



**DEPARTMENT OF LABOR**

**Fiscal Year 2001 Budget Request**

**for**

**Office of Inspector General**

**Witness appearing before the  
House Subcommittee on Labor-HHS-Education Appropriations**

**Patricia A. Dalton  
Acting Inspector General**

**accompanied by**

**Edward L. Jackson, Director, Office of Budget**

**U.S. DEPARTMENT OF LABOR**  
**Statement by**  
**Patricia A. Dalton**  
**Acting Inspector General**  
**on**  
**Fiscal Year 2001 Budget Request for**  
**Office of Inspector General**  
**March 28, 2000**

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to testify before you in my capacity as the Acting Inspector General of the U.S. Department of Labor (DOL). I am pleased to appear before you today to discuss our Fiscal Year (FY) 2001 appropriations request and proposed activities.

**BACKGROUND**

The Office of Inspector General (OIG) was established at DOL by the Inspector General Act of 1978, as amended (IG Act) to provide independent, objective oversight of programs and operations. To carry out its mission, the OIG conducts audits, investigations, and evaluations to identify potential problems or abuses; develops and makes recommendations for corrective action; reviews legislative and regulatory initiatives; and informs the Secretary and the Congress of problems or concerns. The OIG at Labor is unique in that it is also responsible for carrying out a criminal investigations program to contribute toward the Government's effort to reduce the influence of organized crime and labor racketeering in unions and the workplace. The OIG administers its programs through four major components: the Office of Audit; the Office of Investigations; the Office of Analysis, Complaints, and Evaluations; and the Office of Management and Counsel. The OIG's FY 2001 budget request totals \$56,465,000 and 428 full-time equivalent (FTE) positions to carry out its mission. I will focus my testimony today on the types of activities that we propose to conduct in FY 2001, including areas where we plan to increase our attention.

**FY 2001 PROPOSED ACTIVITIES AND ENHANCEMENTS**

Mr. Chairman, as required for most Federal agencies, the context in which the OIG program is administered is the Government Performance and Results Act of 1993 (GPRA). Attached to my statement is a list of accomplishments for FY 1999 that helps to illustrate how we are working to achieve our own goals and work to support the goals established by the Secretary

for the Department.

Mr. Chairman, in FY 2001, we will focus our program activities on audits, investigations, and evaluations that will provide quality information regarding the effectiveness, efficiency, and integrity of key programs and operations. Our primary goal is to ensure that the information provided to DOL and Congress will be useful in their management or oversight of the Department. In addition, we will provide technical assistance to help DOL management address challenges and prevent problems from arising. Our proposal is to carry out activities and special initiatives in the areas of departmental management, employment and training, workplace safety, health and standards, worker benefits, and labor racketeering. The following are examples of the types of activities we propose to conduct.

#### A Prepared Workforce

To enhance performance and accountability of employment and training programs, we will focus our resources on the Department's effectiveness in implementing the Workforce Investment Act (WIA) program. For example, we will examine provisions and practices developed among One-Stop partners to account for the costs and outcomes of their combined efforts to determine if the partners are bearing their fair share of the programs's financial inputs and receiving equitable recognition for their contribution to program outcomes. We will also audit the employment and training system's effectiveness at training people with disabilities and successfully placing them in employment.

In addition, to assist the Department in effectively implementing the \$223 million in Youth Opportunity grants that were recently awarded, we will conduct postaward surveys of selected grantees to determine their capability to administer and deliver the program. We will use the same approach we applied in assessing the readiness of the Welfare-to-Work competitive grantees to identify implementation challenges and provide the Department with information on the grantees in greatest need of technical assistance and monitoring. In addition, we will continue to respond to requests for assistance from DOL management in determining whether Requests for Equitable Adjustments (REAs) submitted by Job Corps construction contractors meet the criteria for payment as specified in the Federal Acquisition Regulation. OIG audit results have proven to be helpful to the Department in resolving disputed claims and have the potential for resulting in significant cost savings. Our request includes an additional \$500,000 to continue to meet such requests from the Department.

### Quality Workplaces

In the area of safety, health, and workplace standards, we plan to evaluate the effectiveness of certain aspects of mine safety and health enforcement. Moreover, we will continue our focus on the integrity of those individuals administering DOL's safety and health programs. We will also evaluate the effectiveness of selected Office of Federal Contract Compliance Program operations.

### A Secure Workforce

To safeguard the integrity and efficiency of workplace benefit programs we will provide oversight of initiatives to streamline the ERISA reporting process and audit selected functions and operations of the FECA program to identify improvements and potential cost savings to the Government. From an investigative perspective, we will focus on fraud against the FECA, Black Lung, and Longshore and Harbor Workers' Programs by claimants or medical providers.

In addition, we plan to continue increasing our effort to identify and address fraud and weaknesses in the Unemployment Insurance (UI) Program. Over the past few years, we have identified numerous fraud schemes and weaknesses that affect the integrity of this critical multi-billion dollar program. In most instances, the states are not in position or do not have the jurisdiction to effectively address these weaknesses. Among our continuing concerns is the proliferation of multi-state schemes to defraud state programs.

### Maintaining a Strategic Management Focus

From a departmental management perspective, we will continue to increase our audit attention in the areas of financial management and GPRA performance systems and data validation. The OIG has to meet a number of responsibilities in these two areas. For example, we will provide oversight of work conducted by independent public accountants under the Single Audit Act (SAA). This type of oversight is important because it provides the Department and Congress with assurances that state-level audits are sufficient and reliable. Further, decision makers are better able to determine whether funds spent at the state and local levels are protected and used for their intended purpose. Unfortunately, there are growing concerns regarding limitations in agency financial statement audits' coverage of Federal financial assistance programs. Similarly, there are concerns that inadequate coverage could negatively affect the opinion on both the agency-level and government-wide financial statements. In response to

these growing concerns, the OIG will need to expand the scope of the financial statement audits to include on-site quality control reviews of audits conducted at the State level under the SAA. To meet this costly and labor-intensive responsibility in FY 2001, the OIG is requesting an additional \$1 million.

With respect to GPRA, we will continue to provide oversight and consultation to assist the Department in fully complying with the requirements of GPRA. The OIG will provide consultation assistance to the Department in its development of performance and cost accounting systems. We are now auditing the FECA and MSHA systems. In a related area, we will identify potential uses of data produced by the Bureau of Labor Statistics (BLS) for purposes of measuring DOL agency and program performance as required by GPRA.

#### OIG Labor Racketeering Program

As I mentioned earlier, Mr. Chairman, unlike other Inspectors General, the Department of Labor (DOL) OIG has a unique program responsibility for investigating labor racketeering and organized crime influence or control in employee benefit plans, labor-management relations, and internal union affairs. The influence and control by traditional and non-traditional organized crime figures in the workplace continues to have an adverse impact on the U.S. economy and results in reduced competitiveness in affected industries, thereby creating additional costs that are borne by American workers, businesses, and consumers.

An area of focus in FY 2001 will be the financial transactions that occur in the arena of individuals providing services to pension and benefit plans (accountants, lawyers, investment brokers, etc.). Within our resources, we will continue to identify, target and investigate investment brokers, plan administrators, and union officials who have ties to organized crime or who siphon excessive fees and/or commissions from union pension plans. We currently have 29 open investigations in this area, involving \$1.5 billion in pension assets. In the health benefit plan arena, the OIG will continue its focus on fraudulent health insurance schemes operated by "bogus labor unions," which are created for the purpose of selling fraudulent health insurance. These unions do not conduct legitimate collective bargaining and provide no representation for their members. They merely serve as a vehicle for the sale of insurance and to escape State regulation.

We will continue to conduct industry probes into organized crime influence in the garment,

maritime, and construction industries. During these probes, which are conducted on a regional or national basis, all the segments of a particular industry are examined to expose the corrupt relationships that form the core of the criminal enterprise. With respect to internal union affairs, we will continue to expose corruption in the four largest international unions which have traditionally been influenced, if not completely dominated, by organized crime families.

## **DEPARTMENTAL MANAGEMENT ISSUES**

Mr. Chairman, I will now briefly discuss management issues faced by the Department in the areas of financial management, grants management, performance measurement and reporting, and information technology.

### Financial Management

Mr. Chairman, financial management is an area where the Department has made significant progress over the last several years. As you are aware, we provided the Department with clean audit opinions on its financial statements for the last three fiscal years. However, we have major concerns with improvements that are needed at the agency level, as five important subsidiary systems of the Department are not in substantial compliance with the Federal Financial Management Improvement Act (FFMIA). These systems pertain to: accounting for both back wages and civil money penalties by the Wage and Hour Division; tracking mine safety and health penalties; accounting for Job Corps personal property; and ETA's recording of grant costs. As we have for over a decade, we are working with the Department to effect the needed changes in this area.

### Grant Accountability and Management

Mr. Chairman, grants management in DOL continues to be an area of concern. The Department is faced with initiating and managing several new grant programs. This increases the challenges already faced by the Department to assure accountability over grant funds. For example, our just-issued audit report on DOL's FY 1999 financial statements identified a number of accounting and management deficiencies related to grants awarded by ETA, BLS and OSHA. Of particular note is ETA's grant costs accounting system, which, as I mentioned, we determined was not in compliance with FFMIA. This system is used to account for almost \$9 billion in ETA

grant costs. Our audit found problems involving hundreds of millions of dollars in grantee cost reports that were not entered into ETA's accounting system, involving thousands of missing or improper accounting entries. ETA has subsequently taken corrective actions to ensure cost reports are recorded in a timely manner. However, a more comprehensive long-term solution is needed.

Another area of concern for us involves the ability of the International Labor Affairs Bureau (ILAB) to oversee the substantial amounts of recently appropriated funds, which will be used for making grants to foreign countries. To try to prevent accountability problems in the future, we are working with ILAB and Office of the Assistant Secretary for Administration and Management to assure sound grant management policies and practices are instituted in ILAB.

#### Performance Measurement and Reporting

The Department has implemented its Strategic Plan and Annual Performance Plan, per the requirements of GPRA. Like most agencies, DOL faces a number of challenges, particularly in terms of measuring and reporting program results. The Department's ability to produce useful information on the results and full costs of its programs will be determined by its ability to establish quality cost accounting and performance measurement systems and to verify results data provided by states and other sources below the Federal level. The Department has made progress in implementing new cost accounting requirements, including establishing and reporting against 11 outcome goals for the Fiscal Year 1999 Financial Statements. However, DOL needs to ensure that cost accounting is made a routine component of management's ongoing oversight and review function rather than a year-end exercise. Even with the good efforts that we see under way now, it will take a number of years for the Department to address these issues.

#### Information Technology Management

Mr. Chairman, information technology is a high-cost, critically important resource. Information residing in DOL computers is used to pay benefits, target enforcement efforts, compile labor statistics and make other decisions that affect the health, safety, and economic security of Americans. Information technology is also integrally linked to, and will be key to, the success of GPRA. As the Department becomes more dependent on the use of IT resources to carry out its mission and daily operations, effective stewardship by the Chief Information Officer (CIO) over such resources will also need to be ensured. This includes establishing an IT architecture for the Department as a whole and identifying and mitigating risks to avoid cost overruns, delays, and

failures on IT projects. In addition, it is important to audit the life-cycles of system development efforts to ensure they meet their intended objectives at acceptable costs.

The OIG's FY 1999 Financial Statement Audit identified several concerns regarding general controls and security over the IT systems that support the financial statements of the Department. Improvements are needed in the areas of the entity-wide security program planning and management structure, access to computer resources, segregation of duties, and service continuity. The CIO has developed a draft computer security handbook that addresses all of the above-mentioned areas of concern. The handbook is in the approval process. In addition, the CIO has committed to help agencies achieve compliance with the handbook, once it has been approved and disseminated.

Mr. Chairman, these diverse areas – financial management, grants management, performance measurement and reporting, and information technology management – form the foundation of Management's stewardship over DOL funds. The OIG has this year structured and increased its oversight activities in these areas to maximize our impact in helping DOL achieve full accountability over its resources and performance, as detailed in our budget justification. We are also building our capacity to eventually provide comprehensive opinion-level audit coverage of the key components of DOL accountability.

## **CONCLUSION**

Mr. Chairman, this concludes my prepared statement. I would like to thank you for the opportunity to present our budget request and performance plan for FY 2001. I would be pleased to answer any questions you or the other members of the Subcommittee may have.

**PATRICIA A. DALTON**  
**Acting Inspector General**

Patricia A. Dalton is the Deputy Inspector General of the U.S. Department of Labor. She assumed the role of Acting Inspector General on January 3, 2000, following the retirement of former Inspector General, Charles C. Masten. She is responsible for overseeing all OIG operations.

Ms. Dalton has served in the Federal Government for over 20 years. Most of her career has been with the Office of Inspector General, serving as Regional Inspector General for Audit in the Philadelphia Region and Director of Financial Management Audits.

Ms. Dalton also worked for the U.S. Army, serving as Director of Audit Policy, Plans and Resources for the Army Audit Agency.

Ms. Dalton is a Certified Public Accountant and Certified Government Financial Manager. She is a member of the American Institute of Certified Public Accountants and the Association of Government Accountants. She has served on a number of committees for both the AICPA and AGA. She has also served on the Comptroller General's Advisory Council on Government Auditing Standards.

Ms. Dalton did her undergraduate work at the College of Holy Cross in Worcester, Massachusetts, and holds a Master of Business Administration degree from the University of Massachusetts.

**U.S. DEPARTMENT OF LABOR  
OFFICE OF INSPECTOR GENERAL  
FY 1999 ACCOMPLISHMENTS**

**OIG Goal 1: Optimize the use of funds appropriated for training and employment programs by enhancing program performance and accountability.**

In the area of **employment and training**, the OIG focused its audit resources in the Welfare-to-Work (WtW) and the Workforce Investment Act (WIA) programs. The OIG audited numerous WtW grantees and found implementation proceeding slowly in both competitive and formula grants. The OIG determined that formula grantees were proceeding slowly because of unforeseen or unconsidered factors when the States developed their service and outcome levels and spending estimates. We recommended that the Employment and Training Administration (ETA) seek any needed legislative changes and continue to assist States and local agencies. With respect to reviews of competitive grants conducted during the early stages of their program implementation, we found financial and program vulnerabilities. We recommended that ETA reinforce its efforts to monitor grantee plans and program implementation schedules to ensure the most efficient and effective use of WtW funds. In the WIA area, ETA and the OIG collaborated on a survey of selected Job Training Partnership Act (JTPA) recipients to assist ETA in finalizing the regulations governing WIA administrative costs. We found that only two of the 13 recipients in our sample would have been in compliance with the WIA 10 percent administrative cost limitation. ETA is working to resolve this problem.

In the investigative area, the OIG continued to focus its investigative resources on fraud involving DOL's foreign labor certifications. In one case, an attorney was indicted on a 16-count indictment charging mail fraud, encouraging an alien to remain in the United States unlawfully, visa fraud, and aiding and abetting for his role in a scheme to attain visas and permanent resident status for non-citizens. We also issued a report summarizing the results of four audits conducted by the DOL and Education OIGs that focused on the sustainability of State School-to-Work (STW) systems and found that measures had been taken to contribute to this. We also recommended areas in which the States could take action to increase the likelihood that their STW systems will be sustained after Federal funding ceases.

**OIG Goal 2: Safeguard workers' and retirees' benefit programs by enhancing program performance and accountability.**

In FY 1999, the OIG continued to identify schemes used to defraud the various **benefit programs** administered by the Department. Our efforts to identify and eliminate fraud in this area resulted in 363 investigations resulting in over \$17.6 million in monetary accomplishments including fictitious/fraudulent UI cases involving over \$2.3 million. In one case, conducted jointly with the Naval Criminal Investigative Service, a former civilian employee with the U.S. Navy pled guilty to charges of making false statements in conjunction with his receipt of FECA benefits. In another investigation, the spouse of a Texas claimant was sentenced for fraud as a result of his guilty plea to a scheme to continue receiving his late wife's FECA compensation checks after her death. As a result of congressional interest, the OIG conducted a review of the timeliness of claimant reimbursement for out-of-pocket FECA medical expenses and requests for surgical authorizations. Among our findings was that OWCP had not set performance standards for responding to requests for non-emergency surgery. We recommended that OWCP set performance standards to reduce claimant uncertainty about the process. The OIG also reviewed OWCP's customer service surveys and found that OWCP needed to improve their survey techniques in order to be able to improve the quality of OWCP's customer services.

We audited the Department of Treasury's administrative charges to the **Unemployment** Trust Fund (UTF)

and found that Treasury overcharged the UTF \$48 million because the Internal Revenue Service's (IRS's) estimated costs had not been adjusted to actual costs during FYs 1996, 1997, and 1998. Our UI investigations focused primarily on identifying fictitious employer schemes, counterfeit check scams and fraudulent claims involving multiple states. One case resulted in fifteen people being indicted for operating a fictitious employer scheme that defrauded Massachusetts of \$352,120 in unemployment insurance funds. Another investigation performed in cooperation with two other law enforcement entities, resulted in three individuals being indicted and pleading guilty in a counterfeit check scam involving over \$2 million drawn against the UI program. In response to a congressional request in another area, we prepared a report jointly with the Social Security Administration (SSA) OIG regarding Part B of the Black Lung Program. From the study, we recommended that DOL and SSA study the feasibility of transferring the entire Part B program to DOL. Both ESA and SSA concurred.

**OIG Goal 3: Optimize the use of funds appropriated for worker protection and workplace safety programs by enhancing program performance and accountability.**

The OIG also continued its efforts to investigate criminal misconduct by those who are responsible for ensuring a **safe work place**, completing fourteen MSHA and OSHA cases of wrongdoing by inspectors. One investigation resulted in the sentencing of a mine owner and an employee for falsely certifying that miners had received safety training. Another investigation yielded the conviction of an inspector on one count of making false statements concerning his official inspection notes and one count of making false statements on his time and activity data forms. At the request of MSHA, the OIG conducted an evaluation of two complaints involving MSHA's regulation and procurement of self-contained self-rescue devices (SCSRs). Among our conclusions was that MSHA's use of the sole-source process was not fully justified and we recommended that procurement practices be reviewed to expand the use of competitive bids and ensure conformance with DOL regulations.

**OIG Goal 4: Assist DOL in maintaining an effective management process.**

The OIG audited the Department's consolidated annual financial statements and issued DOL a "clean" audit opinion. Our report on internal control reflects no material weaknesses, although we continued to note many reportable conditions that need management's attention. Our review of the Departmental agencies' strategic and annual performance plans concluded that DOL's plans generally comply with the Government Performance and Results Act (GPRA) and OMB Circular A-11. However, the plans could be enhanced to better reflect the Department's planning and performance goals. We also responded to a request from the Bureau of Labor Statistics (BLS) to audit activities associated with an early release of sensitive economic data. During the audit fieldwork, two additional security incidents occurred. Our audit focused on physical and automated security practices and procedures in three specific areas: information technology (IT), program survey offices, and administration. In general, we found weak internal controls in these areas and that pervasive problems existed in BLS' internal control structures. BLS is taking corrective action.

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

In its efforts to combat organized crime and labor racketeering in the workplace, the OIG conducted a number of significant high-impact investigations. During the year, we completed 54 employee benefit plan cases involving over \$19.4 million with 67 convictions in FY '99; 28 labor-management cases, resulting in over \$1.5 million in criminal monetary results, 35 convictions and 18 debarments; and corrupt union official cases resulting in 50 debarments. One joint investigation with the FBI and the New York Police Department centered around the historical control of organized crime in New York's garment center. Members of three organized crime families (Luchese, Gambino and Genovese), directed by the acting boss of the Luchese family, conspired to extort approximately \$2.5 million from garment center businesses. All 12 defendants have pled guilty to racketeering charges. To date six have been sentenced to serve various jail terms and to pay fines. Another OIG investigation resulted in the conviction of the former

president and sole shareholder of the Winston Hill Assurance Company on 18 counts of conspiracy, mail fraud, and money laundering. The former president had laundered over \$20 million in insurance premiums through his Bahamas-based company. When Winston Hill collapsed, it owed its claimants at least \$15 million in unpaid claims. The former president was sentenced to 20 years incarceration and a \$1,000,000 fine. As the result of an OIG/FBI joint investigation, two investment brokers of an investment group were convicted on March 30, 1999, on charges of conspiracy to pay a kickback, conspiracy to commit wire fraud, wire fraud, and money laundering. They embezzled \$9.3 million of pension fund assets along with Teamsters Local 875's attorney, who was previously sentenced.