied with FFMIA except for applicable Federal accounting standards concerning the implementation of managerial cost accounting. While our report on internal control reflected no material weaknesses, we did note seven reportable conditions that require DOL's attention.

Information Technology

DOL'S ELECTRONIC MEDIA DISPOSAL POLICIES ARE INADEQUATE

We looked at DOL's electronic media disposal policies and procedures. Surplus computers are donated to various organizations and disposed of through third-party contractors. We found that more than 85% of the surplus computers in our sample contained licensed software and/or sensitive, personal, or confidential information. The OIG recommended, and DOL agreed to, placing an immediate moratorium on the release of surplus electronic media until it can be properly sanitized.

COMPUTER SECURITY AUDITS FIND RISKS IN DOL COMPUTER SYSTEMS

We conducted a number of information technology (IT) security audits during this reporting period. While we identified positive security observations and controls that demonstrate each agency's efforts to improve the security and controls over its IT resources, we also noted several high-risk control findings that need to be addressed. The agencies involved agreed with our findings and agreed to take action.

Labor Racketeering

GAMBINO CRIME FAMILY BOSS GUILTY OF EXTORTION

In March 2003, Gambino LCN Family boss Peter Gotti and six associates were found guilty of racketeering, conspiracy, extortion, money laundering, and gambling. In addition, in November 2002, a former president of International Longshoremen's Association (ILA) Local 1814 pled guilty to Racketeer Influenced and Corrupt Organizations (RICO) Act violations. These individuals corruptly influenced unions and businesses on the New York and New Jersey waterfronts.

BOSTON MOBSTER SENTENCED TO MORE THAN NINE YEARS IN PRISON

In November 2002, a Boston man was sentenced to more than nine years' imprisonment after pleading guilty to charges under the RICO statute using predicate acts of extortion and embezzlement from the Teamsters Health Fund and interstate transportation of stolen property. At trial, it was revealed that he was one of the top Irish organized crime figures who controlled the Charlestown area of Boston and Teamsters Local 25.

Selected Statistics

Total Questioned Costs	\$183.8 million
Investigative Monetary Accomplishments	\$55.6 million
Audit and Evaluation Reports Issued	44
Indictments	337
Convictions	191
Debarments	13
Investigative Cases Opened	228
Investigative Cases Closed	211
Investigative Cases Referred for Prosecution	378
Investigative Cases Referred for Administrative/Civil Action	85

MOB BOSS AND ASSOCIATES INDICTED FOR RICO VIOLATIONS

In February 2003, 42 individuals were arrested, including “made” members and associates of the Genovese and Colombo LCN families (including the acting boss of the Colombo Family) and members and business agents of Operating Engineers Locals 14 and 15. A RICO indictment charged them with extortion, unlawful labor payments, and mail fraud. The LCN families allegedly used their influence to obtain preferential job assignments in Locals 14 and 15, and thereby extorted money paid as wages and contributions to the Locals’ benefit plans.

UNION STATE DIRECTOR GUILTY OF FRAUD

In November 2002, the former state director of the United Public Workers Union (UPW) and his daughter were found guilty of 95 criminal counts, most of which involved mail fraud and money laundering. They devised schemes to defraud UPW and its members of money paid out of UPW accounts for dental benefits. In addition, they laundered over \$300,000 of the embezzled proceeds from the health benefit program.

INDIANA INVESTMENT ADVISOR ORDERED TO PAY MORE THAN \$2 MILLION IN RESTITUTION

A former registered investment advisor for Indiana-based Local 1969 of the ILA Pension Fund was sentenced in December 2002. He was sentenced to 18 months’ incarceration and 36 months’ probation and was ordered to pay more than \$2 million in restitution. The advisor admitted that he converted more than \$500,000 of pension fund monies for his own use through various Nevada real estate investments. He also admitted to having laundered more than \$67,000 of converted pension funds through offshore bank accounts to purchase a luxury yacht.

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combat the
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in the nation’s
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