



# Semiannual Report to the Congress

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U.S. Department of Labor  
April 1 - September 30, 1994

OFFICE OF INSPECTOR GENERAL

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OFFICE OF INSPECTOR GENERAL



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April 1 - September 30, 1994**

UNITED STATES DEPARTMENT OF LABOR

## THE INSPECTOR GENERAL'S STATEMENT

This Semiannual Report, covering the period from April 1 through September 30, 1994, documents many significant accomplishments of the men and women of the U.S. Department of Labor's (DOL) Office of Inspector General (OIG). Particularly noteworthy is the OIG nationwide audit of the Targeted Jobs Tax Credit Program; an extensive investigation of corruption involving Mine Safety and Health inspectors; the conclusion of an investigation into a multi-million dollar health insurance scam; and the OIG's audit on the impact of pension plan terminations on participants.

From a legislative perspective, two areas critical to the mission of the OIG were addressed in this Congress. First, largely as a result of the OIG actively working with the Congress and the Department, legislation to permanently amend the Federal Employees' Compensation Act (FECA) and its related criminal statutes was introduced by Senator Harkin of Iowa and enacted. The OIG believes that this change in the law will greatly deter fraud and abuse of the FECA program. Second, the Federal Acquisition Streamlining Act, introduced by Senator Glenn of Ohio, was passed by Congress. This comprehensive procurement reform measure contains provisions that codify and clarify what costs contractors may submit to the Government and provides all Federal agencies with the same authority to assess penalties against abusers. OIG audits have repeatedly identified abuses and, in May of this year, I testified before the Senate Committee on Appropriations, Subcommittee on Labor that I believed this to be a widespread Government problem. The OIG is of the opinion that this measure will go a long way towards deterring contractors from submitting improper charges to the Government.

During this period, in keeping with the Governmentwide streamlining and reinvention principles of the National Performance Review, the OIG initiated a comprehensive review of its internal organizational structure in order to consolidate functions and to the extent possible, eliminate supervisory and senior management positions, especially within headquarters. Through consolidation of OIG management responsibilities, 3 Senior Executive Service (SES) and 10 GS-15 positions have been eliminated, for a reduction of one-third of the headquarters SES and GS-15 positions. The OIG intends to continue to identify and implement further streamlining initiatives.

As in the past, my staff and I remain committed to working with Secretary Reich and the DOL management team to ensure that DOL programs and funds are effectively, efficiently, and economically managed; and that program results are maximized.



Charles C. Masten  
Inspector General

## SIGNIFICANT CONCERNS OF THE INSPECTOR GENERAL

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### **Ineffective TJTC Program Should be Eliminated**

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The Targeted Jobs Tax Credit (TJTC) Program was created to induce employers to hire disadvantaged individuals in exchange for Federal tax credits. However, a recent OIG nationwide audit of the program determined that 92 percent of the employees in our audit sample would have been hired regardless of the tax credit. In most cases, TJTC eligibility was determined after the decision to hire was made. As a result of the audit findings, the OIG recommended in the report and in testimony before the House Committee on Government Operations, Subcommittee on Employment, Housing, and Aviation that the program be eliminated. The Administration testified at that hearing and before the House Committee on Ways and Means, Subcommittee on Special Revenue Measures, that it does not support extension of the program in its current form.

The TJTC program was not reauthorized during this Congress and, therefore, will expire in December of this year. As Congress continues to assess the effectiveness of the TJTC program, the OIG urges that the program be eliminated, since the tax credit results in a windfall for employers rather than in inducing them to hire the disadvantaged.

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### **Pockets of Ineffectiveness in the Job Corps Need to be Addressed**

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The Job Corps Program was created 30 years ago as a residential education and training program to assist disadvantaged youths to become more employable, productive citizens. The OIG believes this program is an important tool in helping disadvantaged young men and women to turn their lives around and increase their economic earning power. This important mission, coupled with the fact that the program's costs exceed \$1 billion per year, makes ensuring Job Corps' success vitally important. At a recent congressional hearing, the OIG testified that, while DOL has generally taken corrective action in response to OIG recommendations to improve the program, there continue to be pockets of ineffectiveness within the program that need to be addressed by DOL before it continues to recommend that Job Corps be significantly expanded. The OIG notes that wide variances in overall performance among Job Corps centers remain. The OIG believes attention is needed in this important area to ensure that every student entering Job Corps has the same chance to succeed, regardless of what center he or she attends, and to ensure that scarce resources are not wasted.

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**Audits of  
Pension Plan Assets  
by Public Accountants  
Are Inadequate**

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Since 1984, the OIG has reported that hundreds of billions of dollars in employee pension funds are not being fully audited by independent public accountants to ensure that they are being safeguarded and available in the future to pay promised benefits. The limited scope audit provision of the Employee Retirement Income Security Act (ERISA) of 1974 is an important contributor to the danger of incomplete auditing of pension plan assets. The limited scope audit provision exempts from review by an auditor all pension plan funds that have been invested in institutions such as savings and loans, banks, or insurance companies already regulated by Federal or State Governments. At the time ERISA was passed, it was assumed that all funds invested in those regulated industries were being adequately audited. Unfortunately, as has since been discovered, this is far from true. The OIG has long recommended that ERISA be amended to repeal the limited scope audit provision. Such a change will be a major step that will involve public accountants in the kind of active role that ERISA originally intended them to take – that of offering a first line of defense to pension plan participants by apprising them of potential problems with their pension plans.

In addition, the OIG is concerned with some of the potential conflicts of interest that are inherent in the audit procurement process. Specifically, the current pension plan audit process is flawed by the system that is being used to procure pension plan audits, since the plan administrators are the ones who normally select and pay the auditors of their own plans. Moreover, the public accountants generally report their findings directly to the same plan administrators who are responsible for their being hired. This creates an awkward situation at best, and a potential conflict of interest at worst, since a public accountant who finds fault with a plan may be jeopardizing the chance to be considered by that plan for future engagements. Furthermore, if the public accountant reports only to the plan administrator, the administrator may not possess the initiative and/or independence necessary to take any necessary corrective actions. Although this past Labor Day marked the 20th anniversary of the enactment of ERISA, the OIG is concerned that very little progress has been made to correct these vulnerabilities.

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**The OIG Continues to  
Uncover Health Care  
Fraud Schemes**

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Criminal investigations by the OIG's Office of Labor Racketeering (OLR) continue to uncover multi-million dollar, multi-state health care fraud schemes in Multiple Employer Welfare Arrangements (MEWAs). These are arrangements among groups of employers with a common interest to pool resources to provide health care coverage to their employees.

Since 1989, OLR has uncovered several "entrepreneurial" MEWAs, which are arranged and sold by operators with no relation to the participating employers. A number of these MEWAs were managed by inexperienced and, in some cases, unscrupulous individuals who falsely claimed to be exempt from state insurance regulation. Using the preemption feature of the ERISA as a shield, some fraudulent MEWAs have swindled tens of thousands of American workers out of millions of dollars in premiums, and left many millions more in unpaid medical claims. It is evident that the large amounts of money residing in pension plans (estimated at a total in excess of \$2.7 trillion) and the billions of dollars flowing through employee benefit plans is a lucrative target for racketeers.

Recently, OLR investigations have narrowed their focus from typical MEWA operations to bogus labor unions. Initial indications show that these "unions" conduct no legitimate collective bargaining and provide no representation for their members, but merely serve as vehicles for the sale of insurance outside of the scrutiny of state insurance regulators.

In light of the financial ruin that many American families have suffered because of the loss of medical coverage and benefits, OLR will continue its priority to combat criminal activity in employee benefit funds. Through our investigative efforts, the OLR seeks to prevent these fraudulent health care operations from gaining an air of legitimacy under health care reform and to prevent the operators from marketing a product destined for abuse.

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## SELECTED STATISTICS

April 1 - September 30, 1994

### Office of Audit

Reports issued on DOL activities .....	178
Total questioned costs .....	\$ 13.2 million
Dollars resolved .....	\$ 23.4 million
Allowed .....	\$ 11.9 million
Disallowed .....	\$ 5.8 million
Agreed funds put to better use .....	\$ 5.7 million

### Office of Investigations

Cases opened .....	168
Cases closed .....	186
Cases referred for prosecution .....	115
Cases referred for administrative/civil action .....	108
Indictments .....	108
Convictions .....	77
Recoveries, cost efficiencies, restitutions, fines/penalties, and civil monetary actions .....	\$ 2.1 million

### Office of Labor Racketeering

Cases opened .....	57
Cases closed .....	56
Indictments .....	76
Convictions .....	76
Fines .....	\$ 0.6 million
Restitutions .....	\$ 2.9 million
Forfeitures .....	\$ 6.2 million

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**NOTE:** The Office of Investigations and the Office of Labor Racketeering conduct criminal investigations of individuals which can lead to prosecutions ("indictments") by criminal complaints, warrants, informations, indictments, or pre-trial diversion agreements. Successful prosecutions may carry sentences such as fines, restitutions, forfeitures, or other monetary penalties. The Office of Investigations' monetary results also include administrative and civil actions which are further detailed and defined in an Appendix on page 48 of this report.

# OFFICE OF AUDIT

During this reporting period, 178 audits of program activities, grants and contracts were issued. Of these, 21 were performed by OIG auditors, 15 by CPA auditors under OIG contract, 23 by State and Local Government auditors for DOL grantees and subrecipients, and 119 by CPA firms hired by DOL grantees or subrecipients. A list of these audit reports is contained in the Audit and Schedules Section of this report.

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## EMPLOYMENT AND TRAINING ADMINISTRATION

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The Employment and Training Administration (ETA) administers a number of statutes related to employment and training services for the unemployed and underemployed, employment security for workers, and other programs that are directed to the employment needs of the Nation.

A major ETA responsibility is to administer the Job Training Partnership Act (JTPA). JTPA authorizes a decentralized structure for the delivery of employment and training services, which is funded through grants and administered predominantly by the states. ETA's employment security functions are carried out by the Unemployment Insurance Service (UIS), which administers a nationwide unemployment compensation system, and the U.S. Employment Service (USES), which administers a nationwide public employment service system.

## STATE EMPLOYMENT SECURITY AGENCIES

Programs under the UIS and the USES are operated by State Employment Security Agencies (SESAs).

## Targeted Jobs Tax Credit Program

The Targeted Jobs Tax Credit (TJTC) program was enacted in 1978. The purpose of the program is to induce employers to hire members of nine targeted groups -- predominantly disadvantaged, hard-to-employ individuals -- in exchange for tax credits. The Joint Committee on Taxation estimates that in 1994, the TJTC program will result in revenue losses of nearly \$300 million.

### Nationwide Audit of the Targeted Jobs Tax Credit Program

During this reporting period, the OIG completed a nationwide audit of the TJTC program which examined activities for the period July 1, 1991 through June 30, 1992. The audit covered 9 states and included an evaluation of 1,150 individuals for whom employers received TJTC eligibility certifications. The audit sample design allowed the OIG to statistically project its sample results to the program nationwide.

The OIG found that the tax credits did not induce employers to hire members of the targeted groups. Nationally, the OIG projects 92 percent of those individuals for whom employers could have claimed a credit would have been hired regardless of the tax subsidy. Moreover, employers typically checked for TJTC eligibility after the hiring decision was made. Most employers paid contractors to determine whether job applicants met the TJTC program's eligibility requirements and to assist in obtaining an eligibility certification from State Employment Security Agencies (SESAs).

For the audit period, the OIG estimates that the costs of the TJTC program exceeded its benefits by over **\$234 million**. That is, for each dollar in administrative costs and tax credits, only about **37 cents** in economic benefits were returned.

The audit disclosed that TJTC employment is typically characterized by low-wage, low-skill, high-turnover jobs that offer no benefits. The OIG projects that through their TJTC employment, about:

- 1 in 3 employees was paid the minimum wage allowed by law; for all TJTC jobs in our sample, starting wages averaged \$4.96.
- 2 of 3 employees worked part-time.
- 2 of 3 employees received no fringe benefits, such as health or life insurance.
- 3 of 4 employees were no longer with the TJTC employer five quarters after being hired.

The OIG also compared TJTC employment-related wages, hours worked, fringe benefits and other job characteristics with the same

measures for jobs employees held before and after their TJTC employment. Overall, the TJTC jobs were much like other jobs in the individuals' employment histories. That is, the TJTC job was another entry-level, low-pay, low-skill job in a succession of similar jobs many of the individuals had previously held. TJTC-covered employment was the first job for only 13 percent of the individuals we sampled.

The OIG concluded that the TJTC program is not an effective means of helping target group members find employment. For the most part, the TJTC program simply does not cause the employment of the target group members. As a result, the OIG recommended that the Secretary encourage Congress to discontinue the program when its authorization expires on December 31, 1994.

In its response to the OIG report, ETA commented that past studies have cast doubt on the TJTC program's effectiveness and that the audit report, "... adds to those indications and deepens our concern about the program's design." However, ETA suggested that the audit is insufficient and that a "scientific study" with a "carefully constructed methodology" is necessary to determine the program's long-term impact. ETA indicated it shares OIG's concern that the program "does not effectively provide incentives for employers to hire individuals in the targeted groups" and will "continue to examine ways to strengthen achievement . . . including commissioning of a scientific study on the program's overall effectiveness."

The OIG is disappointed by ETA's response. We believe continuing the program while funding yet another study of this already extensively studied program will only add to its considerable expense, delay corrective action, and frustrate the objectives of the Vice President's National Performance Review. Moreover, in its 16-year history, a number of amendments have unsuccessfully attempted to "fix" the program. The OIG is of the opinion that because the program seldom achieves its intended purpose -- to cause the employment of these target group members -- it should be eliminated.

Congressional hearings by two House subcommittees on the fate of the program were held following the issuance of the OIG report and are discussed in the Executive Direction and Management section of this report. (Report No. 04-94-021-03-320, issued August 18, 1994)

**Arizona Department of  
Economic Security****Arizona Department of Economic Security Audit of Task IV Analysis**

The OIG audited the Task IV analysis prepared by the Arizona Department of Economic Security (ADES) for the period October 1, 1987 through September 30, 1990. By agreement between the U.S. Department of Labor and the ADES, ADES was required to complete several specific tasks to correct deficiencies noted during the FYs 1988, 1989, and 1990 audits performed under provisions of the Single Audit Act, and to provide assurance that Federal expenditures were correctly accounted for and reported. Task IV called for ADES to provide reasonable assurances that expenditures in excess of obligational authority for the period October 1, 1984 through September 30, 1990, were funded with non-Federal dollars.

The OIG audit contains a scope limitation on the Task IV Analysis and one finding. The scope was limited because the audit did not include a test of allowability of individual transactions for non-DOL programs, nor for DOL programs for the period October 1, 1987 to September 30, 1988. The finding involves duplicate billings of \$731,178 which were made under a Wagner-Peyser grant for JTPA and Rehabilitation Services Administration activities. (Report No. 12-94-018-03-325, issued August 24, 1994)

**ADES Schedule of DOL Financial Assistance**

The OIG performed an audit on the schedules of the Department's financial assistance to the Arizona Department of Economic Security (ADES) for the 2 years ended June 30, 1990, and the 2 years ended September 30, 1990. The audit report contains an unqualified opinion on the schedules.

The internal control report notes three reportable conditions which are considered material weaknesses: (1) ADES did not maintain documentation to support allowability of costs incurred outside the specified grant period; (2) ADES did not maintain adequate documentation to support journal entries used to transfer costs between DOL grants; and (3) ADES did not perform regular reconciliations between the ADES accounting systems and the State of Arizona accounting system.

The compliance findings include: (1) nonpersonnel service costs of \$101,215 that were charged to incorrect DOL grants; (2) reported costs that include \$174,193 of costs incurred subsequent to the grant

period; and (3) \$326,493 of costs that were transferred between grants without documentation to support benefit to the DOL grants charged. (Report No. 12-94-017-03-325, issued August 24, 1994)

## **JTPA TITLES II AND III PROGRAMS**

Title II of the JTPA authorizes employment and training services for eligible adults and youth and is funded through grants administered by the states. Title III authorizes the Economic Dislocation and Worker Adjustment Assistance (EDWAA) program which provides comprehensive employment, training, and support services to eligible dislocated workers.

### Georgia Mountains Regional Development Center

The Georgia Mountains Regional Development Center was established to promote economic development within a 13-county area in northern Georgia. The Center has been designated as the Service Delivery Area for North Georgia. In addition to DOL grants, the center administers other Federal and State programs.

As a result of concerns raised by ETA, the OIG audited selected expenditures of the \$2.6 million which was charged to DOL grants for Program Year 1992. However, the audit disclosed issues which caused us to examine earlier years' financial activities.

Georgia law prohibits regional development centers from directly providing participant assistance services to the public. To avoid this prohibition, the Center created related nonprofit corporations and contracted with them for delivery of services. In 1992, the Georgia State Attorney General issued an opinion indicating it was improper for the Center to have created and contracted with the related entities.

Following the opinion, the Center began contracting with a for-profit organization to serve the programs' participants. Many of the costs claimed by the contractor are for items or facilities the Center or its related entities have available. Consequently, the contracts with for-profit vendors have increased administrative costs of the programs and reduced funds available to assist those needing help.

The audit also found indirect costs the Center charged to the DOL grants often provided little or no benefit to Labor's programs. When beneficial, the services for which Labor programs were charged in-

direct costs could have been obtained at little or no cost from other sources.

The OIG audit also identified abuses related to a \$336,000 contract modification involving a contract between the Center and a for-profit contractor. The funds were intended to provide participants with on-the-job training. However, because the contract's terms were improperly negotiated, the contractor retained nearly two-thirds of the funds as fees. The OIG did not question these charges because a recent ETA review has recommended their recovery.

The OIG questioned rental costs of \$164,506, charged to DOL grants, for space in buildings which were purchased predominantly with Federal funds. The Center continued to charge rent for office space after the buildings' construction debt was retired through "rental" charges to Federal grants.

The OIG recommended the Assistant Secretary for Employment and Training require the State to pursue a more cost effective program delivery system. As several other Georgia Regional Development Centers operate in similar circumstances, corrective action should also address their activities. We also recommended recovery of \$164,506 in improper rental charges.

In his response, the Center's Executive Director expressed general agreement that the Center's limited capability to deliver participant services has increased administrative costs borne by Federal programs. However, the Director contends that the rental charges included allowable operation and maintenance expenses. (Report No. 04-94-025-03-340, issued August 11, 1994)

## **JTPA TITLE IV PROGRAMS**

JTPA Title IV authorizes employment and training programs for Native Americans, Seasonal Farmworkers, and other activities and programs collectively known as "National Programs."

## **Native American Programs**

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



The Falmouth Institute (\$141,882 Disallowed)

The Falmouth Institute is a for-profit corporation that largely provides consultant services to Native American and Indian organizations. ETA awarded Falmouth a contract to provide training and technical assistance through on-site visits for Native American and Indian grantees funded under JTPA and to conduct specified training seminars.

On September 7, 1994, the ETA Contracting Officer issued a final decision disallowing \$141,882 of the \$145,411 questioned costs in the OIG audit report issued on October 29, 1993. The questioned costs result from the OIG's audit of the direct and indirect costs claimed during the period June 20, 1990 to June 20, 1992. (Report No. 18-94-001-07-735, issued October 29, 1993)

**Seasonal Farmworker Programs**

JTPA Title IV also authorizes employment and training programs designed to meet the special needs of seasonal farmworkers.

California Human Development Corporation (CHDC)  
(\$1,165,160 Questioned)

CHDC is a nonprofit corporation that received a number of grants directly from the Department of Labor to operate employment and training programs for migrant and seasonal farmworkers in three States (California, Oregon and Washington). The OIG performed a financial and compliance audit of expenditures made by CHDC's branch office known as Washington Human Development (WHD), selected Seattle-King County Private Industry Council agreements and property administrative practices. The audit resulted in \$1.17 million in questioned costs (27 percent of the \$4.3 million in reported costs for the 18-month period audited).

Our major findings were that: (1) WHD charged salaries and fringe benefits of administrative personnel; and the costs of audits, surveys, and consultants totalling \$690,121 to the training cost category, rather than the administration cost category, which allowed WHD to circumvent the 20 percent limitation on administration costs; (2) costs claimed of \$222,113 in WHD's Financial Status Reports were not supported by expenditure records; and (3) CHDC demonstrated a total lack of control over Federal funds, including drawing down funds far in excess of WHD's immediate needs, failing to pay WHD

vendors in a timely fashion, and failing to complete bank reconciliations and related followup matters in a timely manner. Interest computed on the excess cash that should be returned to DOL is \$67,244. Our other questioned costs resulted from duplicate charges, inequitable allocations, unreasonable/unallowable charges and lack of supporting documentation. In early May, the OIG issued an alert memo to inform the Secretary and ETA that CHDC had already drawn down just about all of the years' funds under its DOL grants and, in doing so, had diverted about \$1.5 million for non-grant uses (in addition to our questioned costs on the Washington grant). We informed the Department that CHDC appeared to be virtually bankrupt, with a large corporate debt and severe cash flow problems. ETA then notified CHDC that it would not be refunded for Program Year 1994. The training programs were offered to the three States. They all accepted; however, California and Oregon chose CHDC to run the programs for them as a subgrantee. On September 1, 1994, CHDC declared Chapter 11 bankruptcy. (Report No. 18-94-018-03-365, issued August 18, 1994)

## National Programs

JTPA Title IV authorizes funds for nationally administered activities such as training and technical assistance programs, research and evaluation projects, and pilot and demonstration projects.

### Opportunities Industrialization Centers of America, Inc. (OICA)

OICA is a nonprofit organization established to provide training and job creation services to the poor and unemployed. It accomplishes this task primarily through approximately 70 affiliates, or job training centers, throughout the U.S. OICA provides technical assistance and training to its affiliates through several mechanisms including workshops and classes, on-site visits, preparation and dissemination of technical "how to" manuals, and information bulletins concerning various aspects of JTPA and other job training legislation.

The OIG audited \$4.8 million in direct costs claimed by OICA under a partnership grant for the 3 fiscal years ended September 30, 1993, and in indirect cost rates proposed by OICA for the 3 fiscal years ended June 30, 1993.

The audit resulted in questioned direct costs of \$192,588 and questioned indirect costs of \$360,011. In addition, OICA did not remit to DOL \$2,268 in interest earned, as required. However, OICA billed

DOL using indirect cost rates substantially lower than either the rates it had proposed or the "audit recommended" rates. As a result, if the "audit recommended" rates are accepted and the questioned direct costs are sustained, then OICA would owe DOL \$142,044.

The questioned direct costs resulted from OICA billing for costs which exceeded the amounts recorded in the general ledger and improperly charging to the ETA grant consultant fees, communication, supportive services, and materials and supplies which should have been charged to either the indirect cost pool or other direct projects. The primary reasons for the questioned indirect costs were that OICA included unallowable salaries and fringe benefits for the ex-president and staff members working for the Chairman of the Board; made improvements to the building OICA rents that were improperly expensed rather than capitalized and amortized; charged investment losses that were improperly written off; and made distributions to affiliates that were improperly charged as indirect costs.

OICA disagreed with some of the questioned direct costs and stated that it would "pursue documentation" for the remaining questioned direct costs. OICA did not specifically address the various indirect cost items questioned; but disagreed with the impact of the questioned indirect cost rates. (Report No. 18-94-019-07-735, issued August 19, 1994)

#### Audit of DOL Grants for WAVE, Inc.

WAVE is a national, nonprofit organization which received grants from ETA for job training programs for youth (a Partnership grant and an Apprenticeship grant). The OIG audited the grants for Fiscal Years (FYs) 1990-1992 (about \$1.4 million a year) and issued an audit report on September 27, 1994. ETA has not renewed WAVE's grants; the last grant from DOL expired on June 30, 1994. Of the total \$4.8 million in costs claimed by WAVE for FYs 1990, 1991, and 1992, the OIG questioned \$1.2 million (or about 25 percent of the overall grant funds) for the DOL Partnership and Apprenticeship grants (\$448,058 direct costs and \$758,158 indirect costs). Because of the reported findings, the auditors issued an adverse opinion on the costs claimed for the audit periods. WAVE disagreed with the questioned costs.

**Direct Costs:** The questioned direct costs were primarily due to: (1) failing to reduce rental costs, which included rental costs of sub-lessees, by the rental income received from the sub-lessees; (2) allocating to the Partnership grant unallowable losses of other contracts/grants; (3) including the costs of the Board of Directors as direct costs instead of indirect costs; (4) reclassifying costs without adequate documentation to justify the reclassification; and (5) understating revenues resulting from erroneous journal entries.

**Indirect Costs:** WAVE charged a disproportionate share of its supporting service costs (indirect costs) as direct costs to the Partnership grant. In addition, WAVE included substantial amounts of unallowable costs in its indirect costs, improperly treated the costs of fundraising activities as indirect costs, and allocated little or no indirect costs to its largest program [Directly Administered Programs (DAPs)] and to its private foundation grants.

WAVE was also inconsistent in the methods used to propose indirect cost rates and to allocate indirect costs to its programs. Both the indirect cost rate agreement and the grant provided provisional indirect cost rates based on the use of total direct costs as the allocation base. In proposing the rates for FYs 1990-91, WAVE excluded the total direct costs of the DAPs from its allocation base, but, in proposing the rate for FY 1992, included such costs in the allocation base. However, in allocating indirect costs for FYs 1991-92, WAVE used direct salaries, excluding those of the DAPs.

**Administrative Matters:** In July 1990, WAVE revised its cost accounting practices to stop accounting for time spent on the Partnership grant, and to stop charging any costs to the grant during a fiscal year. WAVE charged all of its costs to all other projects during the year and, at year end, "allocated" (transferred) to the Partnership grant the deficits of various cost centers whose activities, according to WAVE, were within the scope of the Partnership grant. This was done in a manner that the amounts transferred agreed with the grant budget by line item and by total.

WAVE's new method violated the following provisions of OMB Circular A-122: (1) accounting for salaries based on the "actual activity of each employee" reflected by timesheets; (2) requiring that direct costs be charged based on the concept of specific identification, and; (3) treating losses (or deficits) on other contracts/grants as unallowable costs.

Because it did not account for the actual time spent on, and the actual costs incurred for, the Partnership grant, WAVE not only violated key provisions of OMB Circular A-122, but it did not have accurate, reliable financial data to (1) draw down the proper amount of Federal funds on a bi-weekly basis; and (2) prepare and submit to DOL the required quarterly financial status reports. This deprived DOL of the necessary data to monitor WAVE's financial operations under the grant. (Report No. 18-94-021-07-735, issued September 27, 1994)

## **OLDER WORKER PROGRAMS**

The Older Americans Act of 1965 authorizes subsidized part-time work opportunities in community service activities for unemployed low-income persons age 55 and over. Through grants and contracts administered by ETA, the Senior Community Service Employment Program (SCSEP) is intended to address unmet community needs by utilizing the skills of senior citizens.

### National Council on the Aging (\$453,679 Disallowed)

The National Council on the Aging (NCOA) is a private, nonprofit organization founded in 1950 to provide training, research, information, and technical assistance to professionals and volunteers in the aging field. NCOA is one of the National sponsors under the SCSEP.

CY 1990 Audit: In March 1993, the OIG issued an audit report for calendar year 1990. The audit resulted in \$560,145 in questioned costs (indirect \$327,121; direct \$233,024), with a DOL impact of \$468,566. Because of these findings, the OIG issued an adverse opinion on the indirect and direct costs claimed by NCOA for calendar year 1990. The preponderance of the questioned costs resulted from improper charges of salaries and fringe benefits for NCOA employees who worked on non-Federal programs, or activities such as fundraising, membership, private programs and lobbying activities, to both its indirect cost pool and ETA grants. Other questioned costs resulted from the allocation of nonpersonnel costs (related to above) and from other direct charges to ETA grants which resulted in the improper shifting of substantial costs to the Department. In September 1994, the ETA Grant Officer issued his Final Determination disallowing \$453,679.

CYs 1988-89 Audits: In March 1991, the OIG issued an audit report as a result of a financial audit of NCOA for CYs 1988-89. The findings were similar to those noted above. In September 1992, the

ETA grant officer issued his Final Determination disallowing \$342,545. On October 15, 1992, NCOA appealed to the Office of Administrative Law Judges (ALJ). An ALJ hearing on this case is still pending.

Thus, to date, \$796,224 has been disallowed by the Department's Grant Officer. (Reports No. 18-93-009-07-735, issued March 18, 1993; and 18-91-018-07-735, issued July 19, 1991)

### **INTERNAL CONTROLS IMPLEMENTED BY ETA TO PREVENT EXCESSIVE CASH DRAWDOWNS**

ETA has taken a significant step to address a problem we noted during a recent audit of a grantee. During that audit, the OIG discovered that, for a number of years, a grantee had been drawing down excessive funds. At times, the grantee had 4 to 5 months worth of cash on hand. It appeared that ETA lacked procedures to avoid excessive and unnecessary cash drawdowns by grantees. This was confirmed when the grantee's management staff and ETA staff stated there were no such internal controls in place to prevent the drawdown of any amount which did not exceed the total grant award. While the OIG did not know how widespread the problem was, we believed it occurred because internal controls (a computerized edit check, etc.) were lacking which would alert ETA of excessive drawdowns by grantees. Accelerated cash drawdowns deprive the Federal Government of the use of these funds.

The OIG recommended to ETA that a computerized alert edit check be programmed into the system which would alert ETA staff that grantees may be accelerating cash drawdowns. As a result, ETA requested HHS's Payment Management System staff to implement a computerized drawdown filter. This filter will flag a grantee whose monthly drawdowns are in excess of a certain percentage of its monthly average. (Report No. 18-94-017-03-310, issued August 19, 1994)

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### **PENSION PLAN TERMINATIONS**

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The Employee Retirement Income Security Act of 1974 (ERISA) is the principal law regulating qualified private pension and welfare benefit plans in the United States. ERISA was enacted to curb abuses in administering and managing the voluntary system for employee pension and welfare benefit plans and requires adequate disclosure of information to pension plan participants and their beneficiaries. The law established standards of conduct for plan managers in order to assure proper fiduciary controls; funding requirements to provide greater security for participants' pensions; and a

federally mandated insurance program, operated by the Pension Benefit Guaranty Corporation (PBGC), to safeguard pension benefits for workers when certain defined benefit pension plans are terminated with insufficient assets to satisfy benefit liabilities.

### Audit on the Impact of Pension Plan Terminations

The OIG performed a nationwide audit of pension plan terminations. The main objective of the audit was to answer several questions, including:

- Why are pension plans terminated?
- What impact do pension plan terminations have on American workers?
- What impact does the actual termination process have on American workers?

According to the Plan Year (PY) 1990 Internal Revenue Service (IRS) Form 5500s, 60,859 pension plans were terminated involving 1.6 million participants and almost \$27.6 billion in plan assets. Pension and Welfare Benefits Administration (PWBA) information indicates that during the same 1990 plan year, the U.S. had 712,000 active private pension plans with \$1.8 trillion in assets, which increased to \$2.5 trillion in 1992.

**Plan Terminations:** Since ERISA's establishment in 1974, Congress has passed other laws to strengthen funding requirements and provide additional protections to participants. Some of the changes have limited plan contributions, reduced the accumulation of tax deferred contributions, or provided new types of pension plans, prompting some employers to change the type of pension plan offered or terminate all pension coverage.

The OIG interviewed plan sponsors and asked why their plans were terminated. Although sometimes more than one reason was given for terminating a pension plan, these are the three primary reasons given by 73 percent of the sponsors interviewed:

- desire to eliminate the administrative and cost burdens of the plans;
- reaction to tax law changes which reduced their tax benefits; and
- normal changes in the business entity or a change in sponsors.

Because of tax law changes and the resulting increase in administrative costs, some of the plan sponsors believe that the tax benefit is no longer a sufficient reason to sponsor a qualified pension plan. When asked what would be the best way to encourage sponsors to maintain their pension plans, 77 percent stated that reducing burdensome administrative requirements, reducing regulations and providing employer incentives by changing tax laws would encourage continued plan sponsorship.

The OIG believes employers originally set up their qualified pension plans to provide retirement benefits, because the tax laws benefitted them, and pension funding costs were acceptable. Without continued encouragement and incentives, plan sponsorship may decline leaving millions of American workers without adequate pension coverage.

**Impact on Participants:** Eighty-two percent of the participants interviewed stated the plan termination had no effect on them. However, only a few of the participants demonstrated they truly understood their pension plan and were concerned about losing pension coverage. Eighty-one percent of the participants received only a small dollar amount when the plan terminated, and they may have considered the loss of a small benefit as no loss. Whether the participants understood it or not, however, a pension plan termination is a real loss in terms of both present benefits and future income; and means a loss of: 1) time accrued toward retirement if a replacement plan does not allow prior years of service to count toward vesting or benefit accrual in a new plan or successor company's plan; 2) tax free accumulations if the distribution is not rolled over into another retirement vehicle; 3) PBGC guaranty obligation for defined benefit plans under Title IV of ERISA; 4) PBGC guaranty obligation when irrevocable commitments (annuity contracts) have been purchased to pay benefit liabilities; and 5) benefits to participants when they cannot be located when the plan terminates.



Another loss which is difficult to quantify is the possibility an individual must delay retirement until later than originally planned and/or experience a reduction in lifestyle at retirement because of a loss of pension benefits.

**Asset Distribution:** In the qualified terminated pension plans, 81 percent of the participants received 8 percent of the benefits distributed which, if other resources are not ultimately available, would be inadequate to provide a meaningful pension. On the other hand, 19 percent of the participants received 92 percent of the benefits, more than \$10,000 each, providing considerable assets toward future retirement. In addition, some participants could not be located when the plan terminated, and they may never receive their promised benefit accrual under the terminated plan. Approximately \$51.6 million in retirement funds are being held for 105,000 participants who were not located during the benefit distribution process. Some of these participants and/or their beneficiaries may never receive their accrued benefits.

The following table projects the amounts participants in terminated plans received when benefits were distributed:

PROJECTED BENEFITS AT DISTRIBUTION				
Range of Benefits (Dollars)	PARTICIPANTS		BENEFITS	
	Number (Thousand)	Percent	Dollars (Billion)	Percent
0 to 1,000	778	43	0.3	1
1,001 to 5,000	541	30	1.3	4
5,001 to 10,000	146	8	1.0	3
<b>Subtotal</b>	<b>1,465</b>	<b>81</b>	<b>2.6</b>	<b>8</b>
10,001 to 50,000	248	14	5.7	17
50,001 to 100,000	36	2	2.4	7
Over 100,000	65	3	23.0	68
<b>Subtotal</b>	<b>349</b>	<b>19</b>	<b>31.1</b>	<b>92</b>
<b>Total</b>	<b>1,814</b>	<b>100</b>	<b>33.7</b>	<b>100</b>

Since retirement fund accumulations usually are related to the annual income and length of service, low wage earners and those with short employment periods have little potential for earning large retirement benefits. However, participants with large annual incomes and longer lengths of time in the plan qualified for large amounts of retirement funds.

**Trends:** For the period prior to PY 1990, it appeared employers were terminating defined benefit plans and replacing them with defined contribution plans. Some participants felt the change benefitted them and others preferred the defined benefit plan. However, according to the May 1994 issue of the Employee Benefit Research Institute (EBRI) *Notes*, "Most recently, IRS statistics indicate that the net growth in defined contribution plans may be slowing . . . IRS determination letter statistics also indicate that the decline in the number of defined benefit plans may be flattening."

A desirable attribute of defined benefit plans is that they provide a future monthly benefit based on a formula, which includes factors for years of service and annual earnings. Most of the time, employers are totally responsible for funding these plans. When changing from a defined benefit plan covered under Title IV of ERISA, to a defined contribution plan, participants lose the PBGC Federal guaranty over pension assets.

Defined contribution plans generally provide for payments into an account in the name of the participant and at retirement the participant receives the contributions and earnings in the account. If it is a profit-sharing defined contribution plan, the employer decides how much, or if, to contribute each year. The defined contribution plans, in effect, shift the risk of investment gain or loss to the participant.

**Conclusion:** The audit indicated that ERISA provided reasonable protection for the funds in qualified pension plans. However, in the terminated plans we reviewed, most participants had only small amounts of funds while the majority of funds belonged to a very small number of participants.

The impact of terminations for most participants, especially those with low annual incomes, was the receipt of only a modest amount of retirement resources and the loss of an ongoing plan which accumulated tax-deferred contributions and income. For some, the result was the loss of a defined benefit plan and receipt of a defined

contribution plan. For a few, the impact was the receipt of very significant amounts of benefits.

The U.S. Government has a long-standing policy of granting tax incentives to employers providing pension coverage. Individual employees participating in a pension plan receive a deferral on income tax as their benefits accrue. The advantage of accumulating tax-deferred benefits is lost when plans terminate and the funds are not reinvested in similar retirement programs.

It is questionable whether or not the participants covered in our review understood or appreciated the need for retirement planning, since 82 percent stated that pension plan termination had no effect on them. When asset distributions from the terminated plans are not reinvested, workers give up one of the major benefits of the current pension and tax laws which allow pre-tax dollars to accumulate into significant amounts of compounded tax-deferred retirement savings. In addition, workers lose the vested time with the pension plan and normally have to re-start vesting requirements in a pension plan, if one is made available. As a result, some workers may not be able to retire with income security or may be forced to remain active in the labor force longer than they desire. (Report No. 09-94-001-12-001, issued September 30, 1994)

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## FINANCIAL MANAGEMENT

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The Department is making progress in several key financial management areas. For example, although the Department still does not have a Chief Financial Officer (CFO), improvements have been made in the proposed organizational structure for the CFO. In addition, many audit recommendations from the Fiscal Year 1993 audit were resolved before the audit report was issued, and many audit recommendations from prior years reports have been resolved and appropriate action has been taken or is in progress. The Department is also moving towards performance measures which reflect program outcomes.

## CHIEF FINANCIAL OFFICER

As reported in every semiannual report since the enactment of the CFO Act of 1990, the OIG continues to be concerned about the lack of a permanent CFO for the Department of Labor. Currently, the Deputy CFO is serving as Acting CFO.

The OIG believes that appointment of a highly qualified permanent CFO would enhance the Department's ability to achieve and maintain a high degree of sound financial management. Among the benefits an independent CFO should provide to the Department would be objective financial information before various program policy decisions are made and objective financial evaluation of the results of such decisions, such as cost analyses of performance measures and activities, the monetary benefits of program outcomes, and the return on investment.

In the last semiannual report, the OIG also expressed its concerns about the proposed CFO organizational structure submitted to OMB. The Department wanted to combine the functions of the Assistant Secretary for Policy with those of the CFO. The OIG believed that this could result in a conflict of interest. The perception, and perhaps reality, would be that the CFO would not objectively evaluate the Department's finances related to his or her program policy decisions. To maintain appropriate separation of duties, the CFO organization should be a separate agency in DOL.

Recently, the Department revised its proposal for the CFO organizational structure to make the Office of the CFO a separate agency in DOL. However, the Department decided to split the budget functions between the CFO and the Assistant Secretary for Policy and Budget (ASPB) as follows:

- The ASPB would be responsible for formulating the budget and representing the Department before the Congressional Appropriations and Budget Committees, and the Office of Management and Budget (OMB) on budgetary matters.
- The CFO would be responsible for (1) all central budget execution, including apportionment and administrative control of funds appropriated by the Congress; (2) monitoring the implementation of departmental budgets through ongoing ad hoc and periodic formal reviews of component agency fund and position utilization; (3) relating the costs of program operations to results achieved; and (4) providing policy, guidance and oversight for the development of agency financial management budgets.

The proposed changes, as presented to the OIG, appear to remove the OIG's concerns about the CFO's independence and assigned functions.

**FISCAL YEAR 1993  
FINANCIAL AUDITS**

The Department of Labor is required by the CFO Act of 1990 to annually prepare and submit to OMB financial statements that present the overall financial position, results of operations, cash flows, and budget and actual expenses of the Department. As required by OMB, the Department also includes, as part of the financial statements, performance measures for its various programs.

The CFO Act requires that the Department's financial statements be audited annually for fair presentation. In addition, OMB requires that the annual audit include an understanding of the internal controls related to the completeness and existence/occurrence assertions as they relate to the reported performance measures.

**FY 1993 DOL Consolidated Financial Statement Audit**

**Audit Scope Qualification:** As in prior years, the OIG qualified its opinion on the Department's financial statements due to the lack of independent verification of data maintained by the U.S. Department of Treasury (i.e., the Federal unemployment and coal tax revenues and related receivables and liabilities). However, progress is being made with Treasury and GAO officials in obtaining annual audits of these revenues sufficient for DOL to remove the qualification from its financial statements in future years.

**Management's Assertions:** The financial statements and reported performance measures must be reliable for the American taxpayers and Government decision makers (Congress, Office of Management and Budget, the Department, et al.). Inherent in the DOL financial statements are six implied assertions by DOL management. If management's assertions are true, then the reports are reliable. Therefore, management must have processes to ensure the assertions made are true. The OIG's recommendations for improving internal controls are designed to assist management in gaining this assurance. These assertions are:

**Existence or Occurrence:** Reported assets and liabilities actually existed at the balance sheet date, and reported transactions occurred during the reporting period.

**Completeness:** All transactions and accounts that occurred during the fiscal year were reported, and all assets owned and all liabilities owed at the end of the fiscal year were reported.

**Rights and Obligations:** Reported assets were owned by DOL, and reported liabilities were owed by DOL.

**Valuation or Allocation:** Assets, liabilities, revenues, and expenses were included in the financial statements at the appropriate amounts.

**Presentation and Disclosure:** Financial statement components were properly classified, described, and disclosed in conformity with appropriate accounting principles.

**Compliance with Laws and Regulations:** Transactions, activities, and programs were in accordance with laws and regulations that could have a material impact on the financial statements.

**Current Year Audit Findings:** In summary, of the 35 current year recommendations, management agreed with 25 recommendations and disagreed with 10 recommendations. The OIG will continue to work with management on areas of disagreement. Management's response contained information sufficient to resolve 16 recommendations, of which 2 are closed. The remaining 19 recommendations are unresolved. In order for a recommendation to be considered resolved, management must provide a corrective action plan that constitutes a reasonable proposal for remedying the problems or deficiencies described in the audit within the shortest possible time. None of the current findings were considered to be material weaknesses.

The OIG made recommendations related to five of the six management assertions: existence/occurrence, completeness, valuation/allocation, presentation and disclosure, and compliance with laws and regulations. We did not identify the need for improvements in the rights and obligations assertion.

**Existence or Occurrence Assertion:** Improvements in internal controls would help ensure that (a) goods and services which have been received are not included in undelivered orders; (b) documentation will be available to support recorded salaries and expense transactions; and (c) reported performance measures will include only data that occurred during the reporting period.

In their response to the draft report, management did not agree that amounts identified in the audit as over-obligated deprived the

Department of the use of those funds; however, they did agree to reinforce their policy on periodically reviewing all obligations. With regard to performance measures, management believes that its evaluation of agency performance measurement systems would be duplicative of the OIG's auditing responsibilities.

Completeness Assertion: Improvements in internal controls would help ensure that (a) accounts payable, obligations and subsequent adjustments, and Black Lung Disability Trust Fund receivables are recorded in the proper accounting period; and (b) reported performance measure data is complete. Although management concurred that accounts payable were not correctly recorded at year end, management believes that the correct recording of obligations is as important as the correct recording of accounts payable. With regard to performance measures, management believes that their evaluation of agency performance measurement systems would be duplicative of the OIG's auditing responsibilities.

Valuation or Allocation Assertion: Improvements in internal controls would help ensure that (a) accounts payable and related transactions are recorded at the correct amounts; (b) funds with U.S. Treasury account are properly valued; (c) Wage and Hour's civil monetary penalty and backwage accounts are correctly stated; and (d) District of Columbia and Longshore Special Funds' cash receipts are allocated to the proper fund.

Although management did not concur with the degree or significance of error noted in the accounts payable finding, they agreed in most instances to take some corrective action. Management believes that recommendations made regarding the reconciliation of funds with Treasury are somewhat hampered by Treasury reporting requirements that DOL balances agree with Treasury balances.

Presentation and Disclosure Assertion: Improvements in internal controls would help ensure that accounts payable are properly classified as Federal or non-Federal. Management did not agree with this finding.

**Compliance with Laws and Regulations:** Improvements in the method of forecasting amounts needed from the Unemployment Trust Fund (UTF) for State Unemployment Insurance and Employment Service Operations (SUIESO) would help to maximize interest earnings of the UTF, as required by the Social Security Act.

Management did not agree with the OIG's conclusion that Monthly Treasury Statements do not accurately reflect the outlays of the UTF and appropriated funds.

**Prior Year Audit Findings:** The Department has made significant progress in taking action on internal control findings reported as a result of the audit of DOL's FY 1992 financial statements. Of the 33 recommendations made (all of which also impacted the FY 1993 internal control structure), 19 are closed (i.e., appropriate actions have been completed), 11 are resolved (i.e., management has outlined corrective actions, but all planned actions have not been completed), and 3 are unresolved (i.e., management has not yet agreed on action to be taken on reported findings). Five of the recommendations related to material weaknesses (four related to the Department's accounting and reporting for grants and one related to the comprehensive accounting system for the Unemployment Trust Fund). The 11 resolved recommendations pertain to:

- Accounting for property and equipment (3)
- Reconciliation of the payroll subsidiary system with the general ledger
- Financial statement compilation guide
- Department's accounting and reporting for grants (2)
- Comprehensive accounting system for the Unemployment Trust Fund
- Allocation of Working Capital Fund costs to user agencies;
- Monitoring of Treasury's administrative assessments to the Unemployment Trust Fund
- Development of performance measures related to program outcomes



The 3 unresolved recommendations pertain to:

- Accounting and reporting for grants (2)
- Monitoring of Treasury's administrative assessments to the Unemployment Trust Fund

(Report No. 12-94-012-07-001, issued September 2, 1994)

## PERFORMANCE MEASURES AUDITS IN THE DEPARTMENT

Recent legislation and executive action have concentrated attention on changing the way the Federal Government operates. Major efforts are under way to change management of Federal organizations and programs, moving away from budget-driven systems toward performance-driven systems. These efforts are directed at changing managers' focus away from inputs (dollars and FTEs) and outputs (products completed) to outcomes, i.e., the external impact upon groups benefitting from the programs. The CFO Act of 1990, the Government Performance and Results Act of 1993, the National Performance Review, and the Secretary's reinvention efforts are examples of this trend.

### FY 1993 Performance Measures Audit

**OIG focus:** The OIG is committed to helping the Secretary and Assistant Secretaries make these changes successfully within the short time periods allocated by the Congress and the chief executive.

Where reported performance information did not actually measure achievement of the expected outcomes, the OIG sought to assist in shifting the performance measurement and reporting process toward real outcome measurement. The OIG did this by developing, for discussion purposes, potential, alternative performance measures (emphasizing outcomes) for some agencies or programs. The OIG intended that these serve as catalysts for reflection and discussion and as aids in reorienting employee and management attention toward outcomes. Overall, management has taken positive steps in implementing recommendations related to performance measures with an emphasis on outcomes.

**OMB reporting guidance:** Preliminary OMB guidance on preparation of the overview and supplemental financial and management information sections of the annual financial statements

notes that a key element in ensuring the utility of financial statements will be their inclusion of appropriate performance measures. The inclusion facilitates using the financial statements to assess both financial and program performance. Program performance measures are intended to inform the public the extent to which the program achieved its mission, goals, and objectives.

**Reliability of reported performance measures:** The reported performance measures must be reliable for the American taxpayers and Government decision makers (Congress, Office of Management and Budget, DOL, et al.). Inherent in the reporting of performance measures are four implied assertions by DOL management. If management's assertions are true, then the reports are reliable. Therefore, management must have processes which give them assurance that the assertions being made are true. OIG's recommendations for improving internal controls were designed to assist management in gaining this assurance.

**Management's Assertions:**

Presentation and Disclosure: All appropriate performance measures were reported and all reported measures were appropriate and properly classified, described and disclosed.

Completeness: No material data applicable and appropriate to the reported performance measures were omitted.

Occurrence: All transactions, events, activities or other items reported occurred during the reporting period.

Valuation: All performance measure data were reported in the proper amounts, percentage or ratios.

**Scope of audit:** As a part of the overall support for implementation of these changes, the OIG audited all agencies' performance information contained in the Overview Section of the Department of Labor's Fiscal Year 1993 financial statements. These agencies are: ETA's Employment and Training and Unemployment Insurance programs; ESA's Wage and Hour Division, Office of Workers' Compensation Programs, and Office of Federal Contract Compliance Programs; OAW's Office of Labor-Management Standards; OSHA; MSHA; PWBA; and BLS.

**OIG audit reports issued:** The OIG issued individual reports to Assistant Secretaries to assist them in moving their organizations toward greater accountability, productivity and customer service through real outcome measurement. The OIG also issued a consolidated report to the Office of the Chief Financial Officer (OCFO) with recommendations on actions the OCFO should take in assisting the Assistant Secretaries in identifying appropriate performance measures and accurately reporting on them.

**Current Year Findings and Recommendations:** As required by OMB Bulletin 93-06, our recommendations for improving internal controls related to the assertions of completeness and occurrence were included in the DOL Consolidated Financial Statement Audit.

To provide a complete picture of the reported performance measures, the following is a summary of findings and recommendations related to the assertion of occurrence in addition to a detailed discussion of findings related to the assertion of presentation and disclosure. The recommendations related to the assertion of completeness have been resolved and closed, and we did not make any recommendations related to the assertion of valuation.

Presentation and Disclosure:

**Appropriateness of reported performance measures:** Performance measures should show the extent to which a program's mission, goals and objectives have been achieved. However, the Department's reported performance measures generally were focused more on inputs and outputs such as resources consumed, processes completed, and outputs generated, rather than the expected outcomes and results of their efforts.

DOL's current performance measures are a direct result of OMB's interagency effort to identify and establish common program performance and financial performance measures. To date, there has been no coordinated effort by the Department to develop outcome related performance measures which could provide a more efficient and effective basis of measuring an individual agency or program's performance against their established goals and objectives.

According to ESA, the Department's Enforcement Council will review enforcement agency performance measures later this year to ensure

that measures are outcome based. However, the OIG is unaware of any Department-wide effort to ensure appropriate development of outcome performance measures for individual agencies and programs. We believe a coordinated effort would provide a more efficient and effective process for developing outcome-based performance measures.

**Recommendations:** The OIG recommended that the Acting CFO take a more active role regarding the presentation and disclosure assertion for the reported performance measures. More specifically, we recommended that the Acting CFO establish a team comprised of CFO and agency personnel to address the development of program outcome measures that appraise the results of agency and program efforts to ensure compliance with legislative mandates.

**Management's Response:** *Although the OCFO understands OIG's perspective in the finding, we do not concur with the recommendation. In addition to the OCFO's responsibilities for displaying performance measures in budget and financial statement documents, and for developing methods for associating accounting data with such measures, the Department's Assistant Secretary for Policy (ASP) is responsible for research, evaluation and economic analysis related to determining the overall effectiveness of the Department's program activities.*

*ASP has maintained for some time that the development of outcome-focused performance measures must be based on the requisite research and evaluation of the various programs. To provide agencies with information as to how they might improve their performance measures, ASP is conducting a series of lectures on the development of outcome measures that are more indicative of the overall effectiveness of programs and activities for the agencies. The OCFO will work with ASP to promote the development of suitable performance measures that are reliable indicators of program effectiveness.*

*Considering the complexities associated with developing outcome performance measures and recognizing that such data may not be available for several years, OCFO is continuing to work with the agencies to improve the existing output-focused measures for use in financial statements and budget presentations. We are also assuring that the architecture of DOLAR\$ has sufficient flexibility*

*to display accounting data at the organization, funding and project levels relevant to performance measurement.*

**OIG's Conclusions:** This recommendation is unresolved for the following reasons:

- Section 902 of the CFO Act provides that agency CFOs are responsible for developing and maintaining integrated accounting and financial management systems which provide for the systematic measurement of performance;
- The February 5, 1992 memorandum to the CFOs from the Deputy Director for Management (OMB) includes steps for choosing appropriate measures;
- OMB Bulletin 94-01 states that the CFO shall be responsible for preparing a policy bulletin or guidance memorandum that gives guidance on performance data; and
- The Department's proposed major duties and responsibilities for the CFO define the financial and program management information duties to include assuring "the development and use of program performance measures that can be meaningfully associated with the costs of DOL's various programs." The proposed duties also include providing "leadership in implementing the Government Performance and Results Act."

#### Occurrence

**ETA (JTPA) Verification Process:** ETA should develop a more comprehensive process for ensuring that grantees fairly report JTPA Titles II and III performance measurement data. At present, ETA does not verify the accuracy of these reports either through on-site inspections or by other means.

**ETA (JTPA) Availability of Documentation:** ETA used the JTPA MIS system for analyzing and summarizing performance measurement data for program year 1992. After the initial run date, ETA could not generate ADP reports with the same national totals since subgrantees had subsequently submitted amended reports. Further, ETA did not save its data file as detailed support for their performance measures reported in the FY 1993 consolidated financial statements.

**MSHA - Availability of Documentation:** The OIG could not verify the accuracy of nine reported performance measures. Documentation was not available for four of the performance measures. Documentation provided for five measures did not agree with the reported data, with variances ranging from 1.4 percent to 16.9 percent. The variances occurred because the reports provided to support the reported measures were run at the time the auditors requested the information, not when the performance data was compiled. MSHA management has agreed to maintain documentation for their FY 1994 performance measures.

**Recommendations.** The OIG recommended that the Acting CFO: (1) provide guidance to the agencies to ensure that (a) the appropriate performance measures data is accurately collected and compiled, (b) reports from non-DOL entities are accurate, and (c) documentation needed to support reported performance measures is retained; (2) evaluate the adequacy of the agencies' systems for ensuring that data reported actually occurred during the reporting period; and (3) follow up to ensure that action is taken as a result of CFO guidance and evaluations and OIG audits of the occurrence assertion for performance measures. No further recommendations are being made in this report.

**Management's Response:** The Acting CFO concurred with recommendations 1 and 3, but stated that management believes that its evaluation of agency performance measurement systems would be duplicative of the OIG's auditing responsibilities.

**OIG Conclusions:** Recommendations 1 and 2 are unresolved. The Department should provide guidance in the specific areas noted in the recommendation in order to reduce the occurrence of the weaknesses identified. Inherent in the occurrence assertion is OCFO management's responsibility to ensure that internal controls exist and are adequate to provide reasonable assurance that the data reported actually occurred during the reporting period. OIG is responsible for assessing and reporting on the adequacy of the internal controls, not ensuring their existence and adequacy. Since the agencies are taking corrective action to eliminate the weaknesses identified, recommendation 3 is resolved. (Report No. 12-94-011-07-001, issued September 30, 1994)

**Prior Year's  
Recommendations**

The audit of the FY 1992 financial statements identified material internal control weaknesses in OSHA, PWBA, UIS, and Job Corps systems for reporting performance measures. Therefore, in Audit Report 12-93-008-07-001, the OIG made five recommendations to the CFO addressing performance measures. These impacted the FY 1993 internal control structure. Four of the five recommendations are resolved and closed. The other recommendation is resolved.

**REVISED MANAGEMENT  
DECISIONS**

The Department reported no significant revised management decisions to the OIG.

## OFFICE OF INVESTIGATIONS

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### SUMMARY OF PROGRAM INVESTIGATIONS

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The Office of Investigations (OI) continued to focus its limited investigative personnel and resources on matters involving allegations of serious criminal violations within its investigative jurisdiction. During this reporting period, OI concentrated its efforts to identify and investigate corrupt Federal employees and others involved in providing services or benefits to the public under Department of Labor (DOL) financed or administered programs. Special attention was placed on those who chose to misuse their position or authority for personal gain, oftentimes to the detriment or safety of those they were sworn to serve. As reported herein, substantial OI resources were devoted to investigations of alleged corruption within the coal mine inspection program in Kentucky as well as other serious misconduct or criminal activity by DOL employees. In addition, significant resources were utilized to investigate the filing of fraudulent claims for benefits under the Federal Employees' Compensation Act (FECA), fraud within employment and training programs administered under the Job Training Partnership Act (JTPA), and in the Unemployment Insurance (UI) program, particularly claims involving migrant farm or seasonal workers along the Texas/Mexico border.

Statistically, for this reporting period, OI investigative activity accounted for 108 indictments, 77 convictions, and \$2.1 million in monetary accomplishments. In accordance with its established investigative priorities for Fiscal Year 1994, OI devoted 32 percent of its investigative time to JTPA matters, about 26 percent on FECA fraud investigations, 13 percent of its time to unemployment insurance matters, and 14 percent to employee integrity investigations.

In its continuing effort to support the objectives of the Vice President's National Performance Review to streamline processes and make Government work better and cost less, and in furtherance of its leadership role on the Fraud and Abuse Subcommittee of the Joint Agency Office of Workers' Compensation Task Force, OI again offered assistance and training to other Federal agencies in identifying and investigating FECA fraud and abuse. During this period, OI conducted four FECA fraud training sessions to provide individuals with examples, methods, and suggestions to help raise their agency's awareness of fraud and abuse within their respective workers' compensation programs. The training also provided them with proven investigative techniques to help reduce the investigative time re-



quired to support criminal prosecution of such cases. Two of the training sessions were attended by a total of 62 special agents from the Army Criminal Investigations Division, the Naval Investigative Service, and the Air Force Office of Special Investigations. The other two sessions were directed to special agents from 13 different Offices of Inspector General.

OI also continued its efforts to encourage Congress to pass legislation to amend the FECA statute, as well as Title 18, U.S. Code §1920 (False Statements to Obtain Federal Employees' Compensation). On September 30, 1994, the President signed into law H.R. 4606 (Public Law 103-333), which included permanent legislation to deter fraud and abuse in the Federal employees' compensation program. The legislation raised the violation of the FECA fraud statute (Title 18 USC §1920) from a misdemeanor to a felony, provided that the benefits falsely obtained amount to at least \$1,000. In addition, the legislation amended Chapter 81 of Title 5, U.S. Code by inserting a new section which provides that anyone convicted of defrauding the FECA program will have their FECA benefits terminated. The new law also suspends payment of FECA disability benefits to individuals convicted of any felony and who are serving a prison term.

Enactment of this legislation has long been a goal of the Office of Inspector General, Office of Workers' Compensation Programs, and other agencies throughout the Federal community. The law should save \$22 million over a 5-year period. In addition to providing a cost savings through the termination or suspension of benefits, the measure will go a long way towards deterring those who might consider defrauding the program.

During the past year, the Office of Investigations continued to investigate allegations involving program fraud, waste, and abuse and employee integrity, both within the Department of Labor and in other entities managing DOL funds. Several of these investigations directly impacted the health and safety of American workers. Our efforts in this area are accentuated by the prosecution of corrupt MSHA Mine Inspectors who failed to exercise their inspection responsibilities in exchange for personal gain. The elimination of such unscrupulous employees is of the utmost importance. Mining is inherently dangerous as evidenced by the fact that over 450 miners have been killed in mine accidents since 1990. MSHA inspectors are entrusted with the lives of coal miners and nothing but the highest integrity is

acceptable. These investigations are just the first step in stopping corruption and employee misconduct associated with the mine industry. OI is committed to identify and investigate every allegation of official misconduct and corruption in order to maintain the integrity of all DOL programs.

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## **SIGNIFICANT ACCOMPLISHMENTS**

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### **MSHA Inspectors Admit Extortion**

The following cases highlight significant accomplishments of these types of investigations:

An extensive year-long OI investigation of official corruption involving Mine Safety and Health Administration (MSHA) inspectors in Eastern Kentucky culminated in May 1994, with the arrest of three veteran MSHA inspectors and one state mine inspector. These arrests were made following the unsealing of a Federal grand jury indictment that charged Federal mine inspectors, Edward Kendrick, John Banks, and Clifford Crum, along with James Morgan, a former inspector with the Pikeville Office of the Commonwealth of Kentucky, Department of Surface Mining Reclamation Enforcement, with various counts of bribery and extortion. OI's investigation, which was closely coordinated with the Kentucky State Police, focused on official corruption of mine safety enforcement officials on both the Federal and State levels in eastern Kentucky. Each of the individuals charged was involved in separate and unrelated schemes to solicit cash and various items of value from operators of mines at which they conducted regulatory safety and health inspections. The three Federal inspectors, who worked out of the MSHA office in Pikeville, and Morgan, solicited bribes ranging from \$500 to \$2,000 and items such as a bass boat motor and a rifle from Pike County coal companies. In July 1994, Kendrick, Banks, and Morgan, pursuant to plea agreements, pled guilty to charges of taking bribes from coal companies in exchange for favorable mine inspection reports. Crum entered a not guilty plea to his one-count bribery charge, but a Federal jury returned a guilty verdict at the conclusion of his trial on July 25, 1994. Morgan was sentenced on September 21, 1994, to serve 18 months in prison followed by 2 years of probation. Sentencing for the remaining three inspectors is scheduled for November 1994.

The investigation, which required the use of covert investigative techniques, was conducted with the cooperation and assistance of the

Office of the Assistant Secretary for Mine Safety and Health. *U.S. v. Kendrick/Banks/Crum/Morgan* (E.D. Kentucky)

*Impact: The detection, prosecution, and removal of these corrupt MSHA employees is a major first step toward regaining the respect and trust of the American coal miner. Investigations such as this make it less likely that MSHA inspectors will accept gratuities in exchange for risking the lives of the miners they are employed to protect.*

**New Jersey  
Department of Labor  
Employees Charged  
in UI Investigation**

Six New Jersey Department of Labor (NJDOL) employees have been charged in indictments or criminal informations for their involvement in a series of schemes in which they conspired to accept bribery fees from ineligible UI claimants. Based upon information developed to date, it is estimated that tens of millions of dollars in benefits were paid as a result of the schemes. In follow-up to this investigation, which was detailed in our last Semiannual Report, on May 24, 1994, the first four of the NJDOL employees, Christopher Boyd, Barbara Sirmans, Ana Torres, and Rosarito Vasquez (all of whom were employed in the Newark NJDOL UI office), and another non-employee, Ana "Elsie" Gonzalez (who actually worked in the hot dog truck parked in front of the Newark office), entered guilty pleas to criminal informations, charging each of them with a single count violation of conspiracy.

On July 25, 1994, OI Special Agents along with Postal Inspectors arrested Phyllis Thomas at the Jersey City Employment Service office following the unsealing of a 25-count superseding indictment returned on July 21, 1994. The indictment charged Thomas, Rita Tyler, another former NJDOL employee, and Antonio Rodriguez, also known as the "hot dog man," with conspiring to accept fees from ineligible UI claimants. They were also charged with paying and receiving bribes, cashing UI checks issued as a result of the fraudulent claims, and misusing social security numbers. On September 23, 1994, Phyllis Thomas pled guilty to count one of the superseding indictment, admitting that she had conspired with others to defraud the NJDOL UI program. Previously, on April 12, 1994, Marino Figueroa, one of Rodriguez's associates, pled guilty to conspiracy and mail fraud. Figueroa admitted he and other non-employees, along with four DOL employees at the Newark and Elizabeth, NJ, UI offices, were involved in a scheme which resulted in him receiving at least 440 UI checks worth almost \$144,000 in UI benefits. *U.S. v. Rodriguez, et al.* (D. New Jersey)

*Impact: As a result of the information provided by OI, the New Jersey Department of Labor has revised its claims handling procedures in an effort to more quickly identify possible ineligible claims. Office supervisors will be required to personally assess those claimants. These revisions should result in significant savings to the New Jersey UI program.*

### **OWCP Employees Charged with Conspiracy to Commit Bribery**

On April 20, 1994, Terrence D. Murry and Cheryl A. Jackson, Office of Workers' Compensation Programs (OWCP) claims examiners, were charged in a five-count indictment with conspiracy to commit bribery, conflict of interest, wire fraud, mail fraud, and aiding and abetting. Dr. Nicholas J. Exarhos, a licensed chiropractor in the State of Virginia, and Jonathan Hipp, doing business as National Medical Supply, were also charged in the indictment.

This OI investigation, which was initiated at the request of OWCP management, disclosed that between January and July 1993, Murry and Jackson entered into a conspiracy with Dr. Exarhos and Hipp to defraud the DOL of over \$275,000. Murry and Jackson improperly referred over 90 FECA claimants to Dr. Exarhos' chiropractic center in Annandale, Virginia, for medical evaluation. Dr. Exarhos and others at his direction then prescribed testing, treatment, and medical hardware for the claimants.

The indictment charged that Murry and Jackson improperly approved Dr. Exarhos' requests for payment. Monies to pay Murry and Jackson were generated by Dr. Exarhos delivering "Tens" units to the claimants and subsequently having Hipp bill OWCP \$782.50 for each unit and its accessories. Hipp, through his medical supply business, had paid about \$60 for each unit and its accessories. Dr. Exarhos also paid Murry and Jackson about \$21,000 in supposed business development fees through a front company, Crown Consulting, formed by Murry. The trial is pending.

If convicted on all counts, Murry and Jackson, who have been terminated from their employment with the Department of Labor, face a maximum sentence of 20 years of incarceration and a fine of \$1 million. If convicted on all counts, Dr. Exarhos and Hipp each face a maximum of 15 years of incarceration and a \$750,000 fine. *U.S. v. Murry, et al.* (D. District of Columbia)

*Impact: The detection of this scheme eliminated an ongoing fraud against the FECA program and abuses against FECA recipients who were receiving unnecessary treatment and equipment. It also removed two unscrupulous employees who were more concerned with using their official positions for personal gain than with providing service to their customers.*

**Executive Director  
Indicted on a \$400,000  
Embezzlement**

On July 28, 1994, Douglas Lee Shaw, former Executive Director of the Mid-Valley Consortium, a recipient of DOL funds through the County of Los Angeles, California, was indicted by a Federal grand jury on 38 counts of embezzlement of approximately \$400,000 of JTPA funds, conspiracy, witness tampering, and obstruction of a Federal audit. Shaw was arrested by OIG agents on the same date he was indicted.

Shaw headed the Mid-Valley Consortium for 15 years until he was terminated last year. He was charged with stealing checks payable to Mid-Valley, taking cash advances at local race tracks and having them paid with Federal funds, and paying the salary of a secretary to former Bradbury City Manager, Dolly Vollaire. Vollaire was recently sentenced to 2 years of imprisonment for misusing City funds. If convicted, Shaw faces a maximum sentence of 179 years in prison and a fine of up to \$8.5 million. *U.S. v. Shaw* (C.D. California)

*Impact: The successful investigation, prosecution, and removal of this director halted his continuous scheme of embezzlement of JTPA funds and ensures that JTPA funds are available for their intended purpose, providing participant benefits.*

**Fomer Texas State  
Employee Sentenced  
to Jail in UI Fraud Scam**

As a result of OI's investigation, on May 13, 1994, Sonia Jones, a former Texas Employment Commission data entry clerk, pled guilty to a one-count information charging her with theft of Government funds. Between April 1992 and September 1993, Jones input false UI information of family and friends causing 118 fraudulent benefit checks totalling \$32,390 to be mailed to her personal address. Jones then forged endorsement signatures on each check and deposited them into her personal checking account. On July 22, 1994, Jones was sentenced to 8 months in prison, ordered to pay full restitution in the amount of \$32,390 and an assessment fee of \$50. In addition to her prison sentence, Jones will be required to serve 3 years of supervised probation. *U.S. v. Jones* (N.D. Texas)

As a result of a similar UI fraud investigation conducted jointly with the Postal Inspection Service, on August 3, 1994, six former Puerto Rico Department of Labor (PRDOL) employees, Melvin Pagan Velez, Alejandro Sanchez Lacen, Jamie Lopez Collazo, Javier Dones Perez, Brian Brumlop, and Eva Rodriguez, along with non-employee Jose Conde Irizarry, were named in a 23-count indictment charging them with having conspired to fraudulently obtain \$125,000 in UI benefits. The indictment charges them with creating fraudulent UI claims in the names of individuals who had never filed for benefits. The checks were generated and mailed to the conspirators, friends, or relatives. They then cashed the checks and shared the proceeds. The PRDOL employees embezzled UI funds by manipulating data in the wage reporting system to increase benefit amounts or initiate entirely new claims. *U.S. v. Pagan, et al.* (D. Puerto Rico)

#### **Michigan State Employee Guilty of Theft**

Following an OI investigation, on August 3, 1994, former Michigan Employment Security Commission (MESC) payment clerk Bonnie L. Turmon pled guilty to theft of Government money. The investigation revealed that while Turmon was employed at MESC, she created six fraudulent Extended Unemployment Compensation (EUC) accounts in the names of her minor children and other relatives. As a result of Turmon's actions, nearly \$28,000 in EUC benefit checks were fraudulently issued to those individuals. Turmon's sentencing is pending. *U.S. v. Turmon* (E.D. Michigan)

*Impact: The investigation and criminal prosecution of corrupt State employees as illustrated in these three cases will serve as a deterrent to others who would breach their responsibilities to the American workforce.*

**While the above cases are representative of OIG's efforts to investigate allegations of official misconduct and the endangerment of life, health, and safety, the following equally important cases accentuate OIG's commitment to eradicate fraud and abuse in all DOL programs.**

#### **Two Charged in \$1.3 Million UI Fraud; ETA Begins Corrective Action**

OI's investigations of UI fraud schemes along the border between the United States and Mexico continued during this reporting period and have, to date, resulted in 38 indictments and 33 convictions. Most recently, on August 3, 1994, Juanita Barreiro Barrera and

Margot Quintanilla Barreiro were arrested in McAllen, Texas, by a team of Federal agents from the Postal Inspection Service, the Immigration and Naturalization Service, and OI. Both of the defendants were charged in a five-count indictment with conspiracy and mail fraud. The defendants allegedly schemed to defraud the California Employment Development Department of \$1,357,351 by fraudulently obtaining interstate unemployment benefits on behalf of seasonal alien workers.

Also, on July 19, 1994, a Federal grand jury in Laredo, Texas, returned indictments against Olga Solis, Jose A. Garcia, and Antonia Garcia for their alleged part in a similar scheme to defraud the DOL through the filing of false documents to fraudulently receive over \$187,000 in unemployment benefits for migrant workers who were not eligible to receive such benefits. On September 14 and 15, 1994, Solis and Jose and Antonia Garcia, respectively, pled guilty to false claims. The investigations continue and additional criminal charges are expected. *U.S. v. Barrera, et al.* (S.D. Texas)

*Impact: The Inspector General has furnished details of these investigations to ETA. In response, ETA has provided the State of Texas with investigative resources that were previously unavailable. Texas, by agreement with ETA, will now investigate claimants and other issues as requested. The agreement will become effective at the beginning of Fiscal Year 1995. Texas will also serve as a collection point for data gathered during these investigations. This data will then be analyzed jointly with ETA in order to determine the most effective means to reduce or eliminate these schemes. The OIG has agreed to provide guidance and investigative assistance throughout this project to facilitate this goal.*

#### **24 Individuals Sued for Making False Claims in JTPA Case**

On May 26, 1994, the U.S. Attorney's Office for the Middle District of Georgia filed 16 separate lawsuits against 24 persons seeking damages and penalties for alleged false claims for payments for job training made through the Middle Georgia Consortium (MGC) by a company known as Southeastern Training Corporation.

The lawsuits filed in Macon Federal Court allege a total of 31 fraudulent transactions. Under the Federal False Claims Act, the United States can collect three times the damages proved plus a mandatory penalty amount of not less than \$5,000 and not more than \$10,000 for each false claim proven. The lawsuits allege that cer-

tain persons signed false statements concerning the employment or the 30-day retention period of some trainees, and that the persons signing the statements had been induced or assisted by others. Fines and penalties that could result from current actions exceed \$375,000. *U.S. v. Southeastern Training Corp., et al.* (M.D. Georgia)

*Impact: This case holds accountable all persons who "allowed" fraud, waste and abuse to occur by knowingly approving false documentation or certifying that the information had been verified.*

### **JTPA Contractor Indicted for Fraud**

A 49-count indictment was handed down on September 22, 1994, against three officers of Quality Plus, Inc. (QPI), an Atlanta based JTPA training contractor. Kathleen Bacon-Miller, QPI president; her husband, Barak Miller, financial aid officer; and Paris Miller, instructor (not a relative of the other defendants) were charged with conspiracy to defraud the DOL of JTPA funds and the Department of Education (DOE) of Pell Grant funds.

Between 1988 and 1992, QPI held five JTPA clerical training contracts with multiple service delivery agencies totalling \$525,000. QPI officials allegedly provided false, fraudulent scores and/or manipulated participant exam scores to ensure benchmark payments for participants. The estimated loss amount is in excess of \$296,000.

Additionally, the co-conspirators' scheme involved fraudulently billing the DOE for approximately \$260,000 for Pell Grants concerning participants who were not present at QPI during the billing period. If Kathleen Bacon-Miller is convicted on all counts, she faces a maximum of 111 years in prison and fines exceeding \$10 million; Paris Miller faces 45 years and \$5 million; Barak Miller faces 35 years and fines totalling \$750,000. *U.S. v. Miller, et al.* (N.D. Georgia)

### **Psychiatrist Guilty of Making False Statements**

Dr. Earl M. Stenger waived indictment and pled guilty on September 21, 1994, to a two-count information charging him with false claims and Federal income tax fraud. Dr. Stenger, a specialist in algology, the treatment and management of pain, concentrated his practice on treating persons who reported job related medical conditions and received workers' compensation benefits. OI investigation disclosed that Dr. Stenger submitted false billings and medical reports to the Office of Workers' Compensation Program (OWCP) for Federal claimants and to private insurance companies for state workers. He



charged for modalities of treatment which were not provided. In addition, he submitted charges for medical services multiple times using different but related current procedural terminology (CPT) codes, and charged for medical services that were identified by CPT codes assigned to related but more expensive services. He dictated generic "Progressive Notes" containing false statements about the medical status of his patients and the services furnished to them. Investigation further disclosed that Dr. Stenger submitted fraudulent Federal income tax returns to Internal Revenue Service for the years of 1989-1991. This was a joint investigation with the Internal Revenue Service, Federal Bureau of Investigation, and the Postal Inspection Service. *U.S. v. Stenger (W.D. Texas)*

**Nurse Sentenced to  
21 Months in Jail and  
\$143,967 Restitution**

An OI joint investigation with the Department of Health and Human Services and the Railroad Retirement Board resulted in a guilty plea by former Veterans Administration (VA) nurse Dwight R. Neely on May 2, 1994. In 1979, Neely began receiving FECA, Social Security, and railroad retirement benefits due to a back injury he sustained while employed at a Baltimore, Maryland VA hospital. The investigation revealed that in 1986, Neely and an associate formed a musical software company in Michigan. By concealing his business activities and income from the three aforementioned agencies, Neely fraudulently obtained \$143,967 in Federal benefits. On August 3, 1994, Neely was sentenced to 21 months in prison and ordered to pay restitution in full to the three agencies involved. *U.S. v. Neely (E.D. Michigan)*

The following case narratives, by major program areas, represent other significant fraud investigative accomplishments by OIG during this semiannual reporting period.

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

**Benefits Terminated  
as a Result of  
FECA Conviction**

Alton V. Norris was sentenced on June 30, 1994, to 3 years of probation, 250 hours of community service, and ordered to pay \$180 per month which is the cost of his supervision, and restitution totaling \$12,604. He pled guilty on April 8, 1994, to a Bill of Information charging him with false statements to obtain workers' compensation benefits. Norris, a former civilian employee for the U.S. Depart-

ment of the Army, suffered an injury on April 29, 1976, and was placed on the periodic rolls in February of 1977. He failed to report employment and income from his job as a school bus driver and as an official for athletic events. As a result of his conviction, Norris' \$1,517 FECA benefits were terminated in April 1994, resulting in an overpayment of \$57,091 being declared. *U.S. v. Norris* (W.D. Louisiana)

**New FECA Amendments  
Used to Cut Benefits  
of FECA Program Abuser**

Jessie B. McPhaul was sentenced on July 7, 1994, to 2 years of probation, the initial 6 months to be electronically monitored home detention, and ordered to pay restitution of \$36,035 with a minimum monthly payment of \$150, and a special assessment of \$50. McPhaul, a former nurse's assistant at Saint Elizabeth Hospital, was employed by the District of Columbia School System while receiving FECA benefits. McPhaul pled guilty on April 14, 1994, to one count of making false statements to the Government. As a result of her conviction, OWCP used language contained in the Department's 1994 appropriation bill and terminated her \$835 monthly benefit. *U.S. v. McPhaul* (D. District of Columbia)

**Letter Carrier Indicted  
for FECA Fraud**

On June 15, 1994, an indictment charging Ralph R. Wallace with two counts each of false statements, mail fraud, and tax evasion and one count each of theft of Government property and bank fraud was returned by a Federal grand jury in the Northern District of New York. Lesa Wallace, his wife, was charged with one count of bank fraud. Ralph Wallace, a former Postal Service letter carrier in Fulton, New York, allegedly suffered an injury to his back and shoulder as the result of a fall while delivering mail on November 29, 1990. Wallace received over \$63,000 in FECA benefits.

A joint investigation with the U.S. Postal Inspection Service and Internal Revenue Service, Criminal Investigations Division revealed that Wallace was operating R. W. Tax Service, a tax preparation business, while failing to report his income to OWCP. A search of Wallace's office on February 25, 1993, led to the seizure of a large number of documents establishing the scope of his business activities. Trial date is pending. *U.S. v. Wallace and Wallace* (N.D. New York)

**Pet Store Owner  
Sentenced for  
FECA Fraud**

Gary Grossman was sentenced on July 1, 1994, to 6 months of house arrest, 5 years of probation, and ordered to pay \$38,703 in restitution and the costs of the home monitoring. Grossman had pled guilty on April 7, 1994, to a one-count criminal information charging him with false statements on forms submitted to OWCP. Grossman, a civilian electronics mechanic's apprentice at the Philadelphia Naval Shipyard, allegedly injured his lower back on April 25, 1983, while lifting a piece of equipment. The OI investigation established that Grossman owned, operated, and derived income from a pet store in Bridgeton, New Jersey, during the time he received FECA benefits. An investigative memorandum submitted to OWCP resulted in Grossman's benefits being terminated and an overpayment of nearly \$80,000 being declared. *U.S. v. Grossman* (D. New Jersey)

**TVA Employee Indicted  
for Submitting  
Fake Medical Bills**

David R. Gilmer, a former Tennessee Valley Authority employee and FECA recipient since 1977, was indicted at Morristown, Tennessee, on 92 counts of mail fraud and false claims. He was subsequently arrested by an OI Special Agent with the assistance of a Deputy U.S. Marshal on August 25, 1994. The indictment charged that Gilmer developed a plan to defraud OWCP of approximately \$20,000 in benefits through the preparation and submission of false claims for physical therapy, medical equipment, and medicines. Gilmer allegedly submitted the claims to OWCP as though they were prepared by the health care provider, instructing that reimbursement be made directly to him. The indictment also alleged that he forged letters from OWCP and health care providers concerning his medical status and directed that payments for the medical services be made to him. *U.S. v. Gilmer* (E.D. Tennessee).

**Former Army Employee  
Sentenced for Making  
False Statement**

On May 27, 1994, Charles Wayne Schrader, a former civilian heavy equipment operator with the Department of the Army, was sentenced to 180 days of home confinement, 5 years of probation, \$62,316 restitution, and ordered to pay a special assessment fee of \$50. In March 1994, Schrader pled guilty to a one-count indictment for making a false statement to the U.S. Government. Schrader alleged that on May 10, 1983, when he jumped off the back of an army tank, he suffered a lumbar sprain which left him disabled. The OI investigation disclosed that Schrader worked as a truck driver for six different businesses while receiving FECA benefits. He received \$62,316 in fraudulent benefits. *U.S. v. Schrader* (N.D. Texas)

*Impact: In each instance where a FECA recipient was removed from the OWCP rolls, a significant savings is realized over the life time of the claimant. In the five examples cited above (Norris, McPhaul, Wallace, Grossman, and Schrader), an immediate annual cost saving to the Government of \$88,985 was realized. Using the life expectancy of these claimants, based on current mortality rates, the potential lifetime loss, had benefits continued, would exceed \$3 million. While these figures are significant, they are not intended to indicate total results obtained by OI.*

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

#### **JTPA Job Developer Guilty of Conspiracy**

Matthew O'Donohue pled guilty on September 13, 1994, to one count of conspiracy in connection with a scheme to embezzle JTPA funds. O'Donohue and co-conspirator Ruppert Montes were charged with engaging in a long-term scheme whereby they embezzled JTPA funds from Casa De Hermandad, a Los Angeles JTPA service provider. O'Donohue used his position as a job developer for Casa De Hermandad to claim numerous false OJT placements. He received a portion of the funds derived from employer reimbursement checks generated as a result of false claims. The OIG investigation documented over \$200,000 in fraudulent JTPA claims based on the false OJT placements. *U.S. v. O'Donohue* (C.D. California)

#### **Sentencing in \$300,000 JTPA Fraud**

As follow-up to our last Semiannual Report, Jon R. Guthrie was sentenced on July 6, 1994, to 6 months of home confinement, 5 years of probation, restitution of \$27,600, and 250 hours community service. Guthrie, a former associate of Gregory W. Frazier, president of the National Indian Business Council (NIBC), assisted Frazier in the misappropriation of over \$300,000 in JTPA funds. From 1983 through 1988 Frazier, through the NIBC, received \$4.7 million in JTPA grants for the purpose of training Native Americans, who live off the reservation, in job search skills. Audits of the grants resulted in over \$1.7 million in questioned costs. Frazier was convicted and sentenced for theft of Federal funds as reported in our last Semiannual Report. *U.S. v. Frazier* (D. Utah)

#### **Case of New York City PIC Referred to ETA**

In follow-up to an OI investigation detailed in our October 1, 1992 to March 31, 1993, Semiannual Report on the New York City Private

Industry Council (PIC), on September 14, 1994, OI forwarded an Investigative Memorandum to ETA questioning \$1.2 million in disallowable JTPA costs claimed by the PIC. Also, on April 5, 1994, Doris Washington, who had been employed by an agency which arranged and monitored OJT placements for the PIC, was sentenced to one year probation, and ordered to repay \$1,150 to DOL and a mandatory \$50 special assessment. Washington had pled guilty on October 8, 1992, to a one-count criminal information charging her with conspiracy to accept bribes. Also, Lena Thompson, who had been employed by the PIC as a supervising account executive, was sentenced on June 24, 1994, to 3 years of probation, 4 months of house detention, 200 hours of community service, and ordered to pay a mandatory \$50 special assessment. Thompson had pled guilty on March 28, 1994, to a one-count criminal information charging embezzlement of Federal funds. The OI investigation of the PIC, a major JTPA on-the-job training broker, disclosed that from July 1987 until June 15, 1992, the PIC had placed ineligible participants in jobs and claimed reimbursement for them. As a result of the investigation, six former employees of the PIC entered guilty pleas to criminal informations charging each with a single count violation of embezzlement or conspiracy. All six of the former employees have been sentenced. *U.S. v. Thompson* (S.D. New York)

*Impact: In addition to the more than \$1.2 million in JTPA funds which will be available for reprogramming to needy participants, OI worked with ETA program officials to ensure that the New York City Department of Employment, the SDA for New York City, prohibited the PIC from receiving any funding after June 30, 1994, for providing any JTPA-related services other than those mandated under its oversight role.*

### **Trio Sentenced for JTPA Fraud**

As follow-up to our previous report, Ishmael M. Holley, Jr., the former director of JTPA and an 18-year employee of the South Carolina Governor's Office of Employment and Training Division and the Employee Security Commission, and James E. Dennis, owner and president of Dennis and Associates, Inc. (DAI), a former multi-million dollar JTPA contractor, were sentenced on July 19, 1994. Holley was sentenced to 7 months of imprisonment with 2 years of probation and 3 months of detention following his release from prison, and ordered to pay \$45,000 in restitution, a \$9,000 fine, and a \$50 special assessment fee. Dennis was sentenced to 4 months of imprisonment, 3 years of probation upon his release from prison, with 4

months of home confinement as part of the probation, 300 hours of community service during his probationary period, and ordered to pay a \$50 special assessment fee. Robert E. Scott, Jr., comptroller of DAI, was sentenced on May 19, 1994, to 6 months of home detention, 2½ years of probation, 300 hours of community service, and assessed a \$50 fine. A joint investigation with the Internal Revenue Service's Criminal Investigation Division disclosed the trio's involvement in the misapplication of over \$294,000 in JTPA funds. *U.S. v Holley* (D. South Carolina)

## UNEMPLOYMENT INSURANCE (UI)

### Guilty Pleas on Racketeering Charges in UI Fraud Case

As follow-up to our previous report, on June 23, 1994, Craig W. Druen, a former Indiana Department of Work Force Development (IDWD) accountant, pled guilty to State charges of racketeering (RICO), conspiracy, forgery, theft, and official misconduct. This joint investigation with the Indiana State Police revealed that Druen was the mastermind of a scheme in which he and 35 co-conspirators defrauded IDWD of nearly \$329,000 in UI funds.

Druen's plea agreement provides for a sentence of 8 years of imprisonment, 8 years of probation, and restitution of \$138,300. To date, 24 of the defendants have pled guilty and over \$80,000 in restitution has been collected. Sentencing is scheduled for October 7, 1994. *State of Indiana v. Druen et al.* (Indiana)

*Impact: As a result of this investigation, UI payments are no longer processed manually but are processed via computer with increased internal controls.*

## EMPLOYEE INTEGRITY

### BLS Employee Charged with Embezzlement

In a 23-count indictment returned by a Federal grand jury in Chicago on July 28, 1994, former Bureau of Labor Statistics (BLS) Publications Sales Clerk Phillip G. Arnold was charged with embezzlement and theft of public money. During his employment with the BLS as an authorized sales agent for the Superintendent of Documents, Arnold was responsible for filling mail orders from the public for various publications.

Over a 2-year period, Arnold allegedly altered and negotiated 23 customer checks which were received at BLS for payment of \$9,172 in publication orders. The indictment alleges that Arnold added his name to the payee section and then deposited the checks in his checking account. *U.S. v. Arnold* (N.D. Illinois)

**OFCCP Specialist  
Arrested for Making  
Death Threats**

An investigation which began when the Secretary of Labor received letters containing apparent threats directed at an employee of the Detroit Office of Federal Contract Compliance Programs (OFCCP), led to the arrest of OFCCP Equal Opportunity Specialist Clarence L. Robinson. After Robinson made a number of direct threats to kill the OFCCP District Director, the U.S. Attorney's Office requested OI's assistance. Robinson was arrested by OI Special Agents on March 24, 1994, after a criminal complaint charged him with threatening the life of a Federal official. The OI agents recovered three firearms from Robinson subsequent to his arrest. Robinson entered into a pretrial diversion agreement on July 19, 1994, the conditions of which included the termination of his employment with OFCCP and having no contact with the OFCCP District Director. *U.S. v. Robinson* (E.D. Michigan)

**BLACK LUNG PROGRAM**

**Son Sentenced for  
Stealing Father's  
Black Lung Benefits**

On August 11, 1994, Stephen P. Pental was sentenced in U.S. District Court in Scranton, Pennsylvania, to serve 5 months of imprisonment, followed by 5 months of house arrest, and 2 years of probation. Pental had previously pled guilty to having criminally violated one count of the Federal false statement statute. OI investigation revealed that in September 1981, Pental became the representative payee for his father and arranged for his father's monthly black lung benefit checks to be mailed to his residence in Beaver Meadows, Pennsylvania. During a 12-year period, Pental fraudulently collected approximately \$50,000 in black lung benefits, while his father was a permanent resident of a nearby nursing home. Pental deposited the benefit checks and confessed to having used the stolen funds to completely renovate his home and used none of the benefits to provide for his father's care or medical expenses at the nursing home. The nursing home was funded by the Pennsylvania Department of Public Welfare's Medical Assistance Program. *U.S. v. Pental* (M.D. Pennsylvania)

## WAGE AND HOUR

### Company President Sentenced for Conspiracy and Kickbacks

Following a week-long trial, on June 28, 1994, Steven M. Allard, president of New England Steel and Precast Construction Company, Inc., was found guilty as charged and sentenced to 10 months in prison; 3 years of probation; and ordered to pay \$10,481 in restitution, a \$10,000 fine, and a \$300 mandatory assessment. Allard was indicted on August 19, 1993, and charged with one count of conspiracy and five counts of receiving kickbacks from public works employees. As a subcontractor on a post office project, Allard coerced employees into "kicking back" \$11,888 in back payments made to them following a wage and hour investigation of violations of the Davis-Bacon and Related Acts. In April 1992, the U.S. Attorney's Office in Providence, Rhode Island, requested OIG's assistance in providing a criminal investigator to complete the investigation of kickback allegations. *U.S. v. Allard* (D. Rhode Island)

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### COMPLAINT ANALYSIS OFFICE ACTIVITIES

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#### Breakdown of Allegation Reports by Source:

Walk-in	1
Hotline calls or letters from individuals or organizations	91
Letters from Congress	14
Letters from Non-DOL agencies	2
Letters from DOL agencies	9
Incident Reports from DOL agencies	8
Reports by Special Agents and Auditors	15
Referrals from GAO	3
<b>Total</b>	<b>143</b>

#### Breakdown of Allegation Reports by Referral:

Referred to Office of Audit	7
Referred to Office of Investigations Regional Offices	47
Referred to DOL program management	105
Referred to other agencies	18
No further action required	3
<b>Total</b>	<b>180 *</b>

\* Includes referral action taken on allegations received prior to this reporting period.



**Appendix**  
**Office of Investigations Financial Accomplishments**  
**for April 1 - September 30, 1994**

**CATEGORIES**

**Recoveries: .....\$538,857**

(The dollar amount/value of an agency's action to recover or reprogram funds or to make other adjustments in response to OIG investigations.)

**Cost Efficiencies: .....769,530**

(The one-time or per annum dollar amount/value of management's commitment, in response to OIG investigations, to more efficiently utilize the Government's resources.)

**Restitutions: .....649,460**

(The dollar amount/value of restitutions resulting from OI criminal investigations.)

**Fines/Penalties: .....73,421**

(The dollar amount/value of fines, assessments, seizures, investigative/court costs, or other penalties resulting from OI criminal investigations.)

**Civil Monetary Actions: .....52,500**

(The dollar amount/value of forfeitures, settlements, damages, judgments, court costs, or other penalties resulting from OI civil investigations.)

**TOTAL: .....\$2,083,768**

## OFFICE OF LABOR RACKETEERING

The OIG's Office of Labor Racketeering (OLR) conducts criminal investigations to eliminate the influence of organized crime, labor racketeering and corruption in employee benefit plans, labor-management relations and within unions. During this period, OLR efforts resulted in 76 indictments, 76 convictions, and \$9.7 million in fines, restitutions, and forfeitures.

### CONTINUING EMPHASIS ON IMPACT

In past semiannual reports, the Office of Labor Racketeering has indicated that the mere removal of a corrupt or organized crime-controlled union official, benefit plan trustee, service provider, or businessman by means of a criminal prosecution, has little long-term effect on reducing criminal activity. OLR will not progress towards its goal of "reducing labor racketeering and corruption," without addressing the underlying conditions which give rise to labor racketeering problems. The Office of Labor Racketeering will increase its emphasis on "impact" by conducting "industry probes" in order to increase the long-term impact of Office of Labor Racketeering cases, to address the underlying causal factors of labor racketeering problems, to restore competitiveness in industries with balance in labor-management relations, and to protect the interests of the American worker. These investigations, which will examine the vulnerabilities existing within an industry, target specific illegal practices and high-profile industry players for criminal prosecution and have as their goal the development of a series of criminal cases which can be utilized as predication for court-imposed corrective action. Utilizing the criminal and civil provisions of the Racketeering Influenced and Corrupt Organizations Act (RICO), as well as the equitable relief powers of the court, the Office of Labor Racketeering not only seeks convictions, but also seeks to disgorge those convicted of their ill-gotten gains to make the American worker whole, create a deterrent to further criminal activity, and impose reforms to address the underlying causal factors.

In light of the financial ruin that many American families have suffered because of the loss of medical coverage and pension benefits, the Office of Labor Racketeering will continue its priority on criminal abuse of employee benefit funds by corrupt benefit plan operators, union officials, and employers. With the uncertainty of health care reform and its effect on union sponsored health care

plans, the Office of Labor Racketeering will utilize a portion of its investigative resources to address the emerging problem of abusive insurance operations whose sponsors create "unions" to obtain the protection from state regulatory scrutiny the Employee Retirement Income Security Act (ERISA) preemption provisions provide. Initial indications are that these operations conduct no legitimate collective bargaining and provide no representation for their members, but merely serve as vehicles for the sale of insurance while escaping state insurance departments' regulatory scrutiny. These operations appear to have much in common with abusive multiple employer welfare arrangements (MEWAs), which the Office of Labor Racketeering has combatted over the past several years. Through our investigative efforts, the Office of Labor Racketeering seeks to prevent these operations from gaining an air of legitimacy under health care reform and to prevent the operators from marketing a product destined for abuse.

#### **Assessment of New Vulnerabilities and Trends**

The Department of Labor, in its 1994 enforcement strategy, has targeted for enhanced scrutiny, those industries having the most vulnerable populations and low wage rates. As the American workforce becomes more ethnically diverse and nontraditional crime groups expand their influence beyond the historical venues of extortion, narcotics trafficking, and gang-related crimes, the possibility exists these groups will expand into new areas where they can exploit the American worker. In addition to the Office of Labor Racketeering's examination of traditional organized crime groups, we will begin to proactively explore the potential for labor racketeering problems associated with nontraditional organized crime groups and the industries with the most vulnerable populations.

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### **SIGNIFICANT ACCOMPLISHMENTS**

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Following are some of our more significant investigative results during this period.

#### **EMPLOYEE BENEFIT PLANS**

##### **Bogus Insurance Operation Terminated**

Rubell-Helm Insurance Services, Inc. (RHIS), now defunct, was based in Irvine, California, and marketed itself as one of the foremost experts in designing health and life insurance plans for small businesses. Between July 1987 and April 1989, RHIS collected over

\$11,500,000 in premiums for non-existent health, dental and life insurance coverage.

On June 10, 1993, the RHIS former President James Helm, Vice-President Scott Clawson, and Vice-President of Finance Douglas Taylor, were indicted on conspiracy, mail fraud, and embezzlement charges for their roles in a scam that left thousands of employees in Florida and California without health insurance.

The indictment charged Helm, Clawson, and Taylor with embezzling more than \$3.6 million from a number of health insurance plans they administered and using the money to purchase and remodel homes, pay for ski vacations and trips to Hawaii and a Caribbean cruise, to purchase custom tailored clothing and expensive jewelry, and to lease luxury automobiles. The indictment further alleged that as part of the scheme, RHIS made kickbacks to David A. Erlandson, the former Chairman of the Board of Trustees of the California Association of Builders Exchanges Health and Welfare Trust, which totalled \$24,500 in order to give RHIS the welfare trust's insurance contract. The indictment also charged RHIS paid Charles J. McGuirk, the former Director of the National Brokerage for Diamond Benefits Life Insurance Company, a \$50,000 bribe to obligate his company to act as an insurance carrier for RHIS.

On September 7, 1994, following a month-long trial, a Federal jury in Los Angeles found Helm, Clawson, and Taylor guilty on charges of conspiracy, kickbacks, mail fraud, and embezzlement. Michael A. Rubell, the former Chairman of RHIS, Kathleen Ernest Helm, the ex-wife of James Helm and a former RHIS Executive Vice-President, Erlandson, and McGuirk pled guilty to charges developed in the investigation. Rubell, Clawson, and Taylor are scheduled for sentencing on December 12, 1994.

The investigation was conducted by the OIG's Office of Labor Racketeering, the U.S. Postal Inspection Service, and the Internal Revenue Service. *U.S. v. Helm, et al.* (S.D. California)

*Impact: RHIS had promoted itself as the nation's most experienced administrator and provider of consulting services to welfare plans for small and medium sized employers in numerous magazines and trade publications. The successful investigation and prosecution of RHIS ended an insurance scam that victimized thousands of employees in Florida and California.*

**Former Teamster  
Health Plan Executive  
Convicted for  
Receiving Kickbacks**

Gerald M. Wiedyk, Executive Director, Michigan Conference of Teamsters Welfare Fund, became the chief executive of the Fund in 1983 when he replaced the former director who was then facing criminal charges. The former executive director, a trustee, and two service providers were later convicted of racketeering.

The Fund serves the health care insurance needs of 18,000 Teamsters union members and their families residing throughout Michigan. During 1993, the Fund paid benefits totalling over \$67 million.

On August 9, 1994, Wiedyk was convicted of receiving \$459,000 in kickbacks from a medical laboratory, which had received \$1.7 million in annual payments for laboratory testing from the Fund. Wiedyk was also convicted of providing false documents to the Fund trustees who were investigating the potential conflict of interest between Wiedyk and the laboratory.

The trial also brought out examples of Wiedyk's abusive leadership. Wiedyk often required Fund employees to lie concerning his misconduct or lose their jobs. When confronted by the Fund general counsel concerning his relationship with the laboratory, Wiedyk convinced the trustees that the lawyer was incompetent and dishonest. He then physically attacked the lawyer, choking him into unconsciousness, when the lawyer accused him of misconduct.

This investigation was conducted by the OIG's Office of Labor Racketeering with assistance from the Federal Bureau of Investigation. *U.S. v. Wiedyk* (E.D. Michigan)

*Impact: The investigation has resulted in the termination of entrenched and abusive administrative practices in a major Teamsters union health plan, and has ended the historical practice of awarding Fund contracts based upon the payment of kickbacks.*

**Health Insurance  
Administrator Pleads  
Guilty to Million Dollar  
Embezzlement**

William G. Browne, president of Insured Plans Agency, Inc. (IPA), in Akron, Ohio was under contract with the Ohio Mideastern Regional Education Service Agency (OME-RESA) to provide third-party administrative services. OME-RESA is a consortium of about 70 school boards that entered into an agreement to establish a Regional Council of Government under Ohio law. Its purpose was to obtain benefits for the participating member school boards on a collective basis. OME-RESA maintained a self-funded health ben-

efits program for the employees of its member school boards. The member school boards and/or their employees contributed to a general fund from which health benefits were paid. Insured Plans Agency had received a contract to process the medical claims and provide stop-loss insurance coverage for the group.

OME-RESA relied upon Browne to process medical claims and obtain stop-loss insurance. Browne had sole signature authority of the OME-RESA health claim checking accounts. He abused this authority by making unauthorized draws from the accounts and transferring the funds to his business accounts. Browne also inflated the legitimate costs of stop-loss insurance he obtained and pocketed the difference. Total losses to OME-RESA exceeded \$3 million.

Browne additionally inflated the stop-loss insurance premium for Plumbers and Pipefitters Local 219 Welfare Fund of Akron, Ohio, amounting to a loss of over \$25,000 to the fund.

On June 7, 1994, Browne pled guilty to embezzling over \$1 million, and to mail fraud. This investigation was conducted by the OIG's Office of Labor Racketeering. *U.S. v. Browne* (N.D. Ohio)

*Impact: IPA was one of the largest third party administrator firms in Ohio, processing in excess of \$25 million of medical claims per year. The investigation prevented additional thefts by Browne from the plans for which he provided services, thus ending the financial jeopardy that he placed the funds in, due to his embezzlements.*

**Union Official and  
Dental Services Provider  
Convicted in  
Kickback Scheme**

Dr. William W. Li, D.D.S., President of Health Administrators Inc., and Dental Care Plus Inc., Chitoki Tokunaga, Treasurer of Health Administrators, and Danny C. Hogan, Business Agent of Service Employees International Union (SEIU) Local 73, were indicted by a Federal grand jury in Chicago, Illinois, on December 9, 1993. Hogan had used his influence as business agent of the Local to steer a new dental contract to the other two defendants. The initial indictment charged the subjects with conspiracy and illegal kickbacks. A superseding indictment was returned against the defendants on December 16, 1993, adding a charge of money laundering.

On April 18, 1994, Li and Hogan were both convicted of paying and receiving kickbacks in connection with Local 73's dental plan, and mail fraud. Hogan was also convicted of money laundering. Hogan

was sentenced on September 13, 1994, to 6 months in prison, 2 years of probation, and a \$1.5 million fine. Dr. Li was sentenced to 3 months in prison, 2 years of probation, and a \$25,000 fine on June 28, 1994.

This investigation was conducted by OIG's Office of Labor Racketeering. *U.S. v. Hogan, et al.* (N.D. Illinois)

*Impact: A corrupt dental health care network service provider for SEIU Local 73 and other affiliated Locals was removed and related service provider corporations in the Chicago Metropolitan area were dissolved. During the course of the ongoing investigation and subsequent trial, Local 73 was placed into trusteeship and the dishonest official was removed. A new election of officers for the Local was completed. Additionally, the Chicago Housing Authority and the Chicago Board of Education have begun investigations into their relationships with the individuals convicted of illegal kickbacks in this case.*

Additional Prosecutive Activity:

**Jail for New Hampshire  
Restaurateur  
Guilty of Fraud and  
Money Laundering**

David Murray, the former owner of Erin Foods Services, Inc., a firm that once operated all Burger King Restaurants in New Hampshire, was sentenced on September 5, 1994, to 3 years of imprisonment on charges of filing false reports relating to a benefit plan embezzlement, bank and bankruptcy fraud, and false statements in records required under the Employee Retirement Income Security Act.

Murray was sentenced following his June 1994 guilty plea to charges relating to the abuse of his company's employee profit sharing plan. During 1987 and 1988, Murray admitted that he and two associates engaged in a scheme to illegally convert almost three quarters of a million dollars in the Erin Foods Services, Inc., profit sharing plan to Murray's own use, and then filed false statements with the U.S. Department of Labor. Also during that period, Murray and his companies borrowed millions of dollars from New England banks and financial institutions. The companies eventually went into bankruptcy, causing huge losses for all the institutions that had loaned them money. Murray admitted to bankruptcy fraud by concealing his assets from the bankruptcy court.

In addition to his 3 years in jail, Murray was ordered to make restitution of \$720,000 to the employees' profit sharing plan and \$59,000 to the bankruptcy court for the money he hid from his creditors. He was also placed on probation for 3 years after his jail sentence.

The 4-year investigation was conducted by the Inspector General's Office of Labor Racketeering, the U.S. Department of Labor's Pension and Welfare Benefits Administration, the Federal Bureau of Investigation, and the Internal Revenue Service. *U.S. v. Murray* (D. New Hampshire)

Cases previously reported:

**Massachusetts Financial  
Advisor Sentenced for  
Misusing \$45 Million in  
Teamsters Union  
Pension Funds**

A Westwood, Massachusetts accountant (who served as financial advisor to Boston area International Brotherhood of Teamsters (IBT) unions and their related pension funds) and his partner were sentenced on June 22, 1994, for converting approximately \$45 million in IBT pension funds to their own use.

Steven J. Watchmaker, a certified public accountant and former financial advisor, was sentenced to 42 months in prison, ordered to pay \$200,000 in restitution, and fined \$50,000. His partner, Neil Zais, was sentenced to 15 months in prison, ordered to pay \$200,000 in restitution, and fined \$25,000. In addition, Watchmaker and Zais received 36 months of probation.

Watchmaker was the independent, certified public accountant for over 10 IBT benefit plans and approximately 20 IBT local unions in the New England area. Additionally, Watchmaker was a partner with Zais in numerous real estate ventures in the 1980's. Many of these ventures were financed by financial institutions that received millions of dollars in IBT-related deposits over which Watchmaker had influence.

Watchmaker and Zais orchestrated the deposit of approximately \$16 million from IBT funds to Capitol Bank and Trust Company of Boston, which financed millions of dollars for their real estate ventures. In return for allowing the bank to pay low rates on IBT-related deposits, Watchmaker and Zais received terms and rates available only to the very best bank customers. Consequently, the union and benefit funds lost significant interest income.



Watchmaker and Zais also orchestrated the sale of four New England Teamsters and Trucking Industry Pension Fund properties to a business partner for approximately \$29 million, about \$5 million less than its market value. In return, they received numerous favors from the business partner. These activities were not disclosed in documents required by the Employee Retirement Income Security Act. Furthermore, the defendants fraudulently concealed assets from the Resolution Trust Corporation (RTC), among other creditors, during the period the RTC was seeking repayment of approximately \$10 million owed to the Home Owners Federal Savings and Loan Association.

In January 1992, Watchmaker and Zais were indicted for racketeering and various crimes associated with their schemes to manipulate the investment of IBT pension and labor union funds. In September 1993, they were indicted on numerous bank fraud charges. In November 1993, both men pled guilty to embezzlement, kickback, bank fraud, and false statement charges resulting from the two Federal indictments.

These investigations were conducted by the Inspector General's Office of Labor Racketeering. *U.S. v. Watchmaker and Zais* (D. Massachusetts).

**Two Insurance Executives  
Plead Guilty to  
Racketeering  
in Massive Fraud Scheme**

On June 22, 1994, in Federal district court in Philadelphia, Pennsylvania, Jerry J. Tidmore, Jr., a former Dallas, Texas-based insurance operator, pled guilty to racketeering conspiracy charges relating to his participation in fraudulent health insurance schemes that resulted in unpaid medical claims of more than \$6 million. Tidmore admitted in the plea that he and Atlanta-based insurance brokers, Alan Teale and Charlotte Rentz, and others, formed a fraudulent network of off-shore reinsurance corporations which were supposed to provide medical, dental, health, and other reinsurance to insurers of multiple employer welfare arrangements. Reinsurance is the sharing of insurance risk between insurance companies.

In a related matter, Robert Campbell, a former Kentucky-based insurance company owner, also pled guilty on June 16, 1994, in Federal district court in Philadelphia, Pennsylvania, to racketeering conspiracy charges relating to his participation in fraudulent health insurance schemes that resulted in unpaid medical claims of more

than \$2 million. Campbell admitted in the plea that he, Teale, Rentz, and others formed a fraudulent network of offshore reinsurance corporations which were supposed to provide medical, dental, health, and other reinsurance to insurers of multiple employer welfare arrangements. Although the offshore companies were promoted as having millions of dollars to provide reinsurance, the companies had virtually no assets.

Through this network of companies, the co-conspirators induced World Life and Health Insurance Company of King of Prussia, Pennsylvania, to enter into several reinsurance treaties which ultimately led to World Life's collapse in 1991 by defrauding it of more than \$12.5 million in reinsurance premiums. Tidmore used his reinsurance companies to reinsure medical and other forms of reinsurance through the network of offshore companies. In order to promote Tidmore's companies as being financially solvent, Tidmore and a partner obtained the services of others to produce phony financial statements that claimed his companies had more than \$106 million in assets. Virtually all of the purported assets in these companies were backed by the "full faith and credit of the Sovereign Cherokee Nation, Tejas," which is not a native American tribe or recognized as such by the U.S. Government or any Cherokee tribe. In fact, these reinsurance companies were shells and had no assets.

Campbell, to facilitate the scheme, obtained the services of others to promote his companies and to produce fraudulent financial statements which indicated his reinsurance companies had in excess of \$100 million in assets, when they actually had no assets.

Teale and Rentz pled guilty to racketeering on December 2, 1993, were sentenced to 17 years and 13 years of imprisonment, respectively, and were ordered to make \$50 million in restitution to the victims of their health insurance and property schemes and a similar casualty insurance scheme. The property and casualty insurance scheme was investigated by the Federal Bureau of Investigation with assistance from the Office of Labor Racketeering. The investigation established that Teale and Rentz defrauded policyholders throughout the United States of more than \$100 million. In total, Teale, who died earlier this year, and Rentz formed over 80 phony insurance and reinsurance companies.

The investigation was conducted by the OIG's Office of Labor Racketeering, the U.S. Postal Inspection Service, and the Securities Ex-

change Commission. Assistance was provided by the U.S. Senate Permanent Subcommittee on Investigations, the Federal Bureau of Investigation, and the Departments of Insurance for the States of Pennsylvania, Delaware, and California. *U.S. v. Tidmore and Campbell* (E.D. Pennsylvania).

**New Jersey Mayor  
Sentenced to 5 Years  
in Prison  
for Embezzlement,  
Extortion, and Bribery**

Frank Priore, former Mayor of Parsippany-Troy Hills Township, New Jersey, was sentenced on September 9, 1994, to 5 years in prison and 36 months of supervised release, following his conviction in Federal district court in Trenton, for his role in bribery and embezzlement schemes. He was also required to make restitution of \$5,102 to the township.

Priore was convicted in March 1994 of conspiracy to defraud the Parsippany-Troy Hills Township's self-funded health insurance plan of more than \$5,000, conspiracy to extort and accept bribes in his capacity as mayor, and obstructing grand jury investigations by coaching witnesses to lie to the grand jury about the health insurance and extortion schemes, and by withholding crucial documents subpoenaed by the grand jury from the township.

Priore and eight others were convicted as a result of the Office of Labor Racketeering's 3-year probe of Omega Network Systems (Omega), a now defunct third party administration company that handled the Parsippany-Troy Hills township's insurance fund.

To date, the investigation has resulted in guilty pleas to criminal charges by Omega officials Nicholas Carrara, president; Timothy Walsh, vice-president; and Kenneth Mullins, controller, regarding theft of municipal funds and kickbacks to union officials. Robert Armento, a partner in Omega was also convicted of paying bribes to a public official. Salvatore Zingogne, former president of International Brotherhood of Teamsters Local 723, Montville, N.J., was convicted in this investigation for demanding \$36,000 in kickbacks from Omega. Paul Kuehner and Edward Hass, both employees of Parsippany-Troy Hills, N.J., pled guilty to perjury before a grand jury. Joseph Valenti, former town clerk of Woodbridge, N.J., pled guilty to accepting bribes from Omega.

This investigation was conducted by the OIG's Office of Labor Racketeering. *U.S. v. Priore* (D. New Jersey).

**Two Business Partners  
Arrested for Embezzling  
Pension Funds**

The former principal of the now-defunct Newark, New Jersey-based Imperial Air Freight Company (Imperial), and his business partner, were arrested on June 2, 1994, by special agents of the Inspector General's Office of Labor Racketeering, on charges that they bilked their company's pension plan of more than one-half million dollars.

Thomas Barnetas was a principal in Imperial and the sole trustee of the profit sharing trust. Harry Kapralos is a business partner of Barnetas who participated in the management of Imperial. The arrests of Thomas Barnetas and Harry Kapralos follow their December 17, 1993, indictment by a Newark, N.J., Federal grand jury. The indictment, which was unsealed following the arrests, charges Barnetas and Kapralos with conspiracy, embezzlement from a pension fund, and money laundering.

The indictment alleges that, between May 1990 and January 1991, Barnetas and Kapralos embezzled and laundered approximately \$525,000 in assets of the Imperial profit sharing trust, a pension benefit plan established for the retirement of Imperial's employees. Barnetas and Kapralos allegedly embezzled the funds by transferring trust monies through a series of bank accounts which were designed to conceal and disguise the ownership and control of the trust monies. The indictment also seeks forfeiture of the approximately \$525,000 in trust fund monies which were embezzled.

This investigation was conducted by the OIG's Office of Labor Racketeering and the U.S. Department of Labor's Pension and Welfare Benefits Administration. *U.S. v. Barnetas and Kapralos* (D. New Jersey)

**Former  
Union President  
Charged with  
Racketeering**

John R. Johnson, the former President of the Chicago Truck Drivers, Helpers, and Warehouse Workers Union, was indicted by a Federal grand jury in Chicago, Illinois, on charges of racketeering, embezzling union funds, accepting kickbacks, money laundering, tampering with witnesses, and evasion of income taxes. The indictment was unsealed on April 15, 1994.

The charges against Johnson relate to his activities while serving as the president of the Chicago Truck Drivers Union and manager of the union's pension fund. Johnson was ousted from these positions after being defeated in a union officer election held in 1992. Johnson

was also president of two affiliated locals of the Chicago Truck Drivers Union.

The indictment alleges that during a period from about July 1987 to September 1991, Johnson engaged in a pattern of racketeering. Johnson is charged with receiving approximately \$416,000 in kickbacks and extortion payments in connection with about \$15 million in investments of the Chicago Truck Drivers Union Pension Fund from November 1989 to February 1990. He is also charged with receiving over \$140,000 in kickbacks from the pension fund's July 1987 investment of \$1,011,294 in Coalstar Enterprises, a coal project in Indiana. He is further charged with money laundering certain kickback proceeds. Finally, he is charged with tampering with witnesses in an attempt to prevent witnesses from providing information to Federal law enforcement officers and attempting to influence testimony before a grand jury.

The investigation was conducted by the OIG's Office of Labor Racketeering, the U. S. Department of Labor's Office of Labor-Management Standards, and the Criminal Investigations Division of the Internal Revenue Service. *U.S. v. Johnson* (N.D. Illinois)

## LABOR MANAGEMENT RELATIONS

### Racketeering Convictions End 25 Years of Extortion and Bribery

In March 1994, Joseph Fiorelli, business representative of the International Brotherhood of Painters and Allied Trades, Drywall Finishers, Local Union 1955, and Robert Boggi, business agent for the United Brotherhood of Carpenters and Joiners, Local 1073, were indicted on charges of labor racketeering, extortion, soliciting and accepting payoffs from contractors, and related charges. The indictments charged that Fiorelli accepted payoffs or extorted money from over 25 contractors between 1967 and 1991, and that Boggi accepted payoffs from contractors between 1984 and 1990. On some occasions, Fiorelli and Boggi teamed up to extort money from contractors. In return for payoffs, the Philadelphia, Pennsylvania-based union officials would supply contractors with better union workers, look the other way when union contractors employed non-union men, and/or take no action against contractors who underpaid union employees.

Fiorelli went to trial in July 1994, and Boggi was tried in a separate trial in August 1994. Both individuals were found guilty of the charges against them and are awaiting sentencing.

In related cases, James Siesser (an organizer for Painters Local 1955) and Mark Krupnick (a dentist who provided dental services to members of Local 1955) pled guilty to charges against them and cooperated in the investigation. Siesser admitted to participating in an illegal scheme with Fiorelli and Boggi to extort monies from a union contractor. Krupnick admitted to defrauding Local 1955's Health and Welfare Fund by padding bills to the Fund and then providing a kickback from the overcharges to some of the patients, including Joseph Fiorelli's daughter.

The investigations were conducted by the OIG's Office of Labor Racketeering and the Federal Bureau of Investigation. *U.S. v. Fiorelli and Boggi* (E.D. Pennsylvania)

*Impact: The convictions end a 25-year extortion scheme against construction contractors in the Philadelphia area. Contractors are now able to compete for jobs in the industry without fear of being underbid due to the advantages gained by bribery.*

Additional Prosecutive Activity on Cases Previously Reported:

**Union Official  
Pleads Guilty to  
Bribery Conspiracy**

Israel Mechlowicz, the former secretary and manager of International Ladies Garment Workers Union (ILGWU) Local 10, New York, N.Y., pled guilty on May 2, 1994, in Manhattan Federal district court to charges he conspired to receive bribes from contractors and manufacturers operating in the New York City garment industry.

On May 25, 1994, in Federal district court in Manhattan, David Caloia, business agent for Local 10, was charged in an information filed with accepting illegal payments from employers.

Mechlowicz is the second officer of Local 10 to plead guilty. Seymour Resnick, Local 10's former assistant business manager, pled guilty to similar charges in August of 1993. Mechlowicz represented garment cutters in New York City, Long Island and part of New Jersey. As part of his plea agreement, Mechlowicz agreed to immediately resign from his union positions.

This prosecution is the result of a 2-year joint probe into the New York City garment industry. The investigation included an undercover operation in which criminal investigators from the Office of Labor Racketeering and the U.S. Postal Inspection Service operated a garment contracting firm.

The union contract between the undercover firm and Local 10 required contributions to the ILGWU benefit funds based upon a percentage of its monthly billings. By creating and utilizing a non-union shell company, the undercover firm was able to conceal over 50 percent of its billings from the ILGWU. In doing so, the undercover firm avoided making the required contributions for work assigned the shell company. Undercover agents paid bribes to Mechlowicz and Resnick in exchange for permitting the use of the shell company.

Resnick also permitted the owners of the undercover firm to participate in the benefit plans as union members and thereby, receive benefit plan coverage for which they were not eligible. Additionally, Resnick permitted the placing of "no show" employees on the undercover firm's payroll to receive union benefits in violation of ILGWU regulations. According to the charges that were filed, Mechlowicz and Resnick also accepted bribe payments from other companies in the garment industry.

In permitting union companies to avoid required benefit plan contributions and listing no show employees on the fund, Mechlowicz and Resnick created a large deficiency in the ILGWU's benefit funds. This deprives union members of additional benefits and burdens the funds by paying out millions of dollars of benefits to individuals who are not eligible to receive them.

The investigation, while aimed at exposing corruption in the garment industry, uncovered other serious criminal activity unrelated to the ILGWU. Three individuals were charged in a conspiracy to traffick stolen food stamps. One of the three was also charged with selling \$650,000 in checks stolen from the mail to the undercover agents. All have pled guilty.

Additionally, the investigation resulted in the arrests and prosecution by the Manhattan District Attorney's office of five other individuals in connection with their attempts to recruit the undercover agents to launder money they planned to steal from a Bronx armored car delivery service, and their offer to carry out a contract murder for the

undercover agents. All five individuals pled guilty in New York State Supreme Court to conspiracy to murder in the second degree and, in February 1994, received sentences ranging from 9 to 21 years.

This ongoing investigation is being conducted by the Inspector General's Office of Labor Racketeering, and the U.S. Postal Inspection Service. Assistance was provided by the U.S. Department of Agriculture, Inspector General's Office; the Bureau of Alcohol, Tobacco, and Firearms of the U.S. Treasury Department; and the Major Case Squad of the New York City Police Department. *U.S. v. Mechlowicz and Caloia* (S.D. New York).

### **Organized Crime Figure Pleads Guilty to Bribing Boston Teamsters Officers**

Dennis D. Lepore, a member of the New England-based Patriarca organized crime family, pled guilty on June 14, 1994, in Federal district court in Boston, to conspiracy to bribe Teamster union officers and to interstate transportation in aid of racketeering.

Lepore is currently serving a 14-year Federal prison term for racketeering violations unrelated to this investigation. In June 1992, Lepore, reputed organized crime members Francis P. Salemme, Jr. and Thomas L. Hillary, and Teamster Local 25 member William M. Winn were indicted on identical charges following a lengthy undercover probe. Former Teamster Local 25 Vice President, James M. Moar, was also indicted in December 1992, as a result of the investigation.

Hillary pled guilty to charges of conspiracy to bribe Teamsters officers, and to interstate transportation in aid of racketeering in January 1993. Winn and Moar are scheduled to go to trial in October 1994. The trial date for Salemme, Jr., who is the son of Frank "Cadillac Frank" Salemme, Sr., reputed leader of the Patriarca organized crime family, has not been determined.

The Government's undercover probe, code named "Dramex", involved the operation of an undercover production company, David Rudder Productions, which purported to be an independent motion picture company with offices in Santa Monica, CA. David Rudder Productions was actually an FBI undercover operation in a joint investigation with the Office of Labor Racketeering.



Lepore and the others were charged with conspiring to bribe union officers between March 1989 and June 1990, in return for assurances that David Rudder Productions could film movies in Boston; Providence, and Las Vegas without union personnel. David Rudder Productions would thereby realize millions of dollars in savings from reduced payroll costs, and incur no expense for pension and medical insurance coverage of its employees.

This investigation was conducted by the OIG's Office of Labor Racketeering and the Federal Bureau of Investigation. *U.S. v. Lepore* (D. Massachusetts)

### INTERNAL UNION AFFAIRS

#### **New York Teamsters Local and Former Officials Plead Guilty to Charges of Criminal Racketeering**

Lake Success, New York-based International Brotherhood of Teamsters (IBT) Local 282, and five former officials, were charged in a civil racketeering suit filed June 21, 1994, in Federal district court in Brooklyn, New York.

The suit charges the defendants with conducting the affairs of Local 282 through a pattern of racketeering activity. This activity included the extortion and acceptance of illegal payments from employers with whom Local 282 maintained collective bargaining agreements. The payments were made in return for labor peace and relaxation of terms of collective bargaining agreements.

The suit is based on a series of investigations into corruption in the construction industry in New York City. The suit alleges that, for a period of more than 25 years, Local 282 has been controlled by the Gambino La Cosa Nostra organized crime family. Officers of Local 282 and the Gambino family allegedly worked in concert to extort money from construction businesses in New York City and Long Island, and then shared the illegal payments. The suit individually names Robert Sasso, former Local 282 president; Michael Carbone, former Local 282 secretary-treasurer; Michael Bourgal, former Local 282 president; and former Local 282 business agents, John Probeyahn and Joseph Matarazzo, as participants in the racketeering activity. Each of the five individual defendants recently pled guilty in Federal district court in Uniondale, New York, to criminal racketeering charges. On September 4, 1994, Sasso was sentenced to 41 months in prison. The other defendants are awaiting sentencing.

Testimony and other evidence presented in the 1992 trial of Gambino family boss, John Gotti, established that Gotti personally received approximately \$1.2 million annually as a result of the Gambino family's control over the Local.

The suit asks the court to appoint an independent trustee to oversee the affairs of Local 282, and to have the five named individual defendants repay their illicit gains to a fund established to pay for the trusteeship. Local 282 represents approximately 4,000 truck drivers and other transporters of building materials and equipment to and from construction sites in New York City and Long Island.

This investigation was conducted jointly by the Inspector General's Office of Labor Racketeering and the Federal Bureau of Investigation. *U.S. v. Teamsters Local 282 et al.* (E.D. New York)

#### **Teamsters Officials Indicted for Conspiracy to Commit Murder and Other Criminal Offenses**

Fifteen individuals, including four current or former officers of International Brotherhood of Teamsters Local 600, St. Louis, Missouri, were charged in indictments which were returned during May and June 1994, in St. Louis Federal district court, St. Louis County Circuit Court, and St. Louis City Circuit Court.

Former Local 600 business agent, Larry L. Brown, was charged with conspiracy to commit murder, conspiracy to commit burglary, conspiracy to make a destructive device, receiving stolen property, and mail fraud. Current Local 600 recording secretary, Roger Wood, former Local 600 business agent, Richard Meyer, and former secretary/treasurer, James Mason, were charged with receiving stolen property.

Brown, who was the union's business agent for Yellow Freight Lines, allegedly assaulted a Local 600 union member after the member confronted Brown about not following up on a grievance the member had filed. The union member charged Brown with assault in an internal union action, which resulted in Brown's suspension from union office. Brown then allegedly solicited a convicted murderer to burglarize and burn the union member's car and home, and to murder the union member, unless the member withdrew his complaint. Additionally, Brown allegedly solicited another individual to steal his brother's truck so a fraudulent insurance claim could be filed.

On July 8, 1994, Brown pled guilty in Federal district court to conspiracy to possess incendiary devices. Brown still faces the murder conspiracy charge. Mason and Wood allegedly accepted items, which they believed were stolen, in payment for a union card and waiver of membership dues. Mason, Meyer, and Wood additionally are alleged to have received stolen auto and electronic equipment while at the Local 600 union hall.

Eleven other individuals were charged with engaging in a variety of criminal schemes including, sale of narcotics, sale of firearms to a convicted felon, defrauding several insurance companies, and receiving stolen property. Two of the defendants have pled guilty in Federal district court to mail fraud relative to the insurance fraud.

The investigation was conducted jointly by the Inspector General's Office of Labor Racketeering; the Federal Bureau of Investigation; the Bureau of Alcohol, Tobacco and Firearms; the Missouri State Highway Patrol; and detectives of the police departments of St. Louis City and St. Louis County. *U.S. v. Brown, et al.* (E.D. Missouri, and St. Louis City Circuit Court) and *Abington et al.* (St. Louis County Circuit Court)

#### OTHER INVESTIGATIVE ACTIVITIES

##### Operator of Illegal Landfill Convicted

Nicholas Pasquariello, owner of Pasquariello Construction Company, Inc., operated numerous illegal landfill operations in Broward County, Florida, over a 10-year period. Pasquariello conducted these operations by bribing local Government officials and environmental regulators. Pasquariello used operating engineers at night and on weekends to push illegal materials into lakes in order to avoid detection.

During an investigation by the Inspector General's Office of Labor Racketeering (OLR) into allegations that Pasquariello was extorting a company located at Port Everglades, Florida, for labor peace, additional allegations of public corruption and environmental violations surfaced. Based on these allegations, an undercover operation was developed using an OLR agent posing as an Army Corps of Engineers inspector. Pasquariello offered bribes of \$5,000 and \$50,000 to facilitate the application of an Army Corps permit. The investigation also discovered that Pasquariello had never filed a Federal tax return, his corporate 940 and 941s were false, and he

conspired with his employees to pay all overtime off the books, with no health and welfare payments or taxes reported.

On May 16, 1994, Pasquariello was sentenced to a prison term of 5 years and 10 months, after being convicted on charges of violating the Clean Water Act, offering a bribe to an OLR undercover agent, tax evasion, attempting to defraud the Government, and making false statements in records required under the Employee Retirement Income Security Act. At the Federal trial in Miami, Florida, the prosecution showed that, had Pasquariello's bribe scheme been successful, the value of his property at Port Everglades would have increased by more than \$5 million.

The case was investigated jointly by the Inspector General's Office of Labor Racketeering; the Criminal Investigations Divisions of the Environmental Protection Agency and the Internal Revenue Service; and the Metropolitan Organized Crime Intelligence Unit, Ft. Lauderdale, Florida. *U.S. v. Pasquariello* (S.D. Florida)

*Impact: State and local environmental officials have hailed the conviction of Pasquariello as a landmark case. Officials point to Pasquariello as an example to be used in other environmental cases throughout Florida. EPA and the U.S. Attorney's Land Crimes Unit, plan to use Pasquariello's sentencing as a guideline case for other Clean Water Act convictions. The Army Corps of Engineers believes that the sentencing of Pasquariello will change the way the agency handles repeat violators of the Clean Water Act, and how the Army Corps and EPA conduct their investigations. Furthermore, the cooperation by several law enforcement agencies to investigate and prosecute environmental crimes has been applauded by law enforcers.*

### **Three Philadelphia Police Officers Charged with Union-Related Racketeering**

John Shaw, a Philadelphia police sergeant and former president of Fraternal Order of Police (FOP) Lodge 5, and Philadelphia police officers, Anthony LaSalle and Charles Gabrick, were indicted on August 30, 1994, by a Federal grand jury in Philadelphia, Pennsylvania, on charges of racketeering, mail fraud and obstruction of justice, in connection with their operation of Philadelphia FOP Lodge 5. LaSalle and Gabrick were Shaw's top aides and administered the day-to-day operations of the affairs of FOP Lodge 5, including the lodge's legal services trust fund and the dental, optical and prescription plans.

The defendants were charged with operating the lodge as a racketeering enterprise. Specifically, the defendants were charged with accepting cash kickbacks and more than \$200,000 in campaign funds from the Lodge's legal services attorney, Bernard Sacks, and Philadelphia-based, Strassheim Printing, in 1990 and 1992, in exchange for the guaranteed award of lodge business. Sacks allegedly charged the Lodge nearly twice the rate paid the prior Lodge attorneys and received a \$100,000 advance from the Lodge to reimburse him for funding Shaw's election campaign.

The indictment further alleges that upon Shaw's election, the defendants accepted between \$1,500 and \$2,000 in kickbacks per month from Sacks. They also accepted other payoffs from Michael Borkowski, an Allentown, Pennsylvania insurance broker, who was awarded the Lodge's insurance contract. Additionally, Shaw was charged with attempting to obtain a kickback from Enrico Campitelli, a Havertown, Pennsylvania insurance agent, who unsuccessfully sought the Lodge's insurance business. Shaw was also charged with obstruction of justice, for directing Strassheim Printing to create fictitious records in response to a grand jury subpoena, to hide the fact that Shaw had received more than \$50,000 in free campaign printing.

Shaw served as president of the Lodge from October 1990 to September 1993, when his administration was ousted by the Commonwealth of Pennsylvania FOP for conduct unrelated to the indictment.

The investigation was conducted by the Inspector General's Office of Labor Racketeering. *U.S. v. Shaw, et al.* (E.D. Pennsylvania)

## EXECUTIVE DIRECTION AND MANAGEMENT

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### OFFICE OF RESOURCE MANAGEMENT AND LEGISLATIVE ASSESSMENT

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The Office of Resource Management and Legislative Assessment (ORMLA) supports the OIG by fulfilling several responsibilities mandated by the Inspector General Act (IG Act) of 1978, including legislative and regulatory review, reporting to the Congress, and other support activities, to achieve the mission of the OIG.

#### LEGISLATIVE AND REGULATORY ASSESSMENT AND REVIEW

Section 4(a) of the IG Act requires the Inspector General to review existing and proposed legislation and regulations, and to make recommendations in the semiannual report, on the impact on the economy and efficiency of the administration of the Department's programs, and on the prevention of fraud and abuse. In carrying out its responsibilities under Section 4(a) of the IG Act, the OIG reviewed and cleared, or provided comments on, 972 legislative and regulatory items during this reporting period.

The following section discusses those issues on which the OIG urges congressional or departmental action, as well as those measures of special interest to the OIG that were considered by the 103rd Congress.

#### Issues Reviewed or Addressed in the 103rd Congress

#### Targeted Jobs Tax Credit Program

The Targeted Jobs Tax Credit (TJTC) Program is intended to induce employers to hire individuals of specific target groups in exchange for Federal tax credits. During this reporting period, the OIG issued a nationwide audit of the TJTC program. The audit covered nine states and 1,150 participants, and was statistically projectable to the program nationwide. The OIG determined 92 percent of the employees would have been hired even without the tax credit. Moreover, in 86 percent of the cases, employers made the decision to hire before TJTC eligibility was determined. As a result, the OIG nationwide audit concluded that the tax credit is a windfall for employers and we recommended that the Secretary encourage Con-

gress not to reauthorize it when it expires in December 1994. The OIG audit findings are fully discussed in the Office of Audit Section of this report.

The OIG had previously raised its concerns that the TJTC was not an effective means of helping the targeted group members following an audit on the program for the State of Alabama. In that audit, employers acknowledged they would have hired 95 percent of the participants despite the tax credit.

As a result of the OIG's audit of this program, congressional hearings were held by the House Government Operations Subcommittee on Employment, Housing, and Aviation (Peterson, Chair) and by the House Ways and Means Subcommittee on Special Revenue Measures (Rangel, Chair). The Inspector General testified before the Government Operations Subcommittee about the nationwide audit's findings and the OIG recommendation that the program be eliminated. The Administration testified before both committees that it could not support the program in its present form, but would consider ways to improve it.

As Congress reviews the effectiveness of the program, the OIG continues to recommend that the program be allowed to expire and not renewed since it seldom causes the employment of targeted individuals, as originally intended by Congress.

## **FECA Fraud Amendments**

In its calendar year 1995 legislative proposals, the OIG recommended that the Department seek to amend the Federal Employees' Compensation Act (FECA), to prohibit individuals from receiving FECA benefits if they have been convicted of FECA fraud. This legislative recommendation resulted from the findings of a study conducted by the OIG with the U.S. Postal Inspection Service. This study found that individuals who were convicted of defrauding the FECA program were still receiving their FECA compensation benefits. The OIG recommended that these benefits be terminated. The OIG further recommended that the benefits that are received by FECA recipients when they are incarcerated for any felony, should be suspended until they are released from prison. The OIG is of the opinion that such amendments to the statute would greatly enhance the deterrent value of the law and provide the Department with a valuable tool for dealing with those who defraud, or attempt to defraud, the FECA program. Individuals committing FECA fraud would not

only risk going to jail, but would also jeopardize their benefits by engaging in criminal activities. In addition to the OIG study, the National Performance Review (NPR), directed by the Vice President, recognized the importance of this issue in the effort to "reinvent" the Federal Government.

On September 30, 1994, the President signed into law the Department's annual appropriations for the 1995 Fiscal Year (Public Law 103-329) which includes provisions to make permanent changes in current statutes in efforts to deter fraud and abuse in the FECA program. The legislation raised the violation of the FECA fraud statute (Title 18, USC §1920) from a misdemeanor to a felony, provided that the benefits falsely obtained were in an amount over \$1,000. In addition, the legislation amended Chapter 81 of Title 5 U.S. Code by inserting a new section which provides that anyone convicted of defrauding the FECA program would have their disability benefits terminated. The new law also suspends the payment of FECA disability benefits to individuals convicted of any felony, and who are serving a prison term.

## **Job Corps Program**

The Job Corps Program was created in 1964 to assist disadvantaged youths to become more employable, productive citizens. This summer, the OIG briefed Congress on its concerns with the proposed expansion of the Job Corps program, before measures are considered by ETA to improve overall program performance in certain key areas of the program.

Shortly after the close of the reporting period, the IG testified at an oversight hearing before the Senate Committee on Labor and Human Resources, on the OIG's continuing audit work and our concerns with certain aspects of this program. In particular, the IG testified that, although ETA has generally taken corrective action to OIG recommendations to improve the program, there are still areas within the program that need to be improved. Specifically, OIG audits have found that Job Corps centers that consistently perform below the national averages continue to operate without demonstrating significant improvement. The IG voiced his concerns that there are such wide variances in Job Corps center performance and that a youth's success may depend on which center he or she attends. The OIG recommended that more attention be focused on the low performing Job Corps centers to ensure that every youth entering



the Job Corps program has the same chance to succeed, and to ensure that scarce resources are effectively used.

The Secretary voiced his strong support for expansion of the program while acknowledging that there is room for improvement. The OIG urges the Administration and the Congress to continue to examine ways the performance of this vital program may be enhanced.

### **Improper Charges by Grantees and Contractors**

During this period, the OIG testified before the Senate Appropriations Subcommittee on Labor, HHS, and Related Agencies, regarding the persistent problem of contractors and grantees submitting improper indirect cost claims to the Government. OIG audits of indirect costs claimed by contractors and grantees continue to reveal abusive practices. In his testimony, the IG recommended that all Federal agencies be given the same authority as is presently available to the Defense Department, with respect to the assessment of interest and penalties for submitting improper charges to the Government. S. 1587, the Federal Acquisition Streamlining Act, which was subsequently passed by Congress, includes such authority with respect to contractors.

### **Measures Requiring Congressional Action**

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

Labor Day, 1994, marked the 20th anniversary of the enactment of the Employee Retirement Income Security Act of 1974 (ERISA). Twenty years ago, Congress voiced the intent that the pensions of American workers be protected and allowed to flourish, thus enabling all working Americans the ability to retire at a suitable standard of living. While great strides have been taken over the past 20 years to achieve this goal, the OIG continues to be concerned that the pension security of millions of Americans remains at risk.

Since 1984, through Semiannual Reports and congressional testimony, the OIG has raised its concern that hundreds of billions of dollars in employee pension funds are not being adequately safeguarded by annual audits. In 1989, the OIG issued an audit report recommending the repeal of the limited scope audit provision of ERISA, which allows funds held in federally regulated entities to escape audit scrutiny. Currently ERISA does not require audits of plan assets that have been invested in entities such as savings and loans,

associations, banks, and insurance companies, which are regulated by Federal or State Governments. While the Congress intended to reduce duplication of auditing effort by limiting the scope of the audits, this exemption has created a dangerous loophole that needlessly puts at risk the assets of pension plan beneficiaries.

Although it has been assumed that these "exempted" institutions have been receiving adequate audit coverage from the other regulatory agencies, in general, these audits are only performed every 2 years and are not primarily designed to test for ERISA violations. As a result, this limited scope audit exemption may be placing at risk a significant portion of the more than \$2 trillion in pension fund assets. Moreover, this exemption places at risk the Federal Government's assets -- a risk which ultimately must be borne by the American taxpayer -- because the Government guarantees the payment of pension benefits for defined benefit plans through the Pension Benefit Guaranty Corporation.

The OIG has long recommended a legislative change to ERISA to repeal the limited scope provision. The OIG is encouraged that the Pension and Welfare Benefits Administration has worked closely with the OIG to draft language for such a legislative remedy. The OIG is also encouraged that the Administration has officially cleared the legislative proposal. However, the OIG is concerned that, during this reporting period, it has not been forwarded to the Congress for action during this legislative session.

**Increased Monetary Penalties for Fair Labor Standards Record Keeping Violations**

Following a 1991 audit of the enforcement efforts of the Department's Wage and Hour Division, the OIG recommended that the Department support legislation that would establish civil monetary penalties for violations of the record keeping provision of the Fair Labor Standards Act (FLSA). These civil monetary penalties would serve to close a loophole that exists in the law. Currently, the FLSA contains provisions that require employers to maintain payroll, employment, and certain other records. However, the law contains no penalties to sanction employers who do not comply by not maintaining accurate records. This loophole makes it more difficult for Wage and Hour investigators to determine FLSA violations, because an investigation conducted by the Department concerning alleged minimum wage or overtime violations, normally relies on the payroll records of the employer. In the absence of accurate records kept by the employer, Wage and Hour investigators have to obtain facts

through interviews of current and former employees, and any other corroborating information, to determine if violations have occurred. The OIG is of the opinion that the civil monetary penalties will serve as an inducement for employers to maintain appropriate records. Adequate record keeping would facilitate investigative activities and lead to greater compliance with the FLSA. Both the OIG and the General Accounting Office have recommended establishing such penalties for record keeping violations.

### **Occupational Safety and Health Enforcement Reform**

The OIG is disappointed that another congressional session passed without definitive legislative action to establish criminal sanctions for serious, willful, and repeat violations of OSHA rules that result in death or serious bodily injury. Currently, under the OSH Act, a willful violation of an OSHA rule, causing the death of a worker, is considered a misdemeanor, and subject to a maximum fine not to exceed \$10,000 or 6 months in prison. Repeat violations are subject to a maximum fine of \$20,000 or one year in prison. Because these violations are presently misdemeanors, often there is little incentive for prosecutors to accept these cases. The OIG has also found that the actual fines imposed are usually a small fraction of what can be levied, and often go through a lengthy appeal process.

The OIG has long supported strengthening the criminal enforcement provisions of the OSH Act. The OIG believes that stronger criminal enforcement will serve as a meaningful deterrent and will go a long way towards ensuring that the American worker is better protected from avoidable occupational hazards.

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### **SPECIAL PROJECTS OFFICE**

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The Office of Special Projects (SPO) of the OIG performs quick response evaluations, analyses, and inspections of programs, activities, organizations, and functions of DOL, including OIG. Evaluations, analyses, and inspections are designed to improve program cost efficiency and effectiveness, management, and the overall quality of services. The SPO focuses on requests from management that require the OIG to provide fast, objective and reliable evaluations.

### **Resolution Actions: Review of Law Enforcement Officer Benefits for the Office of Labor-Management Standards**

An advisory opinion, obtained from the Office of Personnel Management, to resolve the recommendations provided in the OIG report (issued on September 28, 1993) concerning law enforcement officer (LEO) benefits for the Office of Labor-Management Standards (OLMS), confirmed OIG's concerns regarding the eligibility for coverage of time expended performing compliance audits. While OPM did not rescind the LEO coverage of OLMS' positions, (since this coverage was approved on the basis of the duties described in the position descriptions, rather than on the extent of time devoted by individual investigators to those duties) OPM advised that:

Auditing books ... is not a qualifying activity, unless this activity is undertaken as part of an investigation of an actual person suspected of a Federal criminal violation.

OPM further advised that the positions should be reviewed and restructured to ensure that DOL adheres to the statutory definitions and regulations in designating positions qualifying for LEO benefits.

The Department's Office of the Assistant Secretary for Administration and Management instructed OLMS to submit a plan to restructure the agency's positions in accordance with OPM's guidance, designating whether the positions will or will not be law enforcement officer positions. Final closure of this review is pending OIG's assessment of the OLMS restructuring plan.

## Reporting Requirements Under The Inspector General Act of 1978

### Requirement

Section 4(a)(2) - Review of Legislation and Regulation .....	69
Section 5(a)(1) - Significant Problems, Abuses, and Deficiencies .....	ALL
Section 5(a)(2) - Recommendations With Respect to Significant Problems, Abuses, and Deficiencies .....	ALL
Section 5(a)(3) - Prior Recommendations Not Yet Completed .....	92
Section 5(a)(4) - Matters Referred to Prosecutive Authorities .....	1
Section 5(a)(5) and Section 6(b)(2) - Summary of Instances Where Information Was Refused .....	None
Section 5(a)(6) - List of Audit Reports .....	96
Section 5(a)(8) - Statistical Tables on Management Decisions on Questioned Costs .....	85
Section 5(a)(9) - Statistical Tables on Management Decisions on Recommendations That Funds Be Put to Better Use .....	87,91
Section 5(a)(10) - Summary of Each Audit Report Over 6 Months Old for Which No Management Decision Has Been Made .....	88
Section 5(a)(11) - Description and Explanation for Any Significant Revised Management Decision .....	30
Section 5(a)(12) - Information on Any Significant Management Decisions with Which the Inspector General Disagrees .....	None

### Senate Report No. 96-829

Resolution of Audits .....	85-87
Delinquent Debts .....	79

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

## AUDIT SCHEDULES

### **Money Owed the Department of Labor ..... 79**

This schedule depicts the amount of money that is owed to the Department of Labor. In order to demonstrate the extent of change in the balances owed to the Department, data is provided on the amounts owed at both the beginning and end of the 6-month reporting period. The schedule also reports on those amounts which were appealed, collected, and written-off, as well as the amounts adjusted as a result of any appeals and revised management decisions.

### **Summary of Audit Activity of DOL Programs ..... 80**

This schedule summarizes, by DOL agency, the number of audit reports issued during the 6-month reporting period, the amount of dollars audited, and the amount of dollars questioned by auditors as having been improperly expended.

### **Summary of Audit Activity of ETA Programs ..... 81**

This schedule details, for the Employment and Training Administration (ETA), the number of audit reports issued during the 6-month reporting period, the amount of dollars audited, and the costs questioned by auditors as having been improperly expended. (This additional detail is provided since most of DOL funds are in ETA.)

### **Summary of Audits Performed Under the Single Audit Act ..... 82**

This schedule summarizes the audit reports, issued during the 6-month reporting period, which were prepared in accordance with the Single Audit Act. This schedule also details the amount of dollars audited, as well as the costs questioned by auditors as having been improperly expended.

### **Summary of Audits Performed Under the Single Audit Act: Multi-Agency Program Reports ..... 83**

This schedule depicts the number of single audit reports, issued during the 6-month reporting period, that covered more than one Department of Labor program agency. This schedule also details the amount of dollars that were audited, as well as the costs questioned by auditors as having been improperly expended.

### **Audits by Non-Federal Auditors ..... 84**

This schedule is a report to the Office of Management and Budget (OMB) on the quality and results of single audits performed by non-Federal auditors during the 6-month reporting period.

### **Summary of Audit Resolution Activity: Questioned Costs ..... 85**

This schedule shows the extent to which DOL management has taken steps, during the 6-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 management decides that the expenditure should be allowed. (This schedule is required by Section 5(a)(8) of the Inspector General Act, as amended.)

**Summary of Audit Resolution Activity: Unsupported Questioned Costs ..... 86**

This schedule shows the extent to which DOL management has taken steps, during the 6-month reporting period, to resolve the costs questioned by the auditor because they were not supported by appropriate records or documentation. Audit resolution occurs when management either agrees with the auditor's finding and disallows those unsupported costs that were questioned, or management decides that the expenditure should be allowed. (This schedule is required by Section 5(a)(8) of the Inspector General Act, as amended.)

**Summary of Audit Resolution Activity: Funds Put to Better Use ..... 87**

This schedule depicts the extent to which DOL management has taken steps, during the 6-month reporting period, to resolve funds that the auditor recommended be put to better use. Audit resolution occurs when management either agrees with the auditor's finding, or management disagrees that the funds can or should be put to better use. (This schedule is required by Section 5(a)(9) of the Inspector General Act, as amended.)

**Unresolved Audits Over 6 Months ..... 88**

This schedule presents a summary of all audit reports that continue to remain unresolved for more than 6 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.)

**Summary of Final Action Activity: Disallowed Costs ..... 90**

This schedule presents the final action activity for costs that have been disallowed during the 6-month reporting period. This schedule is included in the OIG Semiannual Report to demonstrate the flow of information to the Secretary's Semiannual Management Report, which is issued by the Secretary as required by Section 5(b)(2) of the Inspector General Act, as amended.

**Summary of Final Action Activity: Funds Put to Better Use ..... 91**

This schedule depicts, by program agency, the final action activity during the 6-month reporting period for those funds that were recommended by the auditor to be put to better use. This schedule is included in the OIG Semiannual Report to demonstrate the flow of information to the Secretary's Semiannual Management Report, which is issued by the Secretary as required by Section 5(b)(3) of the Inspector General Act, as amended.

**Significant Recommendations Resolved for Over One Year on which Corrective Action Has Not Been Completed, as of September 30, 1994 ..... 92**

This schedule presents the significant audit recommendations which have been resolved for over one year and on which corrective action has not been completed.

**Final Audit Reports Issued ..... 96**

This schedule lists all audit reports that were issued during the 6-month reporting period, as required by Section 5(a)(6) of the Inspector General Act, as amended.

# Money Owed the Department of Labor For the Period April 1, 1994 - September 30, 1994

Program Name	Beginning Balance		Debt Established During Period	Collections During the Period			Write-Offs			Adjustments Due to:			Ending Balance	
	In Collection	Under Appeal		Cash	Offset	Other	Compromise	Termination	Appeals	Revised Management Decision	Delinquent	Current	Under Appeal	
ESA	21,491,982	8,991,939	11,200,765	8,507,743	0	0	103,042	625,081	554,104	0	577,355	10,253,971	12,990,143	8,073,227
FECA Black Lung -Disability Trust Fund	5,418,321	90,489,812	8,560,816	6,438,503	0	0	0	3,368,818	1,227,984	0	0	5,198,803	0	88,214,841
ETA	19,173,046	15,003,257	131,621	1,958,448	0	2	0	500,522	633,451	89,876	828,531	13,812,108	3,799,382	12,775,479
CETA	8,051,238	46,182,682	7,758,679	1,260,477	0	(162,486)	0	0	490,011	499,572	96,392	5,597,771	6,521,266	48,186,180
UI/SEA	0	8,424,609	345	104	0	0	0	0	0	0	0	241	0	8,424,609
MSHA Assessments/Mine Operator Civil Penalties	15,870,895	17,288,450	21,100,000	9,900,000	0	0	0	3,800,000	0	0	0	16,456,980	1,602,365	22,500,000
OSHA Civil Penalties -From Business -From State Grantees	49,046,023	81,919,376	50,909,711	44,568,903	0	0	3,366,616	0	0	0	6,614,160	26,800,061	18,207,708	81,997,662
BLS	87,476	0	688,234	515,081	0	0	0	0	0	0	0	116,501	124,128	0
PWBA	4,085,684	13,738	4,877,227	508,901	0	0	42,121	8,331	9,847	4,091	678,803	7,482,821	46,025	0
OASAM	34,445	0	148,287	147,546	0	0	0	31,740	0	0	0	0	3,456	0
Total	123,259,090	268,293,873	105,155,695	73,825,706	0	(162,486)	3,511,779	8,334,482	2,915,197	603,539	8,998,241	85,619,258	43,294,473	270,171,968

**Explanations:**

Figures provided by agencies are estimates and are unaudited. Differences between beginning balances on this schedule and ending balances on the prior period schedule result from adjustments made during the period. Almost all delinquent debt has either been referred to DOJ for collection action or is in the process of referral. Collections during the period includes: money which had been under appeal, subsequently had a debt established, and money collected.

**Definitions:**

Collections: Includes cash, offsets, property, repayment agreements; any amount more than 30 days overdue is delinquent.  
Under Appeal: Formal process in which program recipient/auditee appeals program agency's determination; amounts are "contingent" receivables--not available for collection.  
Write-Offs: Result from agency administrative procedures to write off uncollectible receivables, a/k/a bad debt.  
Adjustments due to appeals: Adjustments of contingent receivables which result from Administrative Law Judge/Judicial process (includes agency actions overturned & compromises).  
Adjustments due to audit resolution: Adjustments of contingent receivables which result from reclassification of disallowed costs based on documentation submitted after audit resolution.



**Summary of Audit Activity of DOL Programs**  
**April 1, 1994 - September 30, 1994**

Agency	Reports Issued	Grant/Contract Amount Audited <sup>1</sup>	Questioned Costs Unsupported	Other
OSEC	1	\$ 125,000	\$ 0	\$ 0
VETS	1	103,795	0	0
ETA	114	131,172,695	3,347,456	1,001,457
ESA	9	11,270,443	0	0
OASAM	9	54,858,496,675	1,983,475	0
OSHA	2	1,293,925	1,657	0
BLS	2	0	0	0
PWBA	1	0	0	0
Multi-Agency	34	7,372,416,534	6,848,411	14,394
OT AGY	5	0	0	0
<b>Totals</b>	<b>178</b>	<b>\$62,374,879,067</b>	<b>\$12,180,999</b>	<b>\$1,015,851</b>

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

**Summary of Audit Activity of ETA Programs  
April 1, 1994 - September 30, 1994**

Program	Reports Issued	Grant/Contract Amount Audited	Questioned Costs	
			Unsupported	Other
UIS	1	\$ 0	\$ 0	\$ 0
USES	1	19,875,500	0	0
SESA	2	0	601,901	731,178
JTPA	10	9,672,462	1,209,622	166,589
DINAP	76	36,930,184	310,649	39,279
DOWP	6	22,094,383	0	0
DSFP	14	30,037,083	1,165,160	70
OJC	3	12,512,834	60,124	64,341
OSPPD	1	50,249	0	0
<b>Totals</b>	<b>114</b>	<b>\$131,172,695</b>	<b>\$3,347,456</b>	<b>\$1,001,457</b>

**Summary of Audits Performed Under the Single Audit Act**  
**April 1, 1994 - September 30, 1994**

Agency	Entities Audited	Reports Issued	Grant/Contract Amount Audited	Questioned Costs Unsupported	Other
VETS	0	1	\$ 103,795	\$ 0	\$ 0
ETA	39	102	87,927,423	292,233	2,153
OSHA	0	2	1,293,925	1,657	0
Multi-Agency	8	34	7,372,416,534	6,848,411	14,394
OT AGY	3	3	0	0	0
<b>Totals</b>	<b>50</b>	<b>142</b>	<b>\$7,461,741,677</b>	<b>\$7,142,301</b>	<b>\$16,547</b>

**Note:** DOL has cognizant responsibility for specific entities under the Single Audit Act. More than one audit report may have been transmitted or issued for an entity during this time period. Reports are transmitted or issued based on the type of funding and the agency/program responsible for resolution. During this period, DOL issued reports on 50 entities for which DOL was cognizant; in addition, DOL issued 142 reports which included direct DOL funds for which DOL was not cognizant.

**Summary of Audits Performed Under the Single Audit Act  
Multi-Agency Program Reports  
April 1, 1994 - September 30, 1994**

Agency	Number of Recommendations	Questioned Costs Unsupported	Other
ETA:			
UIS	5	22,707	0
SESA	5	716,938	0
JTPA	19	6,094,566	14,394
DOWP	1	14,200	0
<b>Totals</b>	<b>30</b>	<b>\$6,848,411</b>	<b>\$14,394</b>

**Note:** Multi-Agency Program Reports relate to Single Audit reports. The report may be on a statewide audit where DOL has accepted "lead" cognizance or it may be on a single entity under the direct responsibility of DOL. If multiple DOL programs were audited, the multi-agency designation was used. Individual recommendations within the report designate which agency/program is responsible for resolution. Thirty recommendations are contained within the 34 multi-agency reports issued this period.

**Audits by Non-Federal Auditors  
PCIE Semiannual Reporting - Summary Results of IG Reviews  
Six Months Ended September 30, 1994**

	A-128/102-P Audits			A-133/110 Audits			Grand Total
	Independent Public Accountant	State & Local Auditor	Total	Independent Public Accountant	State & Local Auditor	Total	
1. Reports Issued Without Change or With Minor Changes							
A. Based on Desk Review	92	22	114	27	0	27	141
B. Based on QCR	1	0	1	0	0	0	1
Total Without Change or With Minor Changes	93	22	115	27	0	27	142
2. Reports Issued With Major Changes							
A. Based on Desk Review	0	0	0	0	0	0	0
B. Based on QCR	0	0	0	0	0	0	0
Total With Major Changes	0	0	0	0	0	0	0
3. Reports With Significant Inadequacies							
A. Based on Desk Review	0	0	0	0	0	0	0
B. Based on QCR	0	0	0	0	0	0	0
Total Reports with Significant Inadequacies	0	0	0	0	0	0	0
4. Number of Auditors Referred to State Boards/AICPA							
5. Number of Auditors Which Other Sanctions Were Taken							
6. Unsupported Costs in Reports With Direct Funded Findings	\$619,762	\$6,493,922	\$7,113,684	\$28,617	\$0	\$28,617	\$7,142,301
7. Sustained Unsupported Costs	\$46,586	\$1,218,798	\$1,265,384	\$8,000	\$0	\$8,000	\$1,273,384
8. Recovered Unsupported Costs	\$253,436	\$57,510	\$310,946	\$8,901	\$0	\$8,901	\$319,847
9. Other Costs Questioned in Reports With Direct Funded Findings	\$2,153	\$14,394	\$16,547	\$0	\$0	\$0	\$16,547
10. Sustained Other Questioned Costs	\$8,897	\$0	\$8,897	\$0	\$0	\$0	\$8,897
11. Recovered Other Questioned Costs	\$3,897	\$0	\$3,897	\$248	\$0	\$248	\$4,145

**Summary of Audit Resolution Activity  
Questioned Costs  
April 1, 1994 - September 30, 1994**

Agency/ Program	April 1, 1994		Issued (Increases)		Resolved (Decreases)		September 30, 1994	
	Balance Unresolved Reports	Dollars	Reports	Dollars	Reports	Disallowed	Balance Unresolved Reports	Dollars
OSEC	1	\$0	1	\$0	2	\$0	0	\$0
VETS	0	0	1	0	1	0	0	0
ETA:								
ADMIN	3	0	0	0	0	0	3	0
OFCMS	0	0	0	0	0	0	0	0
UIS	2	0	1	0	0	0	3	0
USES	1	0	1	0	1	0	1	0
FLC	0	0	0	0	0	0	0	0
SESA	0	0	2	1,333,079	0	0	0	0
OTAA	1	394,825	0	0	0	0	2	1,333,079
JTPA	13	23,710,270	10	1,376,211	11	1,699,220	12	18,892,382
CETA	0	0	0	0	0	0	0	0
OSTP	0	0	0	0	0	0	0	0
DINAP	17	988,871	76	349,928	70	71,529	23	1,144,817
DOWP	3	8,441,369	6	0	8	8,441,369	1	0
DSFP	6	11,718	14	1,165,230	17	3,718	3	1,165,160
OJC	10	907,851	3	124,465	2	23,967	11	1,002,227
BAT	0	0	0	0	0	0	0	0
OSPPD	1	43,175	1	0	2	37,618	0	0
ESA	1	0	9	0	9	0	1	0
MSHA	0	0	0	0	0	0	0	0
OASAM	14	2,051,218	9	1,983,475	7	630,998	16	2,569,444
SOL	0	0	0	0	0	0	0	0
OIG	0	0	0	0	0	0	0	0
OSHA	2	5,561	2	1,657	4	7,218	0	0
BLS	1	0	2	0	1	0	2	0
PWBA	0	0	1	0	1	0	0	0
Multi-Agency	27	2,571,485	34	6,862,805	31	973,240	30	8,329,165
Other Agencies	0	0	5	0	5	0	0	0
<b>TOTAL</b>	<b>103</b>	<b>\$39,126,343</b>	<b>178</b>	<b>\$13,196,850</b>	<b>172</b>	<b>\$11,888,877</b>	<b>109</b>	<b>\$34,831,099</b>

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

DISALLOWED COSTS includes \$205,412 of additional claim amounts. Additional claim amounts occur when the grant/contract officer disallows an amount in addition to the finding amount.

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

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

**Summary of Audit Resolution Activity  
Unsupported Questioned Costs  
April 1, 1994 - September 30, 1994**

Agency/ Program	April 1, 1994		Issued (Increases)		Resolved (Decreases)		September 30, 1994	
	Balance Unresolved Reports	Dollars	Reports	Dollars	Reports	Disallowed	Balance Unresolved Reports	Dollars
OSEC	0	\$0	0	\$0	0	\$0	0	\$0
VETS	0	0	0	0	0	0	0	0
ETA:								
ADMIN	0	0	0	0	0	0	0	0
OFCMS	0	0	0	0	0	0	0	0
UIS	0	0	0	0	0	0	0	0
SESA	0	0	1	601,901	0	0	1	601,901
OTAA	1	93,572	0	0	0	0	1	93,572
JTPA	6	14,492,896	2	1,209,622	1	88,923	7	14,914,360
CETA	0	0	0	0	0	0	0	0
DINAP	11	988,871	7	310,649	8	71,529	10	1,105,538
DOWP	1	8,441,369	0	0	1	8,441,369	0	0
DSFP	3	11,718	1	1,165,160	3	3,718	1	1,165,160
OJC	6	907,851	2	60,124	1	23,967	7	937,886
OSPPD	1	43,175	0	0	1	37,618	0	0
ESA	0	0	0	0	0	0	0	0
MSHA	0	0	0	0	0	0	0	0
OASAM	8	2,051,218	6	1,983,475	6	630,996	8	2,569,444
OIG	0	0	0	0	0	0	0	0
OSHA	1	5,561	1	1,657	2	7,218	0	0
Multi-Agency Other Agency	16	2,571,485	10	6,848,411	12	973,240	14	8,314,771
TOTAL	54	\$29,607,716	30	\$12,180,999	35	\$10,278,580	49	\$29,702,632

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

**Summary of Audit Resolution Activity  
Funds Put to Better Use  
April 1, 1994 - September 30, 1994**

Agency/ Program	April 1, 1994		Issued (Increases)		Resolved (Decreases)		Management		September 30, 1994	
	Balance Unresolved Reports	Dollars	Reports	Dollars	Reports	Disagreed	Agreed	Reports	Balance Unresolved Reports	Dollars
OSEC	0	\$0	0	\$0	0	\$0	\$0	0	0	\$0
ETA:	0	0	0	0	0	0	0	0	0	0
DSFP	0	0	0	0	0	0	0	0	0	0
OJC	0	0	0	0	0	0	0	0	0	0
ESA	0	0	0	0	0	0	0	0	0	0
MSHA	0	0	0	0	0	0	0	0	0	0
OASAM	0	0	0	0	0	0	0	0	0	0
OSHA	1	\$5,712,677	0	0	1	0	5,712,677	0	0	0
TOTAL	1	\$5,712,677	0	\$0	1	\$0	\$5,712,677	0	0	\$0



**Unresolved Audits Over 6 Months  
April 1, 1994 - September 30, 1994**

Agency	Program	Date Issued	Audit Report Number	Name of Audit/Auditee	No of Rec	Questioned Costs
<b>Under Litigation:</b>						
ETA	DINAP	03-FEB-94	18-94-007-03-350	NEBRASKA INTER-TRIBAL	10	\$ 607,354
ETA	JTPA	23-SEP-93	04-93-046-03-340	GA DOL FIXED FEE QUALITY PLUS	15	296,892
ETA	JTPA	17-APR-91	05-91-012-03-340	SEATTLE KING COUNTY OJT BROKER	2	15,751
ETA	JTPA	25-SEP-92	06-92-010-03-340	EAST TEXAS CNCL OF GOVT	13	5,780,925
MULTI	ALLDOL	25-AUG-89	03-89-083-50-598	COMMONWEALTH OF PA	1	78,270
MULTI	ALLDOL	07-FEB-91	03-91-012-50-598	COMMONWEALTH OF PA	1	29,539
<b>Awaiting Resolution:</b>						
ETA	ADMIN	25-AUG-92	12-92-021-03-001	UNEMPLOY TRUST FUND FY 91 <sup>1</sup>	2	0
ETA	ADMIN	25-AUG-92	12-92-022-03-001	ETA FY 91 FIN STMTS <sup>1</sup>	4	0
ETA	ADMIN	30-SEP-93	12-93-001-03-001	ETA FY 92 FIN STMTS <sup>1</sup>	12	0
ETA	UIS	29-SEP-93	03-93-034-03-315	UI PERFORMANCE MEASURES <sup>1</sup>	1	0
ETA	UIS	31-MAR-94	09-94-002-03-315	UCFC/UCX PAYMENT VERIFICATION <sup>2</sup>	2	0
ETA	JTPA	29-MAR-91	05-91-054-03-330	SEL ELEM OF TAA ADMIN BY MESC <sup>3</sup>	12	394,825
ETA	JTPA	17-DEC-93	05-94-002-03-340	NEW YORK CITY OJT BROKER <sup>4</sup>	18	611,896
ETA	JTPA	29-MAR-94	06-94-001-03-340	NAVAJO NATION <sup>4</sup>	3	677,574
ETA	JTPA	31-MAR-94	06-94-002-03-340	ALAMO CONSORTIUM SDA <sup>4</sup>	21	7,136,636
ETA	DINAP	13-APR-93	06-93-231-03-355	SANTO DOMINGO TRIBE <sup>5</sup>	18	65,681
ETA	DINAP	28-FEB-94	18-94-006-03-355	DENVER INDIAN CENTER <sup>6</sup>	3	121,854
ETA	OJC	30-SEP-93	03-93-033-03-370	JOB CORPS PERFORMANCE MEASURES <sup>1</sup>	2	0
ETA	OJC	25-JAN-93	12-93-004-03-370	JC TRANSPORTATION SYSTEM INTER <sup>7</sup>	2	44,492
ETA	OJC	22-FEB-94	05-94-001-03-370	EXCELSIOR SPRINGS JOB CORPS <sup>8</sup>	1	0
ETA	OJC	09-SEP-93	18-93-012-03-370	INTERNATIONAL MASONRY INST <sup>8</sup>	4	0
OASAM	ADMIN	28-JUN-91	12-91-009-07-001	FY 90 CONSOLIDATED FIN STMTS <sup>1</sup>	9	0
OASAM	ADMIN	28-AUG-92	12-92-002-07-001	FY 91 CONSOLIDATED FIN STMTS <sup>1</sup>	11	0
OASAM	ADMIN	30-SEP-93	12-93-008-07-001	FY 92 CONSOLIDATED FIN STMTS <sup>1</sup>	10	0
OASAM	ADMIN	26-MAR-93	12-93-016-07-001	COMBINING SCHED NET ADVANCES <sup>1</sup>	5	0
OASAM	OPGM	30-SEP-93	12-93-011-07-710	FY 92 WORKING CAPITAL FUND <sup>1</sup>	18	0
BLS	ADMIN	30-SEP-93	12-93-009-11-001	BLS FY 92 FINANCIAL STATEMENTS <sup>1</sup>	4	0
MULTI	ALLDOL	22-FEB-94	04-94-011-50-598	STATE OF KENTUCKY <sup>2</sup>	1	200,840
MULTI	ALLDOL	06-JAN-94	09-94-536-50-598	STATE OF OREGON <sup>2</sup>	2	7,547
<b>Pending Indirect Cost Negotiations:</b>						
ETA	OJC	10-SEP-92	18-92-027-03-370	LEO A. DALY <sup>9</sup>	2	210,695
ETA	OJC	04-MAR-94	18-94-009-03-370	LEO A. DALY <sup>9</sup>	1	231,610
ETA	OJC	04-MAR-94	18-94-010-03-370	LEO A. DALY <sup>9</sup>	1	274,400
ETA	OJC	04-MAR-94	18-94-011-03-370	LEO A. DALY <sup>9</sup>	1	116,565
OASAM	OPGM	30-SEP-91	18-91-035-07-735	OIC OF AMERICA <sup>9</sup>	13	481,785
OASAM	OPGM	17-SEP-93	18-93-011-07-735	INTERNATIONAL MASONRY INST <sup>9</sup>	3	104,184
<b>TOTAL AUDIT EXCEPTIONS:</b>					<b>228</b>	<b>\$17,489,315</b>

Notes are located on the following page.

## Notes to “Unresolved Audits Over 6 Months Precluded From Resolution”

<sup>1</sup>Recommendations were reviewed under their respective current FY 93 audits and remain unresolved.

<sup>2</sup>Unresolved pending a management decision to the final audit report.

<sup>3</sup>This audit report concluded that the Michigan Employment Security Commission (MESC) appeared to have improperly enrolled a large number of unemployed workers in DOL-funded training solely to qualify them to receive additional weeks of Trade Readjustment Allowances pending recall by their former employer. ETA issued a formal notice to MESC on March 20, 1992, describing the problems and the State's responsibilities. Final action has not been taken by ETA or MESC with regard to the findings or repayment of misspent funds to the Department.

<sup>4</sup>The States have 180 days to issue a Final Management Decision. Program Agencies and OIG have an additional 180 days to accept the State-level decision.

<sup>5</sup>The audit is currently under the Alternative Dispute Resolution process.

<sup>6</sup>Currently under GAO review.

<sup>7</sup>Report deals with recommendations revolving around recovery of unused airline tickets from the private travel agency and revisions to the Job Corps travel policies and procedures. We are waiting for Job Corps' management decision to the final report.

<sup>8</sup>The response provided by the Agency did not address all of the findings in the audit report.

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

**Summary of Final Action Activity  
Disallowed Costs  
April 1, 1994 - September 30, 1994**

Agency/ Program	April 1, 1994		Resolved (Increases)		Final Action (Decreases)		September 30, 1994	
	Balance No Final Action Reports Disallowed	Reports	Reports	Disallowed	Write-Offs	Recovered	Balance No Final Action Reports	Dollars
OSEC	5	\$ 0	2	\$ 0	4	\$ 0	3	\$ 0
VETS	3	538,190	1	0	1	0	3	538,190
ETA:								
ADMIN	7	507,696	0	0	3	0	4	507,696
OFAM	3	1,485,911	0	0	1	0	2	1,485,911
UIS	16	58,518,331	0	0	7	10,248	9	58,016,797
USES	0	0	1	0	1	0	0	0
SESA	7	3,149,265	0	0	2	0	5	3,149,265
OTAA	3	2,052,389	0	0	0	0	3	2,052,389
JTPA	49	32,939,460	11	4,700,291	14	0	46	37,241,467
CETA	17	22,021,186	0	0	2	2,431,575	15	18,471,543
OSTP	2	494,950	0	0	0	0	2	494,950
DINAP	107	6,886,688	70	122,453	87	9,554	90	6,966,235
DOWP	11	212,854	8	0	11	507	8	204,486
DSFP	25	1,940,909	17	8,070	21	359,590	21	1,285,355
OJC	51	2,726,566	2	6,122	11	294,265	42	2,243,523
OSPPD	7	512,415	2	5,557	4	56,004	5	435,703
ESA	12	52,999	9	0	8	14,454	13	16,891
MSHA	1	0	0	0	0	0	1	0
OASAM	30	14,504,989	7	834,251	8	191,703	29	14,939,215
SOL	1	0	0	0	0	0	1	0
OIG	0	0	0	0	0	0	0	0
OSHA	12	90,781	4	0	5	0	11	90,760
BLS	1	0	1	0	1	0	1	0
PWBA	4	0	1	0	3	0	2	0
Multi-Agency	79	10,451,246	31	131,885	42	51,749	68	10,176,418
Other Agency	0	0	5	0	5	0	0	0
<b>TOTAL</b>	<b>453</b>	<b>\$159,086,825</b>	<b>172</b>	<b>\$5,808,629</b>	<b>241</b>	<b>\$3,419,649</b>	<b>384</b>	<b>\$158,316,794</b>

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

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

Recovered costs contain authorized repayment agreements totalling \$1,079,288.

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

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

**Summary of Final Action Activity  
Funds Put to Better Use  
April 1, 1994 - September 30, 1994**

Agency/ Program	April 1, 1994		Resolved		Final Action		September 30, 1994	
	Balance No Final Action Reports	Disallowed	Reports	(Increases) Disallowed	(Decreases) Write-Offs	Recovered	Balance No Final Action Reports	Dollars
OSEC	0	\$ 0	0	\$ 0	\$ 0	0	0	\$ 0
ETA:								
UIS	0	0	0	0	0	0	0	0
SESA	0	0	0	0	0	0	0	0
CETA	0	0	0	0	0	0	0	0
DSFP	0	0	0	0	0	0	0	0
OJC	0	0	0	0	0	0	0	0
ESA	0	0	0	0	0	0	0	0
OASAM	4	41,840,179	0	0	0	0	4	41,840,179
OSHA	1	80,000	1	5,712,677	0	0	2	5,792,677
Multi-Agency	1	54,000	0	0	0	54,000	0	0
<b>TOTAL</b>	<b>6</b>	<b>\$41,974,179</b>	<b>1</b>	<b>\$5,712,677</b>	<b>\$0</b>	<b>\$54,000</b>	<b>6</b>	<b>\$47,632,856</b>

**Significant Recommendations Resolved for Over One Year  
on Which Corrective Action Has Not Been Completed  
as of September 30, 1994**

Section 5.(a)(3) of the Inspector General Act requires Inspectors General to identify "each significant recommendation described in previous semiannual reports on which corrective action has not been completed."

The following table can be used to identify significant recommendations discussed in previous semiannual reports which have been resolved (or the decision of appeal has been rendered) in excess of one year and for which corrective action has not been completed as of September 30, 1994. The table does not contain resolved recommendations which are on appeal.

Report No. Report Name	Prior Semiannual Mo./Yr.&Pg	# Open Rec.	Resolution Mo./Yr.	Dollars Disallowed 000's
<b>VETS</b>				
18-91-041-02-201 Urban Revitalization - USA	09/91 Pg41	6	03/92	134
<b>ESA</b>				
03-91-056-04-001 FY 1990 Financial Statements	09/91 Pg36	7	08/91	N/A
03-92-052-04-001 FY 1991 Financial Statements	09/92 Pg46	5	06/92	N/A
17-91-001-04-420 Wage and Hour Enforcement	09/91 Pg36	12	09/92	N/A
<b>OASAM</b>				
06-93-006-07-001 DOL Personal Parking	03/93 Pg32	2	6/93	N/A
12-91-011-07-001 Internal Cntrl's do not Reasonably Assure Reliable General Ledger Balances	03/91 Pg37	3	03/92	N/A
12-92-030-07-710 Working Capital Fund	09/92 Pg60	3	10/92	N/A

**Significant Recommendations Resolved for Over One Year  
on Which Corrective Action Has Not Been Completed  
as of September 30, 1994**

Report No. Report Name	Prior Semiannual Mo./Yr. & Pg	# Open Rec.	Resolution Mo./Yr.	Dollars Disallowed 000's
<b>OASAM</b>				
19-92-010-07-710 Weaknesses Identified in the Recert Pay Process	09/92 Pg66	3	08/92	N/A
12-92-027-07-711 Premiums Remitted to Healthplus of Maryland	09/92 Pg67	5	08/93	N/A
12-92-029-07-711 Accounts Payable, Undelivered Orders and Disbursements	09/92 Pg59	4	08/93	N/A
<b>SOL</b>				
17-92-005-08-001 Managing Effectiveness of SOL	03/92 Pg14	5	04/92	N/A
<b>OSHA</b>				
05-89-067-10-001 FYs 88 & 87 Financial Statements	09/89 Pg13	5	09/89	N/A
05-90-035-10-001 OSHA Annual Report Can Be Improved	03/90 Pg25	3	06/90	N/A
05-90-056-10-001 FY 1989 Financial Statement	09/90 Pg23	2	12/90	N/A
05-92-008-10-001 OSHA Egregious Cases	03/92 Pg12	4	09/92	N/A
02-87-012-10-105 Targeting of Employer w/ History of Workplace Fatalities	03/87 Pg 4	4	05/87	N/A

**Significant Recommendations Resolved for Over One Year  
on Which Corrective Action Has Not Been Completed  
as of September 30, 1994**

Report No. Report Name	Prior Semiannual Mo./Yr.&Pg	# Open Rec.	Resolution Mo./Yr.	Dollars Disallowed 900's
<b>OSHA</b>				
05-88-083-10-105 OSHA 11(c) Complaint Program	03/89 Pg52	4	08/89	N/A
18-91-022-07-735 Special Review: John Gray Inst	03/91 Pg36	8	10/91	N/A
<b>ETA</b>				
12-88-013-03-001 FYs 1987 and 1986 Financial Strmts	03/89 Pg57	3	09/89	N/A
12-88-017-03-001 FY 1987 Management Advisory Comments	03/89 Pg58	2	09/89	N/A
03-83-203-03-315 UI Experience Rating	09/89 Pg23	1	09/90	N/A
03-90-086-03-315 Internal Control Improvements Needed for UI Trust Fund	03/90 Pg19	5	09/90	N/A
05-93-003-03-315 Ohio Bureau of Employment Services UI/ASA	03/93 Pg22	1	09/93	N/A
02-89-216-03-325 Puerto Rico Department of Labor & Human Resources	09/89 Pg75	15	10/89	N/A
04-89-139-03-325 Indiana Unemployment Trust Funds Equity in State Owned Property	09/89 Pg24	3	11/89	1,480
05-90-058-03-340 Greater Flint Opp. Center & Jobs Central	09/90 Pg12	7	05/91	541

**Significant Recommendations Resolved for Over One Year  
on Which Corrective Action Has Not Been Completed  
as of September 30, 1994**

Report No. Report Name	Prior Semiannual Mo./Yr.&Pg	# Open Rec.	Resolution Mo./Yr.	Dollars Disallowed 000's
ETA				
05-93-001-03-340 1992 SYETP	03/93 Pg14	2	04/93	N/A
06-88-800-03-340 JTPA Grant Fund Protection - Fort Worth	09/88 Pg18	7	04/93	386
06-91-013-03-340 National Alliance of Business	03/91 Pg30	7	09/93	N/A
18-90-022-07-735 Tech Assistance Group: Indirect Costs FYs 1986, 1987, 1988	09/90 Pg18	6	03/92	188



**FINAL AUDIT REPORTS ISSUED  
01-APR-94 TO 30-SEP-94**

Audit Report Number	Agency	Program	Date Sent to Program Agency	Name of Audit/Auditee
02-94-251-03-340	ETA	JTPA	18-JUL-94	Massachusetts Industrial Service Program - SA
02-94-263-03-340	ETA	JTPA	14-SEP-94	JTPA OJT Broker, New York City PIC
02-94-245-03-365*	ETA	DFREP	22-JUL-94	New England Farm Workers' Council, Inc. - SA
02-94-247-03-380	ETA	SPPD	18-JUL-94	Waterbury, Conn. - SA
02-94-262-04-431	ESA	FECA	28-SEP-94	Fiscal Year 1993 FECA Performance Measures
02-94-205-50-598	MULTI	AL/DOL	22-JUL-94	Connecticut - SA
02-94-209-50-598	MULTI	AL/DOL	18-JUL-94	Maine - SA
02-94-243-50-598	MULTI	AL/DOL	18-JUL-94	Commonwealth of Mass. - SA
02-94-246-50-598*	MULTI	AL/DOL	18-JUL-94	State of New Hampshire - SA
02-94-250-50-598*	MULTI	AL/DOL	22-JUL-94	Tribal Governors, Inc. - SA
02-94-252-50-598	MULTI	AL/DOL	12-AUG-94	State of Vermont - SA
03-94-025-03-315	ETA	UIS	29-SEP-94	UI Performance Measures FY 1993
03-94-017-03-340*	ETA	JTPA	06-JUL-94	Epilepsy Foundation of America 12/31/92 - SA
03-94-027-03-340*	ETA	JTPA	29-JUN-94	Goodwill Industries of America Inc. 12/31/92 - SA
03-94-035-03-370	ETA	OJC	30-SEP-94	Job Corps SPAMIS
03-94-008-04-001	ESA	ADMIN	18-AUG-94	ESA Salaries and Expense Financial Schedule
03-94-014-04-432	ESA	DLHWC	17-AUG-94	Longshore & DC Management Letter FY 93
03-94-015-04-432	ESA	DLHWC	17-AUG-94	Longshore Trust Fund FY 93
03-94-016-04-432	ESA	DLHWC	17-AUG-94	DC Trust Fund FY 93
03-94-019-11-001	BLS	ADMIN	30-SEP-94	BLS' Performance Measures
03-94-026-50-598*	MULTI	AL/DOL	06-JUL-94	Commonwealth of Pennsylvania - SA
04-94-005-01-001	OSEC	ADMIN	01-APR-94	OASAM'S Imprest Fund
04-94-021-03-320	ETA	USES	18-AUG-94	Targeted Jobs Tax Credit Program
04-94-014-03-340*	ETA	JTPA	01-APR-94	Tennessee Opportunity Programs, Inc. - SA
04-94-025-03-340	ETA	JTPA	11-AUG-94	Georgia Mountains Regional Center
04-94-028-03-340*	ETA	JTPA	02-AUG-94	National Conference of Black Mayors - SA
04-94-008-03-365*	ETA	DFREP	18-APR-94	Wil-low Nonprofit Housing Corporation, Inc. - SA
04-94-016-03-365*	ETA	DFREP	21-APR-94	Delta Housing Development Corporation - SA
04-94-022-03-365*	ETA	DFREP	16-JUN-94	Mississippi Delta Council for Farmworkers, Inc. - SA
04-94-027-03-365*	ETA	DFREP	28-JUL-94	Homes in Partnership - SA
04-94-015-50-598	MULTI	AL/DOL	18-APR-94	State of South Carolina - SA
04-94-018-50-598*	MULTI	AL/DOL	02-MAY-94	Brevard County - SA
04-94-023-50-598	MULTI	AL/DOL	07-JUL-94	State of North Carolina - SA
04-94-024-50-598	MULTI	AL/DOL	28-JUL-94	State of Tennessee - SA
04-94-026-50-598	MULTI	AL/DOL	25-AUG-94	State of Mississippi - SA
04-94-029-50-598	MULTI	AL/DOL	05-AUG-94	State of Georgia - SA

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

**FINAL AUDIT REPORTS ISSUED  
01-APR-94 TO 30-SEP-94**

Audit Report Number	Agency	Program	Date Sent	
			to Program	Name of Audit/Auditee
04-94-019-98-599*	OT AGY	NO/DOL	16-MAY-94	Orange County, Florida - SA
04-94-020-98-599*	OT AGY	NO/DOL	25-MAY-94	City of Louisville - SA
04-94-030-98-599*	OT AGY	NO/DOL	12-AUG-94	South Carolina Governor's Office - SA
05-94-219-02-201	VETS	CONTR	11-MAY-94	St. Louis, Missouri - SA
05-94-112-03-355*	ETA	DINAP	15-APR-94	Nebraska Indian Inter-tribal Development Corporation - SA
05-94-118-03-355*	ETA	DINAP	02-AUG-94	Michigan Indian Employment & Training Services, Inc. - SA
05-94-220-03-355	ETA	DINAP	12-MAY-94	Mille Lacs Band of Chippewa Indians - SA
05-94-222-03-355	ETA	DINAP	18-MAY-94	Sault Ste. Marie Tribe of Chippewa Indians - SA
05-94-223-03-355	ETA	DINAP	03-JUN-94	Inter-Tribal Council of Michigan, Inc. - SA
05-94-224-03-355	ETA	DINAP	08-JUN-94	Bois Forte Reservation Tribal Council - SA
05-94-225-03-355	ETA	DINAP	09-JUN-94	Red Lake Band of Chippewa Indians - SA
05-94-229-03-355	ETA	DINAP	12-AUG-94	Menominee Indian Tribe of Wisconsin - SA
05-94-231-03-355	ETA	DINAP	30-AUG-94	Grand Traverse Band of Ottawa & Chippewa Indians - SA
05-94-232-03-355	ETA	DINAP	01-SEP-94	Grand Traverse Band of Ottawa & Chippewa Indians - SA
05-94-233-03-355	ETA	DINAP	12-SEP-94	Grand Traverse Band of Ottawa and Chippewa Indians - SA
05-94-234-03-355	ETA	DINAP	12-SEP-94	Sac and Fox Tribe of the Mississippi in Iowa - SA
05-94-236-03-355	ETA	DINAP	27-SEP-94	White Earth Reservation - SA
05-94-221-03-360	ETA	DOWP	16-MAY-94	Illinois Department on Aging - SA
05-94-111-03-365*	ETA	DFREP	07-APR-94	Proteus Employment Opportunities, Inc. - SA
05-94-114-03-365*	ETA	DFREP	11-JUL-94	Homes/Casas, Inc. - SA
05-94-115-03-365*	ETA	DFREP	21-JUL-94	NAF Multicultural Human Development Corporation - SA
05-94-119-03-365*	ETA	DFREP	27-SEP-94	Illinois Migrant Council - SA
05-94-113-50-598*	MULTI	AL/DOL	27-MAY-94	Illinois Department of Employment Security - SA
05-94-116-50-598*	MULTI	AL/DOL	27-JUL-94	Michigan Department of Labor - SA
05-94-117-50-598*	MULTI	AL/DOL	29-JUL-94	Indiana Department of Labor - SA
05-94-218-50-598	MULTI	AL/DOL	10-MAY-94	Illinois Department of Commerce and Community Affairs - SA
05-94-226-50-598	MULTI	AL/DOL	28-JUN-94	State of Ohio - SA
05-94-227-50-598	MULTI	AL/DOL	30-JUN-94	Ohio State University - SA
05-94-228-50-598	MULTI	AL/DOL	11-AUG-94	State of Kansas - SA
05-94-230-50-598	MULTI	AL/DOL	29-AUG-94	State of Nebraska - SA
05-94-235-50-598	MULTI	AL/DOL	14-SEP-94	State of Minnesota - SA
06-94-118-03-355*	ETA	DINAP	11-APR-94	United Urban Indian Council, Inc. - SA
06-94-119-03-355*	ETA	DINAP	19-MAY-94	Four Tribes Consortium of Oklahoma - SA
06-94-120-03-355*	ETA	DINAP	07-JUN-94	American Indian Center of Arkansas, Inc. - SA
06-94-121-03-355*	ETA	DINAP	11-JUL-94	National Indian Council on Aging, Inc. - SA
06-94-122-03-355*	ETA	DINAP	18-AUG-94	National Indian Youth Council - SA
06-94-123-03-355*	ETA	DINAP	01-SEP-94	Montana United Indian Association - SA
06-94-224-03-355	ETA	DINAP	11-APR-94	Oglala Sioux Tribe - SA
06-94-225-03-355	ETA	DINAP	11-APR-94	Oglala Sioux Tribe - SA
06-94-226-03-355	ETA	DINAP	12-APR-94	Caddo Indian Tribe of Oklahoma - SA
06-94-228-03-355	ETA	DINAP	22-APR-94	Kiowa Tribe of Oklahoma - SA
06-94-229-03-355	ETA	DINAP	22-APR-94	Kiowa Tribe of Oklahoma - SA
06-94-230-03-355	ETA	DINAP	22-APR-94	Kiowa Tribe of Oklahoma - SA
06-94-231-03-355	ETA	DINAP	26-APR-94	Crow Tribe of Indians - SA
06-94-232-03-355	ETA	DINAP	16-MAY-94	Taos Pueblo - SA
06-94-233-03-355	ETA	DINAP	16-MAY-94	Fort Belknap Indian Community - SA
06-94-234-03-355	ETA	DINAP	17-MAY-94	Ysleta Del Sur Pueblo - SA
06-94-236-03-355	ETA	DINAP	07-JUN-94	Eight Northern Indian Pueblos Council, Inc. - SA
06-94-237-03-355	ETA	DINAP	07-JUN-94	Turtle Mountain Band of Chippewa Indians - SA
06-94-239-03-355	ETA	DINAP	17-JUN-94	Standing Rock Sioux Tribe - SA
06-94-240-03-355	ETA	DINAP	20-JUN-94	Muscogee (Creek) Nation - SA

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Audit Report Number	Agency	Program	Date Sent	
			to Program	Name of Audit/Auditee
06-94-243-03-355	ETA	DINAP	30-JUN-94	Sisseton-Wahpeton Sioux Tribe - SA
06-94-244-03-355	ETA	DINAP	30-JUN-94	Pueblo of Acoma - SA
06-94-247-03-355	ETA	DINAP	12-JUL-94	Cheyenne River Sioux Tribe - SA
06-94-248-03-355	ETA	DINAP	15-AUG-94	Blackfeet Indian Tribal Corporation - SA
06-94-249-03-355	ETA	DINAP	15-AUG-94	Central Tribes of the Shawnee Area, Inc. - SA
06-94-250-03-355	ETA	DINAP	15-AUG-94	Jicarilla Apache Tribe - SA
06-94-251-03-355	ETA	DINAP	15-AUG-94	Alamo Navajo School Board, Inc. - SA
06-94-252-03-355	ETA	DINAP	15-AUG-94	Taos Pueblo Central Mgmt System - SA
06-94-253-03-355	ETA	DINAP	16-AUG-94	Fort Belknap Indian Community - SA
06-94-254-03-355	ETA	DINAP	18-AUG-94	Comanche Indian Tribe - SA
06-94-255-03-355	ETA	DINAP	23-AUG-94	Ute Indian Tribe - SA
06-94-256-03-355	ETA	DINAP	23-AUG-94	Southern Ute Indian Tribe - SA
06-94-257-03-355	ETA	DINAP	30-AUG-94	Five Sandoval Indian Pueblos, Inc. - SA
06-94-258-03-355	ETA	DINAP	07-SEP-94	Santa Clara Indian Pueblo - SA
06-94-235-03-360	ETA	DOWP	18-MAY-94	Wyoming Department of Health - SA
06-94-241-03-360	ETA	DOWP	21-JUN-94	Arkansas Department of Human Services - SA
06-94-242-03-360	ETA	DOWP	22-JUN-94	Arkansas Department of Human Services - SA
06-94-259-03-360	ETA	DOWP	20-SEP-94	New Mexico State Agency on Aging - SA
06-94-124-03-365*	ETA	DFREP	01-SEP-94	Motivation, Education & Training, Inc. - SA
06-94-238-10-101	OSHA	OSHAG	13-JUN-94	New Mexico Environment Department - SA
06-94-245-10-101	OSHA	OSHAG	30-JUN-94	New Mexico Environment Department - SA
06-94-227-50-598	MULTI	AL/DOL	05-MAY-94	State of Colorado - SA
06-94-246-50-598	MULTI	AL/DOL	07-JUL-94	State of Louisiana - SA
09-94-560-03-340*	ETA	JTPA	24-MAY-94	Center for Independent Living - SA
09-94-561-03-340*	ETA	JTPA	24-MAY-94	Center for Independent Living - SA
09-94-590-03-340*	ETA	JTPA	22-AUG-94	Seattle-King County PIC - SA
09-94-201-03-355	ETA	DINAP	28-SEP-94	JTPA IV-A Program Awarded to Shoshone-Bannock Tribe
09-94-546-03-355*	ETA	DINAP	08-AUG-94	Kawerak, Inc. - SA
09-94-551-03-355	ETA	DINAP	26-APR-94	Inter-Tribal Council of Nevada - SA
09-94-552-03-355	ETA	DINAP	29-APR-94	Inter-Tribal Council of Nevada - SA
09-94-553-03-355	ETA	DINAP	16-MAY-94	Inter-Tribal Council of Nevada - SA
09-94-554-03-355	ETA	DINAP	16-MAY-94	Inter-Tribal Council of Nevada - SA
09-94-555-03-355*	ETA	DINAP	16-MAY-94	Indian Human Resource Center inc. - SA
09-94-559-03-355	ETA	DINAP	26-MAY-94	Kootenai Tribe of Idaho - SA
09-94-562-03-355	ETA	DINAP	02-JUN-94	Metlakatla Indian Community - SA
09-94-563-03-355	ETA	DINAP	02-JUN-94	Metlakatla Indian Community - SA
09-94-564-03-355	ETA	DINAP	01-JUN-94	Confed. Tribes of the Warm Springs Res. - OR. - SA
09-94-567-03-355	ETA	DINAP	02-JUN-94	Kenaitze Indian Tribe - SA
09-94-568-03-355	ETA	DINAP	02-JUN-94	Gila River Indian Community - SA
09-94-569-03-355*	ETA	DINAP	10-JUN-94	Bristol Bay Native Association - SA
09-94-571-03-355*	ETA	DINAP	19-JUL-94	Alu Like - SA
09-94-572-03-355	ETA	DINAP	27-JUL-94	Assoc. Of Village Council Presidents - SA
09-94-574-03-355*	ETA	DINAP	09-AUG-94	Las Vegas Indian Center - SA
09-94-576-03-355	ETA	DINAP	09-AUG-94	Nez Perce Tribe - SA
09-94-580-03-355	ETA	DINAP	09-AUG-94	Pascua Yaqui Tribe - SA
09-94-581-03-355	ETA	DINAP	09-AUG-94	Pascua Yaqui Tribe - SA
09-94-582-03-355	ETA	DINAP	11-AUG-94	Inter-Tribal Council of Nevada - SA
09-94-585-03-355	ETA	DINAP	23-AUG-94	Colorado River Indian Tribes - SA
09-94-586-03-355*	ETA	DINAP	23-AUG-94	Western Washington Indian E. & T. Program - SA
09-94-587-03-355*	ETA	DINAP	23-AUG-94	Western Washington Indian E. & T. Program - SA
09-94-588-03-355*	ETA	DINAP	23-AUG-94	Western Washington Indian E. & T. Program - SA

**FINAL AUDIT REPORTS ISSUED  
01-APR-94 TO 30-SEP-94**

Audit Report Number	Agency	Program	Date Sent to Program	
			Agency	Name of Audit/Auditee
09-94-589-03-355*	ETA	DINAP	23-AUG-94	Western Washington Indian E. & T. Program - SA
09-94-591-03-355*	ETA	DINAP	23-AUG-94	Candelaria American Indian Council - SA
09-94-593-03-355	ETA	DINAP	02-SEP-94	Cook Inlet Tribal Council - SA
09-94-566-03-360*	ETA	DOWP	01-JUN-94	National Assoc. For Hispanic Elderly - SA
09-94-556-03-365*	ETA	DFREP	11-AUG-94	Central Valley Opportunity Center - SA
09-94-570-03-365*	ETA	DFREP	27-JUL-94	Idaho Migrant Council - SA
09-94-583-03-365*	ETA	DFREP	24-AUG-94	Portable Practical Edu. Prep., Inc. - SA
09-94-001-12-001	PWBA	ADMIN	30-SEP-94	Terminated Pension Plans
09-94-557-50-598	MULTI	AL/DOL	24-MAY-94	Hawaii DLIR - SA
09-94-558-50-598	MULTI	AL/DOL	25-MAY-94	Republic of Palau - SA
09-94-565-50-598*	MULTI	AL/DOL	02-JUN-94	San Diego Consort. & PIC - SA
09-94-573-50-598	MULTI	AL/DOL	28-JUL-94	Commonwealth of the Northern Mariana Islands - SA
09-94-575-50-598	MULTI	AL/DOL	10-AUG-94	Government of Guam - SA
09-94-577-50-598	MULTI	AL/DOL	17-AUG-94	State of California - SA
09-94-578-50-598	MULTI	AL/DOL	10-AUG-94	State of Arizona - SA
09-94-579-50-598	MULTI	AL/DOL	11-AUG-94	State of Alaska - SA
09-94-584-50-598	MULTI	AL/DOL	11-AUG-94	Commonwealth of the Northern Mariana Islands - SA
09-94-592-50-598	MULTI	AL/DOL	23-AUG-94	Republic of Palau - SA
12-94-017-03-325	ETA	SESA	24-AUG-94	ADES Schedule of US DOL Financial Assistance
12-94-018-03-325	ETA	SESA	24-AUG-94	ADES Task IV Analysis
12-94-021-03-370	ETA	OJC	10-AUG-94	Women in Community Service, Inc.
12-94-025-04-410	ESA	OFCCP	08-SEP-94	FY 1993 OFCCP Performance Measures
12-94-026-04-420	ESA	WHD	15-SEP-94	FY 1993 Wage and Hour Performance Measures
12-94-027-04-432	ESA	DLHWC	28-SEP-94	FY 1993 Longshore & Harbor Worker's Performance Measures
12-94-011-07-001	OASAM	ADMIN	30-SEP-94	FY 1993 U.S. DOL Consolidated Performance Measures
12-94-012-07-001	OASAM	ADMIN	02-SEP-94	DOL Consolidated Financial Statement Audit Sept. 93 & 92
12-94-028-07-001	OASAM	ADMIN	24-AUG-94	Departmental Management Financial Report
12-94-014-98-599	OT AGY	NO/DOL	20-APR-94	Independent Audit of Financial Statements as of Sept 30, 1993
12-94-023-98-599	OT AGY	NO/DOL	24-AUG-94	FY 92 Fin Stmt - Federal Mine Safety & Health Commission
17-94-003-04-001	ESA	ADMIN	17-AUG-94	ESA Should Complete the 43a Information Technology Budgeting
17-94-004-11-001	BLS	ADMIN	21-JUL-94	Rpting Info Tech Fin Res on 43A
18-94-016-03-355	ETA	DINAP	21-JUL-94	Tohono O'Odham Nation
18-94-018-03-365	ETA	DFREP	18-AUG-94	California Human Development Corporation-Washington
18-94-015-03-370	ETA	OJC	14-JUL-94	Robinson Steel Construction Company
18-94-008-07-735	OASAM	OPGM	06-JUN-94	Nat'l Council of La Raza
18-94-014-07-735	OASAM	OPGM	24-JUN-94	Illinois Migrant Council
18-94-019-07-735	OASAM	OPGM	19-AUG-94	OICA, Inc
18-94-020-07-735	OASAM	OPGM	19-AUG-94	Res-Care, Inc.
18-94-021-07-735	OASAM	OPGM	27-SEP-94	WAVE, Inc.
18-94-022-07-735	OASAM	OPGM	26-SEP-94	Center for Employment Training, Inc.

**United States Department of Labor  
Office of Inspector General**



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OIG  
Hotline**



**Call:**

**202-219-5227 or 1-800-347-3756**

**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. An operator is on duty during normal business hours. At all other times, a message can be recorded.**

**Written complaints may be sent to:**

**OIG Hotline  
U. S. Department of Labor  
Office of Inspector General  
Room S-5514  
200 Constitution Avenue, N.W.  
Washington, D.C. 20210**

U.S. Department of Labor  
Office of Inspector General  
Washington, D.C. 20210

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