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

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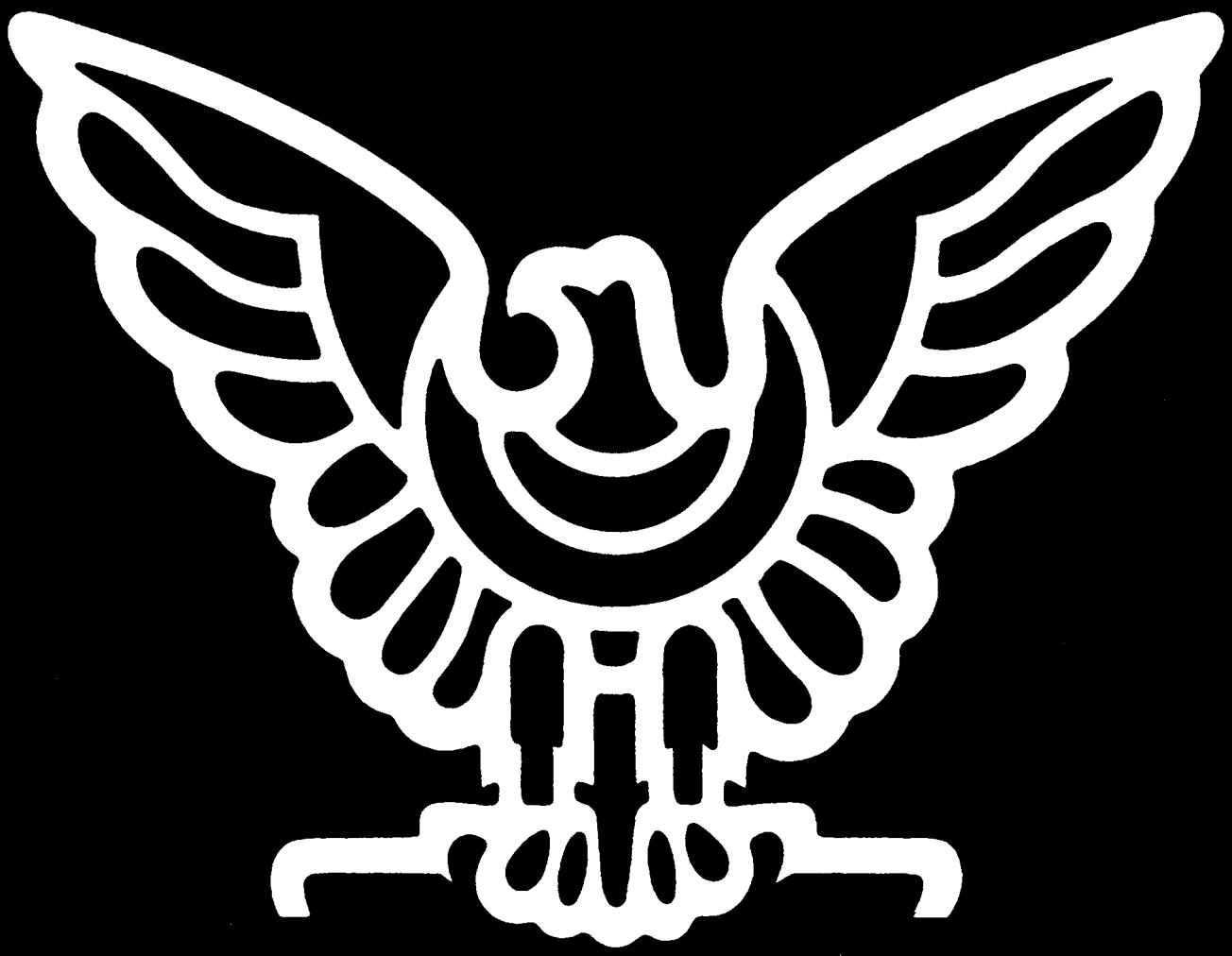
Office of the Inspector General

April 1, 1988 – September 30, 1988



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U.S. Department of Labor
Ann McLaughlin, Secretary

Office of the Inspector General
J. Brian Hyland, Inspector General

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# Inspector General's Message

This is the twentieth Semiannual Report of the U.S. Department of Labor's Office of Inspector General (OIG). It is with a strong sense of accomplishment that I am issuing it to the Congress in accordance with the provisions of the Inspector General Act of 1978 (P.L. 95-452). As the twentieth Semiannual Report, it marks exactly ten years since the passage of the Inspector General Act that established this office and Inspector General offices like it in 11 other Federal agencies.

With the passage of this Act in October 1978, the Congress made clear its intent that the Inspectors General should be a leading force in detecting and preventing fraud, waste, and abuse in Government programs. In the Congress' view, as well as in mine, the keystone of our success in achieving this goal is the degree of independence and objectivity attained by each Office of Inspector General.

Each of the three Secretaries of Labor under whom I have had the pleasure of serving has supported firmly the goals, programs, and independence of this office. Secretary McLaughlin has continued this tradition of strong support. This has assured a broadly positive relationship between my office and the program offices of the Department: a relationship that has assured it the independence necessary to conduct effectively our audits and investigations and the disclosure of problems, balanced with a constructive atmosphere for interaction with the executive staff of the Department.

Nearly six years ago, when I became head of this Office, I stated my intention to strive to improve our productivity and impact by exploring new ways to bring about program improvements within the Department and by introducing new technology, particularly computer technology, to enhance our overall productivity. In the years that I have been with the Department of Labor, I have been able to see first hand the many contributions, tangible savings, and management improvements resulting from OIG findings and recommendations. I am pleased that much of this has been accomplished. We have utilized ADP tools and techniques to improve our operational efficiency, which has greatly increased internal coordination of audits and investigations. We can point to real, sustained improvements in many areas, including program operations, clarification of legislation and regulations, and an increased sensitivity to fraud, waste, abuse, and mismanagement issues. These efforts are enabling us to increase our impact by better ensuring that each audit and investigation contributes to improvements in the Department's programs.

It is clear that we have had considerable success in achieving those early hopes and expectations of the Congress, leading the Chairman of the House Government Operations Committee, Jack Brooks, to state that, since the time of their establishment, the OIGs "have been one of the most influential forces for good government."

Since our creation ten years ago, we have made great strides in promoting economy, efficiency, and effectiveness in Department of Labor operations. But the impact of our operations has not stopped there. Our involvement in investigating labor racketeering and, through the auspices of the President's Council on Integrity and Efficiency, in promoting the use of computer card technology in the public sector are just two unique cases of the far-reaching, compelling effect the Department's OIG has on the entire Government and on the working people of this country.

Our many accomplishments have been achieved with the help of an excellent, dedicated staff of auditors, investigators, and program support people who have often gone that "extra mile" in accomplishing our mission. I am also pleased with the many innovations we have brought to our work. As a result, during this reporting period we received a commendation from the Comptroller General for our financial statement initiative. The Comptroller General wrote: "We applaud the Department of Labor for responding with such initiative by being the first department to both prepare and audit departmentwide financial statements." This is something in which we can all take pride.

As I look forward into the second decade of the Inspector General Act, I am more convinced than ever of the wisdom of the Congress in establishing the Inspectors General and of the potential of the IG concept to continue to provide an effective mechanism that will improve Government and make it far more effective and efficient for the American people that it serves.

J. BRIAN HYLAND
Inspector General

# OVERVIEW

This semiannual report covers the activities of the Department of Labor's Office of Inspector General for the period April 1 through September 30, 1988. During this period, audit initiatives resulted in numerous economy and efficiency findings and recommendations regarding Agency operations: the OIG issued 396 audit reports on program activities, grants and contracts. The Office of Investigations (OI) opened 517 cases and closed 641 cases. OI investigations resulted in 605 indictments and 390 successful prosecutions. The Office of Labor Racketeering (OLR) continues to focus on corruption in employee benefit plans by accountants, attorneys, bankers, and other fund administrators and advisors. During this period, OLR investigations produced 81 indictments and 74 convictions. Convictions established a predicate for fines, forfeitures, and restitutions of $1,474,380.

## EMPLOYMENT AND TRAINING ADMINISTRATION (ETA)

### Job Corps Full Scope Audit

The first full scope audit completed for the Job Corps program compares program accomplishments against program costs of fiscal year 1987 and program year 1986. This work produced several reports covering audited financial statements, program results, problems with documentation of eligibility, and program abuse. An unqualified opinion was given on the financial statements although the internal control report identified three weaknesses that could have a material effect on them. As a result of preliminary survey work which indicated program abuse at centers run by a Job Corps contractor, we conducted additional work at 26 Job Corps centers. While we did not find patterns of the same problems, our tests revealed serious system weaknesses in the attendance and allowance payments systems. Job Corps management has taken a very positive approach to this comprehensive project and has had hands-on involvement throughout its accomplishment. (See pages 5-13.)

### JTPA Continuing Audit Work

Most of the current JTPA audit work reported on during this semiannual period concentrates on the level of accountability existent in JTPA programs. Although the Congress intended the JTPA system to be accountable and to adhere to various restrictions provided in the Act, we found that the system has deviated from congressional intent and ETA has neglected its responsibilities to ensure compliance with the Act. For example, we have concluded that the use of fixed unit price, performance-based contracts (FUPCs) has so impaired the system's ability to account for and report program costs that we have recommended that ETA withdraw its regulation allowing FUPCs to be charged 100 percent to training. Other issues we identified have national policy implications: the use of regulations to effectively waive the statutory limitation on administrative costs which allows tax-exempt contractors to make sometimes sizeable profits on JTPA funds; the use of defective procurement practices; and the misinterpretation of parameters for State set-aside funds. (See pages 14-21.)

### Job Corps RICO Investigation

In conjunction with the U.S. Attorney, we employed the Racketeer Influence and Corrupt Organization (RICO) statute to indict two former top Gary Manpower Administration officials and a job training contractor on racketeering and racketeering conspiracy as well as bribery and conspiracy to defraud the DOL. Our investigations resulted in several other cases involving the theft and misuse of JTPA funds. (See page 54.)

### Unemployment Insurance Fraud

The clustering of single-claimant Unemployment Insurance (UI) fraud cases continued to yield large numbers of indictments and disclosed meaningful dollar amounts in overpayments. (See pages 54-55.)

Illegal aliens who are not entitled to work but who establish eligibility for UI benefits pose a new source for potential loss to the UI Trust Fund. (See pages 55-56.)

## EMPLOYMENT STANDARDS ADMINISTRATION (ESA)

### OFCCP Should Enforce Federal EEO Regulations More Effectively and Efficiently

OIG completed an extensive nationwide program results audit of OFCCP to evaluate the overall effectiveness and efficiency of its enforcement operations. We found that more effective management in the areas of program planning, enforcement, and accomplishment reporting would improve Federal contractor compliance with EEO and affirmative action requirements. (See pages 24-28.)

### Johnstown Black Lung Program

OIG completed a special review of selected management practices and procedures at ESA's Division of Coal Mine Workers' Compensation District Office in Johnstown, Pennsylvania. We found that, contrary to ESA directives, a number of responsible mine operators (RMOs) were not billed for almost $272,000 in principal and interest by the Black Lung Disability Trust Fund. Beyond the amount OIG identified as improperly billed, the District Office determined that an additional $479,000 was recoverable from the RMOs. (See pages 28-29.)

### FECA Medical Provider Fraud

A joint undercover operation resulted in the indictment of five doctors for reporting false medical treatment and services information regarding Federal Employees' Compensation Act (FECA) claims. In addition, OI continued to uncover FECA claimants working while collecting benefits. These cases resulted in significant fines and restitutions from overpayments. (See page 56.)

### Davis-Bacon Violations

OI provided increased investigative support to strengthen criminal investigations of Davis-Bacon Act and Copeland Anti-Kickback Act violations. The investigations found that employers falsified wage records to conceal underpayment of prevailing wage rates on Federal projects. (See page 57.)

## MINE SAFETY AND HEALTH ADMINISTRATION (MSHA)

### MSHA Mine Plan Approval and Selected Enforcement Activities

OIG reviewed MSHA's coal enforcement activities and identified systemic weaknesses that created agencywide vulnerabilities and inconsistencies in the conduct of coal enforcement activities. We found that MSHA's mine plan approval process lacks procedural uniformity and sufficient internal controls; MSHA was not adequately documenting legislatively-mandated comprehensive inspections; enforcement policy communications were fragmented and cumbersome; and MSHA has neither used special sanctions for mine operators showing patterns of violations nor established a nationwide program for reducing repeat violations. MSHA's remedial response to these findings has been timely, cooperative, and comprehensive. (See pages 29-30.)

## EMPLOYEE ETHICS AND INTEGRITY

The variety of employee ethics and integrity cases emphasizes the importance of educating and promoting awareness of ethics and integrity issues to employees. (See pages 58-59.)

## OFFICE OF LABOR RACKETEERING

The Office of Labor Racketeering continues to emphasize both criminal and civil enforcement measures to prevent racketeering from occurring in organized labor. Several civil court actions resulted from OLR investigations. A civil suit under provisions of the Racketeer Influenced and Corrupt Organizations (RICO) statute was filed against the 18-member General Executive Board of the International Brotherhood of Teamsters (IBT) and 26 persons alleged to be major La Cosa Nostra members and associates. (See page 65.) A "decreeship" was imposed by a Federal court on Roofers Local 30/30B, Philadelphia, Pennsylvania. (See page 64.) Several civil actions were filed to support the 1986 court-imposed trusteeship of IBT Local 560, Union City, New Jersey. (See page 64.) In a parallel action, the Association of Bridge, Structural and Ornamental Iron Workers International imposed a trusteeship over its local 350 in Atlantic City, New Jersey. (See page 65.)

OLR continues to participate in joint investigations with other Federal, State, and local agencies. During this period 63 percent of indictments and 74 percent of convictions resulted from multi-agency investigations.

## OTHER ACTIVITIES

### Legislative Proposals

The 100th Congress enacted the Inspector General Act Amendments, a measure which we supported, as well as the Computer Matching and Privacy Protection Act, a bill with which we had raised specific problems. (See page 67.) For the 101st Congress, we support several pending measures which can improve the efficiency and effectiveness of the OIG and safeguard government resources. (See pages 68-70.)

### President's Council on Integrity and Efficiency

The OIG continued its efforts to advance the use of computer card technology in the public sector. The IG participated in a successful international conference on "Smart Card Applications and Technologies" and issued a compendium of computer card applications. (See pages 70-71.)

# OFFICE OF AUDIT

During this reporting period, 396 audits of program activities, grants, and contracts were issued. Of these, 33 were performed by OIG auditors, 30 by CPA auditors under OIG contract, 93 by State and local government auditors, and 240 by CPA firms hired by grantees.

The Office of Audit section of this semiannual report has five chapters. Chapter 1 contains information on audit activities of the Department's programs. Chapter 2 highlights progress evaluating the Department's system of financial management (see page 32). Chapter 3 presents the first report on DOL's implementation of the 1986 Program Fraud Civil Remedies Act (see page 40). Chapter 4 showcases concerns with program abuse (see page 43) and audit resolution is reported in Chapter 5 (see page 49). Money owed the Department is covered later in this report (see page 75) and is followed by the Appendix (see page 77), which lists audit reports issued and resolved.

## Chapter 1
## Agency Activities

### EMPLOYMENT AND TRAINING ADMINISTRATION

The Employment and Training Administration (ETA) administers programs to enhance employment opportunities and provide temporary benefits to the unemployed. This mission is accomplished through employment and training programs authorized by the Job Training Partnership Act (JTPA), the Unemployment Insurance (UI) program authorized by the original Social Security Act and other Federal laws, and the Employment Service (ES) authorized by the Wagner-Peyser Act. In fiscal year 1989, authorized staffing is 1,753 and ETA's budget is almost $7 billion. Of that amount, $2.5 billion is for state UI and ES operations, $3.4 billion is for JTPA and $134 million is for Trade Readjustment Allowances. In addition, the UI Trust Fund totals $13.7 billion.

During this reporting period, OIG had significant audit activity in Job Corps, JTPA, and UI programs.

### Job Corps

The Job Corps program is operated under the Job Training Partnership Act (JTPA) and is designed to serve primarily impoverished and unemployed youth between ages 16 and 21. Comprehensive training in basic and vocational education, work experience, counseling and other enrichment activities within a residential setting are provided at both federal and contractor administered centers. Some non-residential training also is provided. After training, corpsmembers are provided placement assistance for up to 6 months.

The first full scope audit of the Job Corps program for program year 1986 and fiscal year 1987 has been completed during this reporting period. A full scope audit gives an opinion on financial statements and program accomplishments from which a return on investment can be measured by comparing program accomplishments against program costs.

Financial and program performance audit reports contain three components: an opinion on the financial statements, a report on internal controls, and a report on compliance with laws and regulations. Financial statement audits determine whether the financial position, results of operations, changes in financial position, and reconciliation to budget reports are presented fairly. Program accomplishment audit reports determine whether the program results statements are presented fairly.

This full-scope audit produced two comprehensive reports, one covering the financial area and one covering program results. It also produced a report on problems with documentation of eligibility. Concurrently, program abuse audit work which resulted in several reports was conducted and coordinated with the full-scope project.

The full-scope audit also provides an effective mechanism to identify and prioritize future audit issues. In fact, several conditions identified in the financial statements and program results audits prompted us to conduct additional audit work which identified other internal control weaknesses in the program.

To effectively perform a full scope audit, management's cooperation is essential. Job Corps' management has been very cooperative throughout the audit process. Though some of our reports are still in draft and management is preparing its formal comments, corrective actions have already been taken in many areas.

## AUDITED FINANCIAL STATEMENTS FOR JOB CORPS

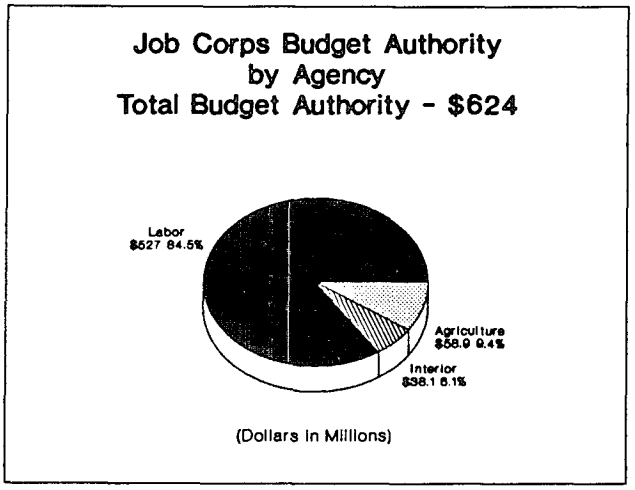
The financial audit report of Job Corps contains the following components which are required by generally accepted Government auditing standards: financial statements and opinion; report on internal controls; and report on compliance with laws and regulations.

### Financial Statements and Opinion

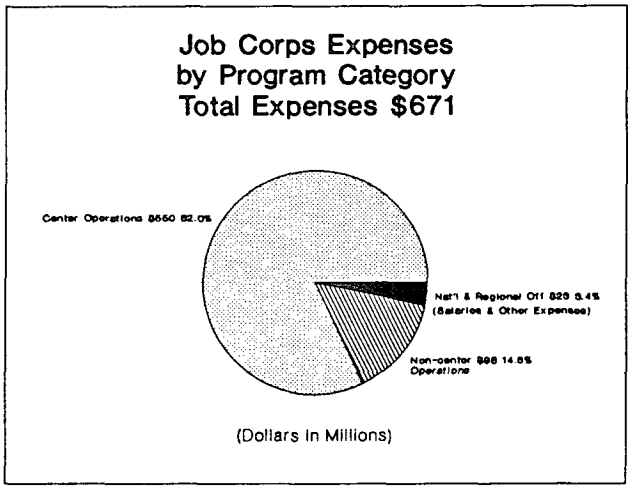
The consolidated statement of financial position and the related statements of operation, changes in financial position and reconciliation to budget reports for October 1, 1986 through September 30, 1987 were audited.

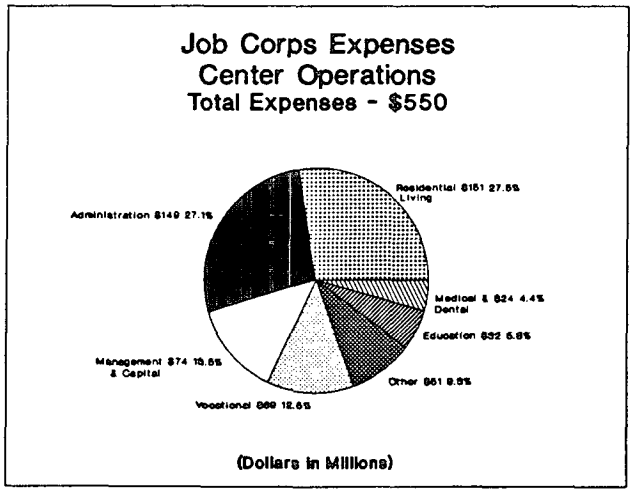
An unqualified opinion was given on the financial statements. This indicates that the financial statements are presented fairly in accordance with generally accepted accounting principles for Federal agencies. The following information is taken from the audited financial statements.

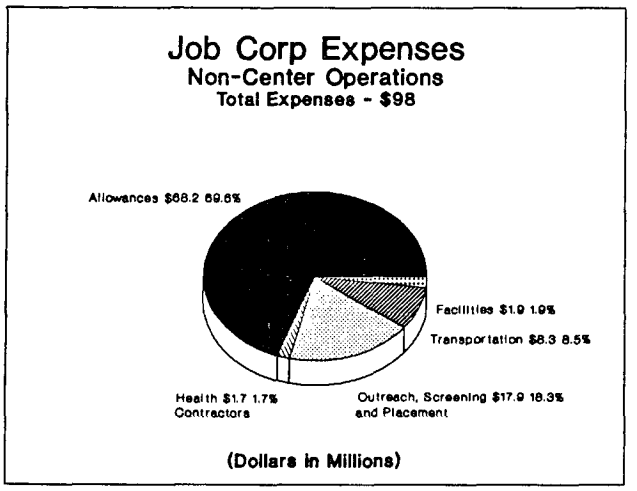
Although the budget authority for the program is provided to the U.S. Department of Labor, non-expenditure transfers are made to the U.S. Departments of Agriculture and Interior to operate the Civilian Conservation Corps on Federal lands. The illustration below shows the relative program dollars provided to each Federal agency.



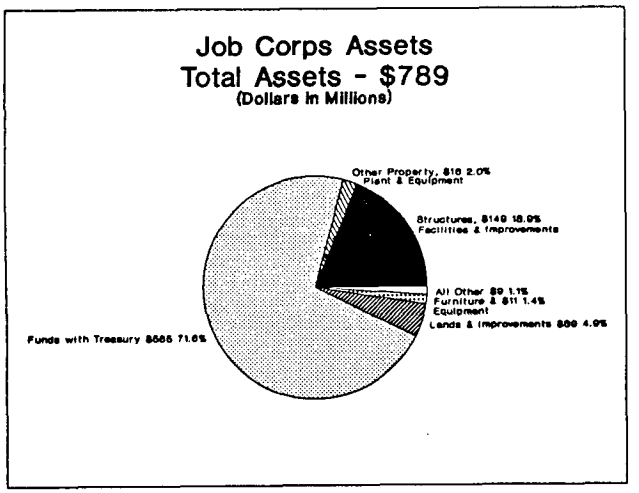

Job Corps provides funds to contractors and Federal agencies to operate residential training facilities throughout the country. In doing so, over 92 percent of its funds for fiscal year 1987 were expended as shown below:



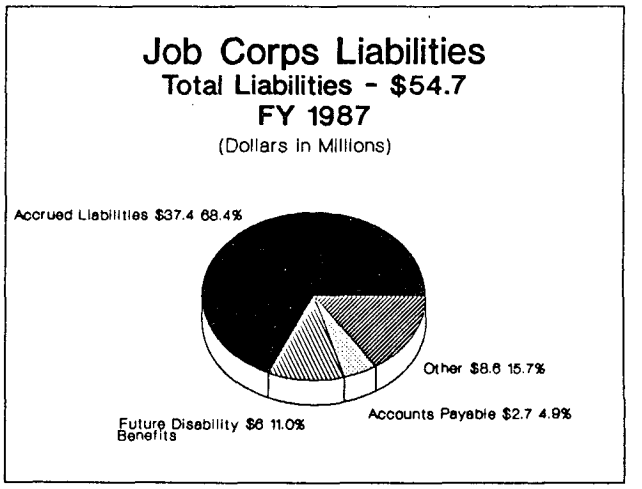



The Consolidated Statement of Financial Position shows that most of the assets of the program at September 30, 1987, are in funds with the U.S. Treasury and structures, facilities, and improvements, as shown below.




Funds held by the U.S. Treasury appear to be excessive at the end of a fiscal year only because Job Corps operates on a program year and not a fiscal year basis. The majority of the obligational authority for the program year beginning July 1, 1987, was still available. The program would expect to expend these funds throughout the program year, ending June 30, 1988. The structures, facilities and improvements account consists of the owned or leased buildings used to house program operations nationwide.

Liabilities of the program consist primarily of readjustment allowances and accruals for personnel types of accounts. Readjustment allowances are the funds set aside to assist enrolled corpsmembers transition into society upon termination of their training program. Personnel types of items reflect future payments of annual leave, disability benefits, and payroll.




## REPORT ON INTERNAL CONTROLS

The internal control report identified three weaknesses that could have a material effect on the financial statements.

### Program Accounting and Reporting

DOL and ETA accounting systems available to Job Corps and other programs do not provide complete financial information at the program level and the necessary information is unavailable from a single source.

Accounting controls are at the appropriation and not at the program level. Job Corps, along with various other ETA programs, is a part of the Training and Employment Services (TES) appropriation. Accounting for these programs is grouped with financial activity for the entire TES appropriation, which includes other training programs under JTPA and other statutes in the Department's and ETA's official books of account.

The Department has no central program accounting responsibility. The Department's Integrated Accounting System maintains the control accounts at the appropriation level. Some accrual accounts also are maintained. ETA, on the other hand, maintains the Regional Automation System, where it controls funds at a national and regional level on a contract and grant basis. The Office of Job Corps maintains expenditure information on a Job Corps center/operator level. They do not maintain asset and liability information.

None of these systems encompasses all financial activities. The Departments of Labor, Agriculture, and Interior each maintain separate and independent financial management systems. Periodic reports are submitted to the Office of Job Corps by Agriculture and Interior, but these reports do not include complete financial information. As a consequence, Job Corps management does not have readily available information on its entire operation. One result was not being able to identify an antideficiency violation at the U.S. Department of Interior in a timely manner.

We have recommended the development of a program accounting system to provide management complete information on the program's activities and financial position. However, Job Corps management has indicated that it believes the cost of such a system would outweigh its benefits.

**Controls to Ensure Enrollee Eligibility**

Regulations and ETA policy issuances specify verification and documentation requirements for twelve eligibility criteria. Job Corps could not demonstrate that every enrollee had met the required eligibility criteria because the necessary verification and documentation were not always available. The problem appeared to result from the complexity of the screening system and inconsistent application of screening procedures which were difficult to use.

Our review of 1,683 corpsmember files found enrollment documentation was error-free for just 21 files. We reviewed the documentation only and did not verify eligibility independently or externally. We issued a separate report on the eligibility system which evaluated the system for each criterion and suggested improvements to streamline and strengthen it. As a result, Job Corps management is planning a complete evaluation of the eligibility system.

**Corpsmember Allowance Payment System**

Job Corps provides residential enrollees with living allowances to assist them in adapting to their environment. Allowances are based on attendance data maintained by the center operator. The U.S. Army Finance and Accounting Center (USAFAC) generates and accounts for Job Corps allowance checks. Neither the centers nor USAFAC were periodically reviewing and reconciling center and USAFAC records for completeness, consistency, and accuracy. Centers were not submitting accurate or timely reports. As a result, approximately $1 million in corpsmember advances had not been reported and/or recorded by the USAFAC. We recommended that Job Corps establish a comprehensive allowance control system. Based on the results of special program abuse work at a few of the centers, we conducted a special survey of USAFAC functions.

## REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The report notes that, as discussed in the Report on Internal Controls, Job Corps cannot demonstrate universal compliance with the twelve eligibility criteria.

**Audited Program Results Statements**

This report presents the *first* audited program results statements for a DOL program. The audit report contains the following components: program results statements and opinion; report on internal controls; and report on compliance with laws and regulations.

**Program Results Statements and Opinion**

Working with Job Corps management, we compiled and audited the following five statements for program year (PY) 1986, ending June 30, 1987: Statement of Program Operations; Statement of Placement Results; Statement of Training Received; Statement of Program Standards Accomplishments; and Statement of Participant Characteristics.

In our opinion, except for the effect of the adjustments that were necessary due to two scope limitations, the statements present fairly the status of the Job Corps program at June 30, 1987. The statements were prepared in conformity with Job Corps reporting requirements under JTPA and related regulations.

The scope limitations were:

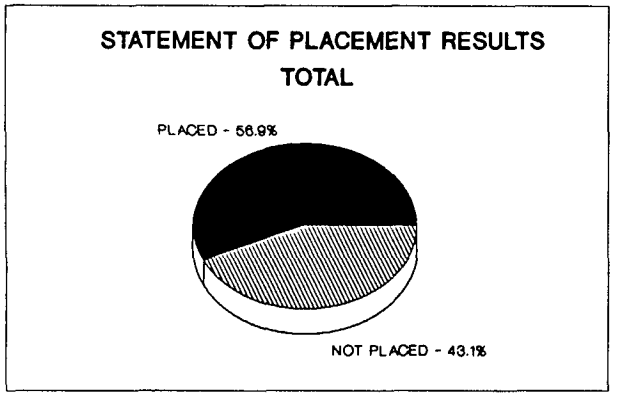
**Participant Eligibility**

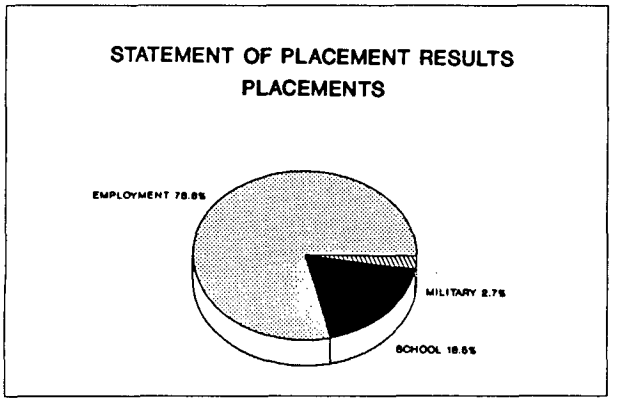
Our audit procedures were limited to verifying that information in the corpsmember files was accurately included in and summarized from Job Corps automated records. As discussed above, eligibility was not verified.

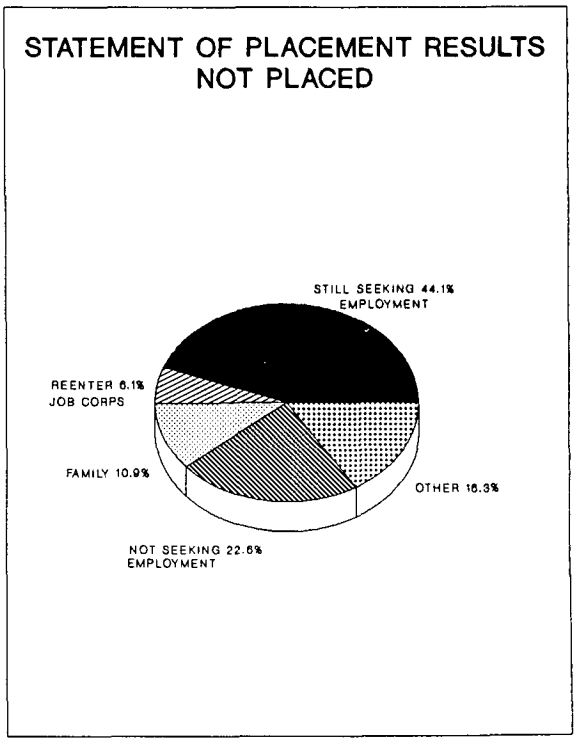
**Placement Outcomes**

The absence of placement information for 30 percent of Job Corps terminated participants may materially affect Job Corps' placement results. Job Corps assumes that the percentage of participants (29 percent) known to have been self-placed also applies to the participants for whom information was not available. The statements were adjusted by distributing enrollees where information was not available to all non-placed categories which included "cannot locates." The 29 percent of the "cannot locates" were allocated to the "placed" category as self-placements. We were unable to verify the validity of this allocation basis.

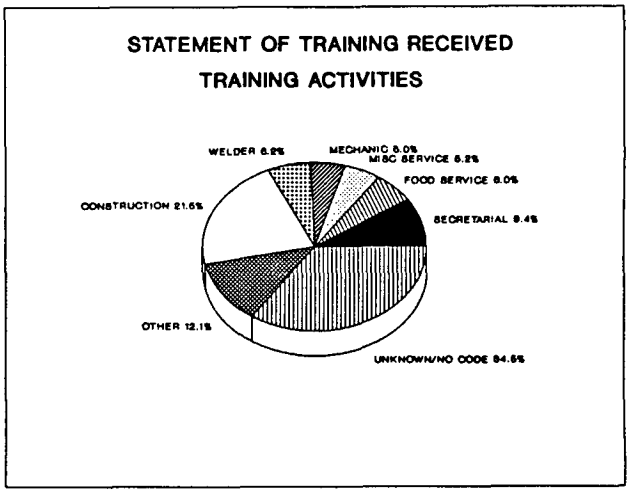
The following information was taken from the audited program results statements. In PY 1986, Job Corps provided placement assistance to 60,946 corpsmembers with the following results.




Training was provided to 61,523 corpsmembers as follows.



## REPORT ON INTERNAL CONTROLS

Our study and evaluation of internal controls disclosed the following findings which we believe could result in material errors or irregularities (which may not be promptly detected) in relation to Job Corps program results statements.

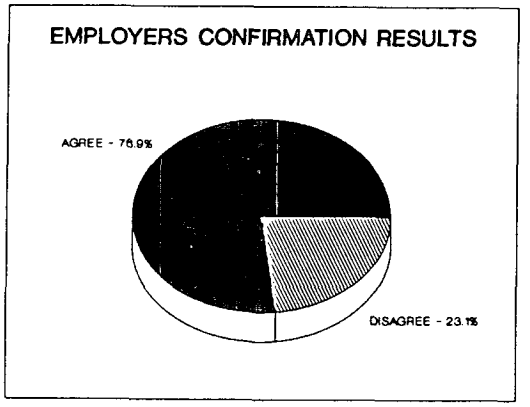
### Differences Exist between the Weekly Corpsmember Strength Report (WCSR) and the Job Corps Management Information System (JCMIS)

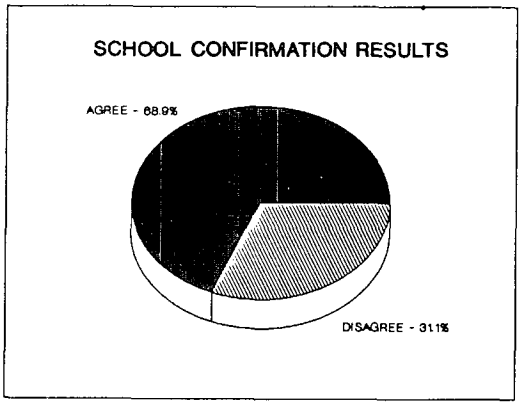
Job Corps uses two systems, the WCSR and the JCMIS, to report program results to the Congress, but does not have procedures in place to ensure that statistics are reported consistently on both systems. JCMIS and WCSR differ by approximately 3,000 participants. Approximately 2,500 participant records were not purged after remaining on the data base for periods in excess of 2 years. Approximately 700 participant transfers per the WCSR were not identified on the JCMIS data base. We also found that documentation for the year-end reports was not maintained, and that while data on Puerto Rican corpsmembers was not included in JCMIS in PY 1986, it was to be included in subsequent years.

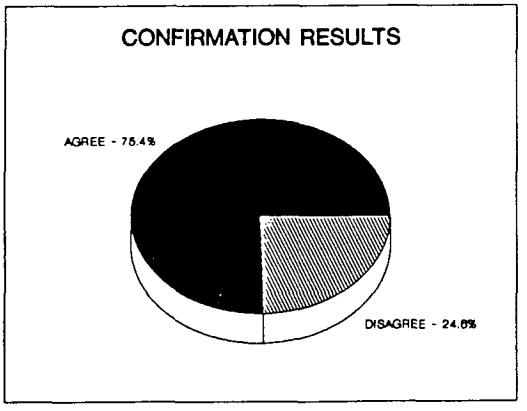
We recommended that Job Corps periodically reconcile the JCMIS' on-board-strength report with the WCSR, maintain year-end documentation support for program statistics, and ensure that participants from Puerto Rico are included in JCMIS. Management has generally concurred with our recommendations and is developing corrective action.

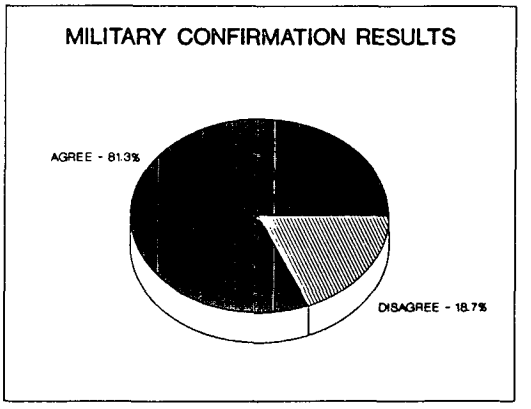
### Confirmation of Sample Placements Found that 25 Percent of the Placements Were Invalid

We sent 974 confirmation letters to employers, schools, and participants (in the case of a military placement). Responses were received to 838 letters with the following results.



Based on the negative responses, we have recommended about$24,000 in placement fees be disallowed. In addition, we found only 7 of the 10 Job Corps regions monitored placement activities, and invalid placements which were identified by them were not deleted from JCMIS.

We recommended that Job Corps standardize procedures for monitoring placement invoices, ensure that procedures are followed by Job Corps regional offices and that invalid placement records are promptly removed from JCMIS. Job Corps management concurred with our recommendations. They plan to confirm PY 1987 placements and disallow fees for erroneous placement data. We will provide technical assistance to management.

**Placement Contracts Did Not Provide Monetary Incentives for Placements To Meet Program Goals and To Ensure Complete Reporting**

Our review of placement contracts showed that three types of contract fee schedules were used to reimburse placement agencies for placement services. The majority of the contracts called for paying the placement agencies the same fee regardless of whether the participant was placed. Another type of contract had separate fees for participants placed and not placed. However, no distinction was made as to whether the participants found their own employment, if the employment was in a field related to training received at the Job Corps center, or if the employment paid minimum wage. Only one contract contained a different fee for participant self-placement.

We recommended, and management concurred, that procurement procedures be revised to ensure future placement contracts contain a fee schedule that provides:

1. The maximum amount allowed in the contract only when the participant is placed through the referral by the placement agencies to a job related to the Job Corps training received;

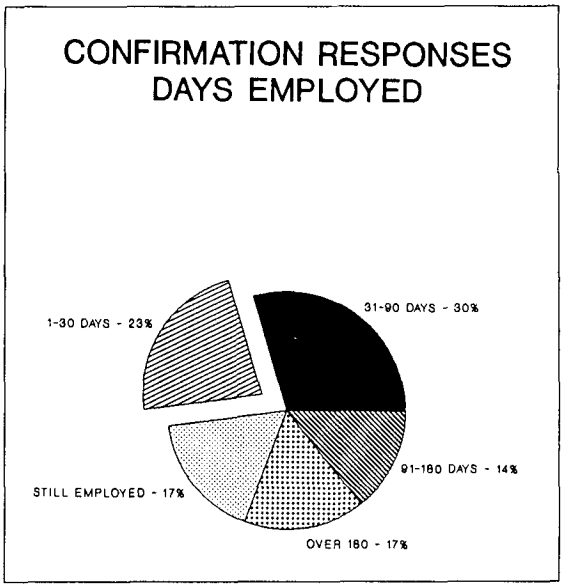
2. A reduced amount if the placement agency only verifies the status of the participant; and

3. A minimal fee for submitting non-placement information.

**Current Placement Criteria Do Not Specify a Minimum Period of Employment so that Employment of Only a Few Days is Counted as a Valid Placement**

Review of the placement confirmations and information on JCMIS indicated that a placement is counted regardless of length of stay in employment, school, or military. We also found numerous instances where individuals were self-employed and the placement was invalid or questionable.

For positive placements, our confirmation responses showed the following days employed:




It should be noted that the confirmation process for days employed confirmed only the placement status of the corpsmember with respect to the original placement. Job Corps does not track subsequent placements.

Virtually all placements are considered valid, with a placement contractor receiving a fee for the placement. In discussions with Job Corps management, we learned that Job Corps would consider as valid a placement in employment for 1 hour so long as the job opportunity could have provided 20 hours minimum paid employment, as required by current definition.

We believe that the criteria used by Job Corps to record placement results need to be revised to specify a minimum length in employment. We also recommended that Job Corps develop specific placement criteria for self-employment.

Management concurred with the recommendation to strengthen self-employment criteria, but believes the recommendation on retention criteria would be too costly and difficult to implement. They noted that no other ETA program specifies a duration requirement for placements. We believe that for a program that reported spending over $16,000 per corpsmember service year for PY 1986, it is not unreasonable to expect an adequate minimum length of employment upon completion of training. Working 1 day should not be considered a positive program accomplishment.

**While Job Corps Historically has Reported Participants in Training, It Does Not Report Participants Receiving Placement Services, which is Inconsistent with JTPA Title II-A Reporting**

We recommended that year-end reporting be revised to accommodate outcome statistics consistent with JTPA Title II-A reporting and to report the activity in both training activities and placement assistance. Management generally concurred with the recommendation provided the benefits outweigh the difficulties in changing the method of reporting program outcomes.

## REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The Job Corps program, except for the matters discussed in the Auditor's Opinion and the Report on Internal Control, complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its program results statements.

**Job Corps Enrollees' Allowance Systems**

Job Corps expects to spend over $75 million for living and readjustment allowances and corpsmember allotments in 1988. Another $10 million was to be spent on transportation and related meal expenses. USAFAC makes these payments for the program based on information provided by each Job Corps center.

We surveyed the adequacy of the manual and automated systems as well as procedures and actual practices in place at USAFAC to process and account for payments of allowances, allotments, and travel expenses. We determined that a number of areas must be strengthened to provide adequate control over the allowance systems. Several of these are discussed below.

USAFAC has limited electronic data processing support to process corpsmember allowance documents. In addition, clerical responsibility is assigned by document type rather than by center. As a result, clerks may not have all information readily available to process a document. Inefficiencies and delays result. We have recommended increased automation and a realignment of responsibilities. At our exit conference, USAFAC management stated that it had received authorization to purchase 10 desktop computers which have subsequently been received by USAFAC.

USAFAC was receiving documents and information that frequently were late, incorrect, and/or incomplete, resulting in additional clerical and processing time. Of the 3,915 documents sent to USAFAC in March 1988, 42 percent (1,631) were rejected for incorrect or conflicting information. As of March 31, 1988, 168 documents were in a suspense category because of requests for information on terminations that had gone unanswered by Job Corps centers and 147 were over 120 days old. We made a number of recommendations to reduce the error rate and improve communications and accountability.

Job Corps regulations require that corpsmembers not remain enrolled beyond 16 consecutive absent without leave (AWOL) days or after 30 AWOL days within a 180-day period. As of February 1987, approximately 1,200 corpsmembers were in non-pay status in excess of 90 days and many Job Corps centers had not responded to USAFAC requests for information on corpsmembers in a non-pay status. We noted that USAFAC is unable to invoke sanctions on centers that do not respond to requests for needed corpsmember status information. As a result, we made additional recommendations to improve communication and accountability by the centers.

There are no written procedures to instruct the centers when and how to return undistributed living allowance checks after the original allowance register is returned to USAFAC. (The register is sent to the center with the checks and is returned to USAFAC annotated for corpsmembers no longer entitled to allowances.) Many checks were returned to USAFAC without explanation several months after they were issued. For example, one center returned 775 checks in February and March 1988. The checks were issued for pay periods from September 1987 through January 1988. A similar problem

was found with readjustment allowance checks which were sent to placement contractors. We recommended procedures for the timely return of checks.

Suspense accounts used to record tax liabilities for corpsmember Federal income and FICA taxes were not reconciled. The accounts should have a zero balance as appropriate payroll deposits are made. On June 30, 1988, the balance should have been zero. The actual balance on USAFAC books was about $2 million.

We worked closely with Job Corps management throughout this survey. As a result, Job Corps concurred with our recommendations and is implementing corrective action. In addition, USAFAC management concurred with many of our recommendations and noted that several of them complement its own management objectives. USAFAC is implementing corrective actions on many of the recommendations and is studying the others to determine the most appropriate action.

### PROGRAM ABUSE SURVEYS AND REVIEWS

This work was initiated in response to an allegation referred to OIG by the Office of Job Corps. The allegation of program abuse concerned one of its Job Corps center contractors. We conducted limited program abuse surveys at four of the centers operated by the contractor, followed by more detailed reviews at two of the four centers to determine whether serious program abuse existed. (See Chapter 4 for additional discussion on Program Abuse.)

When our preliminary survey work of the contractor indicated flagrant violation of program regulations, and that patterns of corpsmembers status changes (pay to non-pay) initiated by the contractor were not always credible, we conducted similar but very limited surveys of corpsmembers status at 26 additional Job Corps centers.

#### Program Abuse by Job Corps Contractor

Our detailed reviews at the two centers indicated general failure of the contractor to meet certain critical performance standards set forth in its contracts for center operations, and failure of the contractor to follow prescribed program regulations and procedures.

We believe these deficiencies were caused by apparent program abuse, failure to follow proper procedures, inadequate controls, unqualified staff, insufficient staff training, and inadequate monitoring. As a result, overpayments to corpsmembers occurred, performance measurement statistics were distorted, and a less than acceptable percentage of corpsmembers completed the program. In addition, enrollment slots were unavailable that could have been used by other applicants who had the capabilities and aspirations to complete and secure the full benefit of the Job Corps program.

The contractor has not yet responded to these reviews but did prepare corrective action plans in response to our special program abuse surveys. Corrective actions promised include improved compliance with regulations, especially those relating to AWOL corpsmembers and corpsmembers' leave; early identification of corpsmembers with problems; improved documentation; and improved internal controls.

Based on the poor performance as demonstrated by our reports, Job Corps management is closely monitoring the operations of all centers currently operated by the contractor. For one center with particularly poor performance, Job Corps did not exercise the option year on the contract. The contract has been competitively advertised and awarded to another organization. For the second center where we found serious problems, the contractor promised a host of corrective actions; performance measurement statistics have improved; and the third option year of the contract was granted.

In conclusion, the Office of Job Corps has been responsive to our findings and recommendations. In most instances, they have initiated corrective actions based on oral briefings even before our reports were issued. This degree of cooperation fosters improved program management at all levels.

## Job Training Partnership Act

### GRANTS TO STATES

The purpose of the Job Training Partnership Act (JTPA) is to provide job training to economically disadvantaged individuals, individuals with special barriers to employment, and dislocated workers to assist them in obtaining productive employment. Under Titles II and III of JTPA, the Secretary of Labor grants funds to 59 States and entities which, in turn, distribute them to service delivery areas (SDA) and other organizations. Grants are used for adult and youth programs, summer youth programs, and dislocated worker assistance.

## RESOLUTION OF AUDIT OF JTPA PARTICIPANT TRAINING AND SERVICES

### REPORT I
### PARTICIPANT TRAINING AND EMPLOYMENT

Report I was issued to the Employment and Training Administration in January 1988 and discussed in our March semiannual report. In the report, we recommended that ETA develop a means to demonstrate that the program is showing a productive return on investment as envisioned by the Congress.

The return on investment concept is the cornerstone of Section 106 of the Act which states, in part:

> "The Congress recognizes that job training is an investment in human capital and not an expense. In order to determine whether that investment has been productive, the Congress finds that--
>
> > it is essential that criteria for measuring the return on this investment be developed; and
> >
> > the basic return on the investment is to be measured by the increased employment and earnings of participants and the reductions in welfare dependency."

From OIG's viewpoint, Section 106 required ETA to perform a type of pre- and post-program analysis in terms of increased employment and earnings and reductions in welfare dependency of JTPA participants. Although ETA had a large multi-million dollar evaluation under way to determine the net impact of the program and offered this study as resolution for the audit, the results of the study would not be available until 1993, too late to be of any use to policymakers in focusing the program on those areas showing the greatest return on investment.

We did learn of isolated attempts to satisfy the requirements of Section 106. For example, Indiana, Nevada, and South Carolina have published reports on the return on investment or net impact of the program within the State. Additionally, the National Commission for Employment Policy (the Commission) funded a study performed by SRI International on the effects of JTPA performance standards on clients, services, and costs. The Commission, established under Title IV of the Act, has a role in Section 106 to "evaluate the impacts of such standards."

The major initiative, however, which ultimately resolved the audit recommendation, is a Commission project entitled, "Using Unemployment Insurance Records to Evaluate Pre-Post JTPA Program Earnings." A cooperative research project currently involving 11 States, it will address measures of increased earnings of JTPA participants using the Unemployment Insurance (UI) wage records to study both pre- and post-JTPA earnings patterns of certain individuals who terminated from JTPA during PY 1986; explore the differences in earnings by demographic subgroups; compare earnings patterns by type of service(s) provided; examine how the results of the 13-week participant follow-up system compare to the information in the UI data base; and publish a report documenting the strengths and weaknesses of using the UI wage records as an evaluation resource.

The Commission anticipates having a final report published as early as April 1989.

ETA has had some involvement in the project: as part of resolving the audit recommendation with OIG, ETA has agreed to partially fund the Commission's project. In resolving the audit recommendation with ETA, OIG requested that ETA keep us informed of research projects which address JTPA outcomes and include OIG in any future ETA involvement in the Commission's project.

Although the report is now resolved, OIG will continue to work actively with ETA to ensure that corrective action is taken and that policymakers receive timely information on the return on investment from JTPA.

## CONTINUING AUDIT WORK

The majority of our current JTPA audit work has concentrated on the level of accountability existent in JTPA programs.

Although the Congress intended the JTPA system to be accountable and adhere to various restrictions provided in the Act, we found that the system has deviated from congressional intent, and ETA has neglected its responsibilities to ensure compliance with the Act.

The Congress, in passing JTPA, established provisions to require that 70 cents of every Title II-A dollar be spent on training. To ensure this level of expenditure was maintained, the Congress required that SDAs be accountable for spending no more than 15 percent of their Title II-A funds for administration and, with limited exceptions, no more than 30 percent of these funds for a combination of administration and participant support.

OIG first reported potential problems affecting compliance with the above provisions in a management letter to ETA on September 15, 1987. This report discussed the JTPA system's inappropriate use of fixed unit price, performance-based contracts (FUPCs). We suggested that, based on the limited audit work we had done to date, FUPC definitions of training need much further clarification, incremental FUPC payments to contractors be considered advances against full contract performance, and that profits should be kept to a reasonable level and considered program income for governmental and non-profit entities. Our March 1988 semiannual report also discussed the impact that the use of these contracts was having on accurate cost reporting, since FUPCs are 100 percent chargeable to the training cost category.

Since that time, we have conducted additional audit work in several locations. We have concluded that the use of FUPCs has so impaired the system's ability to account for and report program costs properly, that we have recommended ETA withdraw its regulation allowing FUPCs to be 100 percent charged to training. The following is a discussion of the results of this additional audit work.

## JTPA COST LIMITATIONS

On July 13, 1988, OIG issued a management letter to the Assistant Secretary for ETA outlining our concerns that legislatively mandated limitations and restrictions on JTPA expenditures are being circumvented and rendered unenforceable.

We identified four issues which we believe contribute to the unenforceability of JTPA cost limitations. They are as follows.

### ETA has Failed to Adequately Define the Use and Restrictions of Fixed Unit Price Contracts (FUPCs)

A lack of program guidance from ETA has allowed SDAs to use overly broad definitions of terms in 20 CFR 629.38(e)(2) when developing FUPCs. This has a major impact on cost limitation compliance because the FUPCs are used extensively by the SDAs.

The regulations at 20 CFR 629.38(b) state costs are allowable to a particular cost category to the extent that benefits are received by such category. However, regulations at 20 CFR 629.38(e)(2) state:

> "Costs which are billed as a single unit charge do not have to be allocated or prorated among the several cost categories but may be charged entirely to training when the agreement: (i) Is for training; (ii) Is fixed unit price; and (iii) Stipulates that full payment for the full unit price will be made only upon completion of training by a participant and placement of the participant into unsubsidized employment in the occupation trained for at not less than the wage specified in the agreement."

We have two major concerns with the application of the provisions of 20 CFR 629.38(e)(2). First, the regulatory wording indicates that if the agreement contains the elements specified in (i), (ii), and (iii), all contract payments can be charged solely to training. Although we believe ETA intended placement performance to be the determining factor to support a single unit charge to training, some operators believe the only requirement is to develop a FUPC agreement. Therefore, regardless of participant outcomes, if there is a FUPC, all costs are reported as training. Second, program operators have developed very broad local definitions of the elements (*e.g.*, training, placement in the occupation trained for, and at not less than the wage specified in the agreement) required in 20 CFR 629.38(e)(2). We recommended that ETA redefine the terms used in 20 CFR 629.38(e)(2) so such broad interpretations cannot be used to shift administration and participant support costs inappropriately to the training cost category. We also recommended that ETA require unit cost/performance based contractors to maintain expenditure records so contract payments can be properly classified if the requirements in 20 CFR 629.38(e)(2) are not met.

### ETA has Allowed Reporting Methodology which Records Expenditures on a "First-In-First-Out" (FIFO) Basis by Cost Category, rather than Program Year of Obligation

A lack of definitive program guidance has allowed recipients to report program expenditures against a previous year's unexpended funding authority by cost category rather than by grant.

The statute allows recipients with unexpended funding authority at the end of a program year to carry-over these funds for expenditure the following 2 years. These carry-over funds are accounted for on a FIFO basis. This means the first funds available for expenditure at the start of the program year are carry-over funds. OIG believes FIFO is a reasonable accounting concept to record expenditures against program year funding. However, the recipients have applied the FIFO concept by specific cost category rather than by program year of obligation. As an example, if the SDA had expended all

its administration and participant support funding but carried over $50,000 originally budgeted in the training cost category, the SDA would not necessarily report the first $50,000 of the new year expenditures against the carry-over funds. If administration or participant support payments were expended from the $50,000, they would be shifted forward to the next year's obligation and not reported against the carry-over. Conversely, the first $50,000 of new year expenditures for training would be reported back against the previous year's carry-over balance. This reporting methodology of FIFO by cost category rather than by program year obligation allows the recipients to expend administration funds at a rate in excess of the 15 percent cap by shifting the reporting of excess administrative expenditures to future funding periods.

We recommended that ETA issue regulations on the carry-over of unexpended funds from one year to the next which would establish that the first monies spent in the carry-over year, regardless of cost category, be reported back against the previous year of obligation.

**ETA has Issued Interpretations which may Allow Program Records to be Destroyed before Compliance with Cost Limitations can be Tested**

When ETA's interpretation of maximum and minimum limitations is coupled with the JTPA record retention criteria, the recipients could destroy records before cost limitations compliance can be tested.

ETA issued an interpretation of the JTPA II-A Maximum and Minimum Limitations on Expenditures which stated that: they would review compliance based on each year's allotment, and the time period for determining compliance would be the 2 years of the approved local job training plan. With the 2-year carry-over period for expending unobligated funding, the period for testing compliance would not end effectively for over 4 years from the first year of obligation. However, 20 CFR 629.35(e) states:

> "The Governor shall ensure that procedures are developed for retention of all records . . . for a period of three years from the date of obligation of funds."

Unless States and SDAs have instituted a longer record retention period, ETA regulations allow grant records to be disposed of 3 years after funds were first obligated. However, the first date for final testing of cost limitations, as interpreted by ETA, would be over 4 years after funds were first obligated (this is the Job Training Plan period plus the 2 years for expending unobligated funding).

Further, ETA has not addressed the period for testing compliance in Titles II-B and III, since these Titles are not covered by the Job Training Plan.

We recommended that ETA change the interpretation on the time period for testing compliance with the II-A cost limitations so testing can be conducted before the date SDAs are allowed to dispose of their records, and to establish a time period for testing compliance with II-B and III.

ETA acknowledges that OIG's concern regarding the current record retention requirements is legitimate. With regard to the time period for testing compliance for II-B and III funds, ETA contends that compliance for these programs is measured using allotments over the course of the 2-year job training plan and the Governor's Coordination and Special Services Plan. While this approach may be clear to ETA, we continue to maintain ETA has not addressed the issue for the JTPA system as a whole. ETA's March 1985 Final Interpretations on cost limitations specifically provide that it is the States' responsibility to determine policy regarding cost limitations for Titles II-B and III. Further, the March 1985 interpretations do not make reference to the Governor's Coordination and Special Services Plan.

**ETA Failed to Adequately Clarify at which Operating Level Cost Limitations and Restrictions Apply**

Current regulations are so unclear that the appropriate level (*i.e.*, State or SDA) to apply cost limitations cannot be determined. In some instances, the cost limitations promulgated in JTPA are specifically applicable to the service delivery area (Section 108). However, the statute is silent as to the applicability of these limitations to the State. Current regulations do not define the operating levels at which cost limitations should be applied. Cost limitations are unenforceable without universal understanding of the operating level to which they apply.

We recommended that ETA clarify the level, State or SDA, at which each of the JTPA cost limitations apply. ETA maintains that the current requirements are clear. However, we continue to believe this issue needs to be addressed so that the cost limitations can be properly enforced.

## PROCUREMENT OF JTPA TRAINING AND SERVICES BY THE OREGON CONSORTIUM

On August 23, 1988, OIG issued a draft audit report to Oregon State officials on selected procurement activities conducted by the administrative unit of The Oregon Consortium. The Oregon Consortium is the SDA for the JTPA program operated by the State of Oregon. The SDA includes 27 counties throughout the State and is divided into nine administrative districts, each comprising one to five counties. Within each district, a single contractor is selected to administer the JTPA program in the district. The nine district operators receive a yearly, sole source, fixed unit price contract. With one exception, each district operator received a yearly contract totaling over $1 million.

Because the program vulnerabilities were so extensive, and because the State JTPA administrative unit certified that the SDA's procurement operation was in compliance with prescribed standards of program administration, we directed our recommendations to ETA's Assistant Secretary in our final report dated September 27, 1988.

## PROGRAM ACCOUNTABILITY HAS BEEN ELIMINATED THROUGH THE USE OF INAPPROPRIATE CONTRACTS

Misapplication of Federal regulations governing the use and restrictions of FUPCs resulted in major misclassification of program expenditures.

The SDA designed its program to operate exclusively through FUPCs. An analysis of the contracts, however, found they conform neither to the regulatory requirements for single unit charging of FUPCs to the training cost category (20 CFR 629.38(e)(2)), nor to the intent of JTPA and its regulations which call for actual training and job placement for specified individuals in specified occupations. Therefore, the SDA has no regulatory basis for its decision to report all district expenditures as training.

Since 1983, the SDA has reported approximately $53.8 of $57.6 million as training expenditures. Included in this reported total is undetermined amounts of administration, participant support, and other non-training expenditures which have been misclassified as training expenditures. The misclassification completely obscures any ability to determine whether statutory limitations on expenditures of JTPA funds were observed. Thus, the major element of program accountability and the basis to determine compliance with legal restrictions of fund expenditure have been eliminated.

The SDA's response to our draft report stated that OIG had overstated the requirements of the law and regulations and ignored the appropriate roles of the State, SDA, ETA, and OIG in interpreting the statute and regulations. SDA representatives believed the program regulations suggest that it is the State and local level, not the Federal level, where program questions regarding cost classification, fixed unit price contracting and cost limitations are to be resolved. The response provided no evidence to support that the SDA contracts met the requirements of 20 CFR 629.38(e)(2).

We recommended ETA require reclassification of $53.8 million of the SDA's reported training expenditures to the proper JTPA cost categories. Upon completion and verification of proper cost classification, expenditure totals must be analyzed to determine compliance with statutory limitations on fund expenditures for administration and participant support. Any amounts exceeding the legal limitations must be repaid to the Federal Government from non-JTPA funds.

### Deficiencies in the Contract Negotiation Process Reduced the Funds Available to Provide Training and Services

Negotiation of contracts without State-required cost or price analysis resulted in contract unit prices which could not be supported as reasonable.

The SDA did not provide evidence to support that cost or price had been evaluated during the SDA's contract negotiations, as required by the State JTPA administrative unit. Without accurate information on the actual costs required to provide specific training and services, the prices agreed upon may be unrealistic. Unrealistic prices can result in unreasonable profit margins or, conversely, contractor bankruptcy. Obviously, both situations lessen the quality and level of participant training and services.

A review of 20 of the 45 contracts showed that, of the $25.8 million of training funds provided to contractors, an estimated $4.2 million (16 percent) was retained by the contractors as profit. Because the SDA neither requires nor evaluates contractor cost and price information, no valid gauge of a reasonable unit price exists. With no basis to determine if the contract prices were reasonable, it is not possible to determine if the profits were warranted.

The auditee responded that there was no evidence cited in the draft report which suggested that the contract negotiation process resulted in reduced training funds, nor was there any evidence that contract earnings were used for anything except allowable JTPA costs.

We concluded that the funds available to provide training and services to JTPA eligible clients in the SDA's 27 counties were reduced. The profits represent funds available but not expended on JTPA training and services during the contract period. Because the recipient has not provided evidence that cost or price was analyzed, we cannot determine if the contract prices were reasonable. Therefore, we have questioned the estimated $4.2 million retained by the contractors as profits.

We recommended that ETA require a complete accounting of profits generated from the improperly negotiated contracts. Any "profit" realized under contracts ending before June 30, 1986, must be returned to the U.S. Treasury unless the SDA can demonstrate the "profits" were expended to provide JTPA training and services, and were expended within 3 years of fund obligation. Section 161 of JTPA states that funds obligated for any program year may be expended by each recipient during that program year and the two succeeding program years. Our review of 20 contracts found approximately $3.4 of the $4.2 million in estimated "profits" falls into this category. All "profits" realized for later contracts should be returned to the program and expended to provide JTPA training and services in accordance with existing regulations and limitations.

**Reported Contract Performance does not Provide a Realistic Gauge of how Effectively JTPA Funds have been Utilized or how Meaningful Participant Training has been**

Assertions that FUPCs resulted in increased performance at decreasing cost could not be supported.

An analysis of three sets of district contracts generally showed decreases in the number of participants to be served and increases in unit costs between program years 1986 and 1987. Additionally, a review of 50 participant files showed that for 16 (32 percent) participants, no direct causal relationship existed between JTPA training and performance statistics showing participants had either entered unsubsidized employment or attained employment competency.

The auditee responded to our draft report providing two bar charts which compared Comprehensive Employment and Training Act (CETA) and JTPA costs per entered employment and numbers of participants entering employment. The auditee claimed the bar charts showed FUPCs provided increasingly cost effective services within the SDA.

The information provided by the auditee was incomplete. We do not know the validity of information used to prepare the bar charts or whether the CETA and JTPA data are, in fact, comparable. Also, factors other than contracting methodology could cause changes in the "cost per entered employment" and the "numbers of entered employment" figures.

We recommended that ETA provide the necessary direction and assistance to State and SDA personnel to develop and monitor contracts which meet Federal regulatory requirements and report measurable performance statistics directly related to the job training received.

**JTPA GRANT FUND PROTECTION FORT WORTH CONSORTIUM**

Another JTPA audit initiative during this period was conducted at the Fort Worth, Texas Consortium SDA. Our primary focus was to build on the single audit work by evaluating the SDA's compliance with JTPA and its regulations which affected financial reporting during program years 1986 and 1987. Our scope was limited to programs under Title II of the Act.

In our final report issued to ETA, we recommended $300,179 for disallowance and questioned $6,529. Further, we recommended that $441,486 in costs charged to the training cost category be reclassified to administration.

While the audit covered only a single SDA, the following are issues which we have identified in other audit work as well and which we believe have national policy implication.

**Using Regulatory Provisions to Effectively Waive the Statutory Limitation on Administrative Costs**

Our audit found that costs of 10 fixed unit price contracts were charged entirely to training even though they did not meet the criteria in 20 CFR 629.38(e)(2).

In responding to our draft report, the State disagreed with this finding, adding that the practice of charging costs entirely to training was standard practice in the State and throughout the nation as well.

We believe that, if the State's position prevails, the legislatively-mandated limitation on JTPA administrative costs is, in effect, circumvented.

**Allowing Tax-Exempt SDA Contractors to make Profits on JTPA Funds**

We recommended for disallowance profits from JTPA funds received by tax-exempt entities. We found the profits were not "necessary and reasonable for proper and efficient administration of the program." One non-profit entity received a profit of $62,443 or 977 percent over its actual costs of $6,388. Further, the profits were used to finance a cash management fund, one use of which was to pay disallowed audit costs. Another contractor, a public school district, was paid profits ranging up to 41 percent ($109,834) under fixed unit price contracts.

The State contended that the issue of profits is irrelevant since profits are "plowed back into the programs" authorized in a non-profit corporation's charter and are allowable under the Internal Revenue Code. Since the charitable purposes are not limited to JTPA activities, JTPA program funds could be expended for activities not authorized under the Act.

The State response included a copy of a letter dated February 1986 from a city auditor. The letter requested guidance as to whether JTPA service providers were free to spend the fees they received from their fixed unit price JTPA contracts on items such as "political contributions, cadillacs, or whatever they choose." The State's reply to the city stated, "Once performance has been verified and payments made accordingly, the contractor has no further liability for these funds and the JTPA audit trail stops as of the disbursement."

We believe that JTPA program funds were intended to be used only for purposes authorized by the Act. If the State's position prevails, requirements that JTPA funds be used for authorized purposes is, in effect, circumvented.

**Leasing Real Property by the SDA from the Private Industry Council (PIC) is a Potential Conflict of Interest**

We recommended that $122,828 be disallowed for unreasonable and excessive lease expense incurred for real property leased by the SDA from the PIC. The SDA was paying the PIC twice the fair market value for the rental property. The excessive rental payment was, in effect, financing the PIC's mortgage payments and other costs.

The SDA, however, was not free to move to a less costly location because the PIC had the power to approve or disapprove proposed leasing actions by the SDA. This potential conflict of interest is further supported by the fact that, despite the decline in local economic conditions, the SDA did not renegotiate lease terms or move to a more reasonably priced location.

In disagreeing with our finding, the State advised that many SDAs lease space from entities with oversight responsibility of their actions. No explanation regarding the excessive lease expense was offered.

**Using Defective Procurement Practices for Service Provider Contracting**

We found little, if any, price competition in negotiating fair and reasonable prices when fixed unit price contracts were awarded. Additionally, arms-length negotiation of prices and other contract terms is apparently lacking. These practices caused, in part, most of our other findings of noncompliance and our recommendations that costs of $295,107 be disallowed and $416,063 be reclassified.

JTPA regulations contain a single paragraph on procurement which delegates responsibility to the States to ensure that procurement systems are administered in accordance with "applicable State and local law, rules and regulations as determined by the Governor" (20 CFR 629.34). Based on our findings, this appears to be inadequate criteria for the JTPA procurement process.

The state disagreed with our findings.

ETA has not had an opportunity to respond to the final audit report. We will discuss their response in our next semiannual report.

**MISSISSIPPI JTPA PROGRAM**

In August 1988, we issued a management letter advising ETA to closely examine the propriety of FUPCs used by Mississippi to operate its summer remediation program. In response to a complaint, we examined the contract between the Mississippi Balance of State SDA and the Mississippi Department of Education.

The contract contained a "profit margin" line item of $1.1 million, which represented 23 percent of the $4.9 million contract. The contract placed no restrictions on the amount or use of the profits. Further, there were no assurances the profits would be recycled back into the program to fund other allowable JTPA activities. We believe this planned profit margin was both inappropri-

ate and excessive. In addition, the contract called for a fixed unit price of $1,225 per participant. We expressed our concern to ETA that this cost per participant apparently bears no relationship to the expected cost of operating and administering the program.

Another item of concern was the proposed purchase of computer-assisted learning programs for $650,000. Although the computer programs were purchased using program year 1988 funds, the programs were not distributed to the school districts until the summer program was almost over. We also advised ETA of budgeted transportation costs that appeared inappropriate, and indirect costs that may be duplicated in other budgeted line items.

The above items compound our concerns about what we perceive as widespread abuses of JTPA fixed unit price contracting. We believe ETA should review such contracts and provide greater direction and clarity to JTPA service providers to identify current problems and avoid future difficulties.

ETA agreed that OIG's contract review raised concerns about questionable procurement practices in the Mississippi summer program. ETA suggested that an OIG special audit would be appropriate, after which specific and suitable action can be taken. Furthermore, ETA indicated that it would be providing explicit guidance on the areas of concern related to performance based contracting when it issues final policy.

## KENTUCKY JTPA PROGRAM QUESTIONED COSTS

We are following up on a complaint alleging that JTPA training funds were used to serve ineligible participants at the Kentucky Toyota Motor Manufacturing Plant. We initiated a limited review of the Commonwealth of Kentucky systems and procedures for enrolling program participants and for ensuring that expenditures are allowable under JTPA.

We found no major system deficiencies. However, our review disclosed a problem in Kentucky's interpretation of Section 123 of the Act which establishes parameters for an 8 percent "State set aside." Kentucky has interpreted the language in these provisions as allowing 25 percent of the funds to be used for training individuals who are not JTPA eligibles.

We questioned this interpretation of the Act, and a legal opinion obtained on the issue agreed with our position. It also raised concerns regarding Kentucky's use of Section 123 funds. The 1986 amendments to JTPA mandated that funds be used on three high priority areas including: illiteracy among youth and adults, high school dropouts, and barriers confronted by disadvantaged youth who do not plan to pursue additional education beyond high school.

JTPA Section 123 funds serving participants at the Toyota Plant were not used for the type of training mandated by the 1986 amendments.

We are continuing our audit work. As of July 1988, approximately $2.6 million were incurred serving 540 potentially ineligible participants at the Toyota plant.

We issued a management letter to ETA's Assistant Secretary on September 23, 1988, expressing our belief that the Commonwealth of Kentucky has misinterpreted the provisions of Section 123 of JTPA and may be incurring millions of dollars in unallowable costs. We recommended that immediate action be taken to resolve the issue and establish and disseminate policy and instructions to all State JTPA recipients regarding the allowable use of Section 123 funds.

## REPORT II
## SERVICE PROVIDER CONTRACT ELEMENTS

During our 1986-87 JTPA participant training and services review, we collected a statistical sample of service provider contracts at 58 SDAs. Ultimately, we collected 3,878 contracts representing $216.6 million in JTPA funding.

To determine whether these contracts contained elements necessary to properly safeguard public funds, we gave a sample of contracts to attorneys under contract to OIG who were selected because of their expertise in Federal procurement law.

The attorneys were asked to determine those contractual elements necessary for adequate protection of JTPA funds and to ascertain whether those elements were present. They subsequently selected 16 elements based on what is usually found in Federal contracts (5 essential and 11 supplemental) against which to test the contracts.

Overall, 83 percent of the contracts, representing $109 million or 52 percent of the JTPA funds reviewed, failed to adequately protect JTPA funds.

Contracts missing one or more of the essential elements totaled 76 percent, representing $90.4 million or 43 percent of the total dollars reviewed. Contracts con-

taining all of the essential elements but missing five or more supplemental elements totaled 7 percent, representing $18.6 million or 9 percent of the total dollars reviewed.

In analyzing the contracts, we found that they were substantially inconsistent in the quality of draftsmanship and the degree of protection offered. We found contracts at both ends of the spectrum: from extremely poor and completely lacking protection for JTPA funds to very well drafted, comprehensive documents. Some clauses closely paralleled those found in Federal Government contracts, while others differed greatly.

In a program of this magnitude, the fact that such a large percentage of the sampled contracts did not contain elements necessary to adequately protect JTPA funds is significant. In our opinion, this has the potential to result in waste and abuse of Federal funds.

While we recognize that the current design of JTPA makes it impossible to require States, SDAs, and localities to utilize a standard contract, much greater protection of Federal funds would result if the writing of contracts could be improved.

In response to the report, ETA plans to issue a January 1989 Training and Employment Guidance Letter (TEGL) outlining the results and concerns raised in the OIG report. ETA also advised that plans are under way to develop a contract training package for dissemination to the States and SDAs.

To date, the general theme of ETA's responses on the reports discussed above has been to agree that specific abuses exist and that further audit work and contract training is in order. However, ETA continues to rely on its August 6, 1988, "proposed interpretation" of 20 CFR 629.38(e)(2), allowing FUPCs to be 100 percent charged to training.

OIG disagrees that the "proposed interpretation" will bring the system closer to accountability and in compliance with congressionally mandated cost limitations. The "proposed interpretation" itself is replete with provisions which effectively expand, rather than limit, the use of FUPCs. Thus, ETA program management is sending the *wrong signal* to the JTPA system when it continues to promote the use of FUPCs chargeable 100 percent to training, especially after being apprised officially of their use to circumvent cost limitations and their negative impact on program accountability.

The effect of the FUPC regulations is to allow less than 70 percent of an SDA's Title II-A funds to be spent on actual training and more than 15 percent on administration, contrary to law. Since it has no basis in statute, as acknowledged by ETA, *we believe 20 CFR 629.38(e)(2) should be eliminated in its entirety as contrary to the letter and intent of the law.*

## Comprehensive Employment and Training Act (CETA)

### MASSACHUSETTS CETA PRIME SPONSOR SPECIAL REPORT

The State of Massachusetts contracted with a CPA firm to audit CETA funds awarded to the Balance of State Prime Sponsor, using agreed-upon procedures. The review was performed to assist the State in a final closeout of its CETA program. The audit period covers the entire program period, extending from 1973-1984. The report was issued in August 1988, and is presently being processed in ETA. The report includes a questioned cost of $41,067 and indicates that the State still has a CETA cash balance of $3,636,311 which we believe should be returned to the Federal Treasury.

## Unemployment Insurance Program

The Social Security Act of 1935 authorized the Unemployment Insurance (UI) program which is a unique Federal-State partnership that is based upon Federal law, but is implemented through individual State legislation.

This program is administered by the State Employment Security Agencies (SESAs) in the 50 States and three other entities, the District of Columbia, Puerto Rico and the Virgin Islands. At the Federal level, the Unemployment Insurance Service (UIS) of ETA is charged with ensuring proper and efficient administration of the UI program.

### UNEMPLOYMENT FUND CASH MANAGEMENT

We completed a 10-State review to determine the potential interest income that is not realized by the States' Unemployment Trust Funds because of ETA's policy that prohibits States from investing "float" generated by disbursing unemployment benefits.

"Float" is the period between the time that benefit disbursements are made by the States and the time that

the payment instruments are returned to the bank or State treasury for redemption. Float, even if available only overnight, has significant earnings potential.

We estimated that the nation's unemployment compensation program could realize an additional $15 million annually if the Department recognized the States' involvement in cash management and ensured that revenue earned on benefit payment account "float" was credited to States' Unemployment Trust Funds (SUTFs).

Of major concern is ETA's prohibition against States investing benefit payment account float. In our opinion, ETA has misinterpreted the Social Security Act's provisions and constructed a prohibition on State investment of float which the Congress did not intend. Further, ETA's prohibitions do not prevent investments from occurring. As a result, either commercial institutions or the States' general funds benefit from float earnings, rather than the States' unemployment compensation programs.

Before meaningful reform can occur, ETA's policies must allow the unemployment compensation program to take advantage of more effective cash management alternatives.

OMB has recently issued an official Administration position on UI cash management which concurs with our recommendation to recognize float earnings and require their deposit into the Federal Unemployment Trust Fund (FUTF). In response to a congressional inquiry on treatment of UI funds under pending cash management legislation, OMB has stipulated that interest should be earned on funds held at the local level until such funds are needed to redeem benefit checks. Additionally, its position is that such earnings should return to the FUTF, as proposed by this legislation, so that maximum funds are available for investment by the Secretary of the Treasury.

Until such time as UI cash management is directly affected by the above-referenced legislation, we continue to recommend that ETA's Assistant Secretary assist States individually in determining the most effective SUTF cash management systems available and encourage their implementation; eliminate prohibitions on State investment of benefit payment account float; and implement effective requirements or, as necessary, sponsor Federal legislation to ensure SUTFs receive investment revenue.

In response to our draft report, ETA declined to reconsider its UI cash management policies, indicating that it intends to continue to base unemployment fund management actions on its interpretation of existing law and departmental statutory interpretations. ETA indicated that its position has not changed since it responded to the draft report. ETA declined a meeting to further discuss the issues, because, in its view, there have been no new developments since prior meetings to warrant further discussion.

**Technical Assistance Review to Identify High Risk Employers Who Potentially Underpaid State Unemployment Taxes**

In our previous semiannual report, we discussed OIG's ongoing development of computerized techniques to identify high risk employers for SESA field audits. Since then, we completed technical assistance reviews in five States and have issued a summary report to ETA.

**Development of Computer Software**

We developed computer programs which read the SESA's employee wage history files and calculate taxable wages for each employer. We then compared our calculations with taxable wages reported by employers on the tax file to determine potential underreported taxable wages. Differences between OIG-computed taxable wages and taxable wages reported by employers were then multiplied by the appropriate tax rate to arrive at potential underpaid taxes.

A by-product of developing our model are computer programs that identify and correct many social security number errors in wage records without requiring time-consuming manual re-entry. Our sampling showed that 98 percent of the errors we identified were properly corrected by automated routines.

**Results of Review**

In the five States reviewed, we identified $10.7 million in potentially underpaid taxes. Of this amount, $5.4 million comes from 773 employers with potential underpayments of more than $1,000 each. The States are presently reviewing these cases and recovering those that are verified.

Our software was especially useful in Louisiana in identifying employers out of compliance with a newly

established debt service tax. The Louisiana agency wrote the following concerning OIG's efforts:

> "Through their diligent work, the Louisiana Department of Labor has the potential of collecting an additional $1.3 million in unemployment insurance taxes due the State. Also, their assistance with our new Debt Service Tax realized a potential collection of $3.1 million.
>
> The software programs designed for the employee wage history files have assisted in correcting approximately 33,000 social security number errors, and has allowed this Agency to pay unemployment insurance benefits faster with a reduced number of benefit assignments sent to tax auditors in the field."

We recommended that ETA disseminate our report to all SESAs and encourage adoption of the programs. For those SESAs willing to adopt the system, ETA should consider waiving its current requirement that each SESA annually audit 4 percent of covered employers. We believe the ADP programs provide a better basis of targeting employers for review than current ETA requirements.

ETA has responded that, although it is interested in the programs, it first needs to study them in relation to other ETA program improvement projects currently under way.

### TRADE READJUSTMENT ALLOWANCES SURVEY

We completed a survey of Trade Readjustment Allowances (TRAs) authorized by the Trade Act of 1974, to determine if systemic problems exist which warrant a national scope audit of TRAs.

TRAs are federally-funded unemployment benefits for individuals who are out of work because of foreign imports. TRAs are payable only after exhaustion of unemployment compensation.

Our survey consisted of financial and compliance reviews of fiscal year 1987 TRAs paid by Pennsylvania, Texas, and West Virginia. These three States accounted for $58 million (28 percent) of total fiscal year 1987 TRA payments of $210 million.

We identified no common systemic problems among the States audited that warrant a national audit. In two of the three States, we found problems unique to those States. These problems have been identified in individual reports which were issued to the States and ETA.

Our survey disclosed TRA regulatory provisions that should be clarified to prevent abuses to the TRA program and better satisfy the intent of the Act. We also identified $1.9 million of TRA overpayments.

We recommended that ETA eliminate the vagueness in the current regulations to ensure that individuals receive TRA benefits because they are out of work due to foreign imports, not because they *once* had a TRA qualifying separation; and that they receive TRA benefits during legally established eligibility periods.

Also, ETA should require Pennsylvania to repay $1.9 million of estimated overpayments.

## EMPLOYMENT STANDARDS ADMINISTRATION

The Employment Standards Administration (ESA) is composed of three program offices: the Office of Federal Contract Compliance Programs (OFCCP), the Office of Workers' Compensation Programs (OWCP), and the Wage and Hour Division.

OFCCP administers an Executive Order and portions of the statutes which prohibit Federal contractors from engaging in employment discrimination and require affirmative action to ensure equal employment opportunity.

OWCP administers three laws providing compensation and medical benefits, primarily for on-the-job injuries and occupational diseases, to civilian employees of the Federal Government, coal miners, and longshore and harbor workers.

Wage and Hour enforces minimum wage and overtime standards, establishes wage and other standards for Federal contracts, and enforces aspects of other employment standards laws.

Of ESA's $242.2 million budget for fiscal year 1989, Wage and Hour uses the largest portion to enforce a wide variety of labor standards.

We completed significant work during this semiannual period in OFCCP and in OWCP's Black Lung and FECA programs.

## Federal Contract Compliance Programs

The Office of Federal Contract Compliance Programs (OFCCP) enforces Executive Order 11246, Section 503 of the Rehabilitation Act of 1973, and 38 U.S.C. 2012 of the Vietnam Era Veterans' Readjustment Assistance Act. The Executive Order and statutes prohibit employment discrimination by Federal contractors on the basis of race, color, sex, national origin, handicap, religion, or veteran status. In addition, Federal contractors are required to take affirmative action in hiring, training, and advancement of qualified and qualifiable minorities, women, certain veterans, and individuals with handicaps. In 1978, responsibility for contract compliance was removed from 11 major Federal Departments and centralized in OFCCP.

OFCCP has a broad-ranging responsibility for ensuring nondiscrimination and affirmative action by more than 215,000 Federal contractor establishments, employing more than 30 million workers and having more than $167 billion worth of business with the United States Government. To administer the programs for fiscal year 1987, OFCCP was authorized a budget of $47.9 million and a total of 910 positions located in the national office, 10 regional offices, and 56 area and field offices.

### OFCCP SHOULD ENFORCE FEDERAL EEO REGULATIONS MORE EFFECTIVELY AND CONSISTENTLY

We completed an extensive nationwide program results audit of OFCCP to evaluate the overall effectiveness and efficiency of its enforcement operations. Our basic audit period was October 1, 1984, through September 30, 1986. However, when warranted, coverage was expanded to include fiscal year 1987.

We found that more effective management in the areas of program planning, enforcement, and accomplishment reporting would improve Federal contractor compliance with equal employment opportunity (EEO) and affirmative action requirements. Specifically, we found that OFCCP's annual program planning process did not provide enforcement strategies which make the most effective and efficient use of its staff resources; that OFCCP needs to take more timely enforcement actions against Federal contractors who, in some instances, discriminated against or failed to take affirmative actions in hiring, training, and advancement of protected group members; and that OFCCP was unable to meaningfully and accurately measure the impact of its various enforcement programs.

During the course of our review, OFCCP had begun several program initiatives which could result in improving the effectiveness and efficiency of its enforcement operations. OFCCP has also begun implementing an extensive training program to reinforce and upgrade the job skills of its enforcement staff. Since these initiatives were ongoing during our audit fieldwork, we were unable to assess their impact on improving operational performance. However, these efforts should significantly improve the effectiveness of OFCCP's enforcement programs.

#### Program Planning Process

OFCCP's planning process did not provide effective and efficient enforcement strategies. Our audit disclosed ineffective systems for identifying and selecting contractors for compliance reviews; inefficient techniques used to evaluate contractor compliance with EEO obligations; unequal and inconsistent enforcement of Federal EEO regulations; and an ineffective preaward review system.

#### OFCCP Did Not Identify the National Universe of Federal Construction Contractors and Relied on Supply/Service Contractors To Adhere Voluntarily to Regulatory Requirements for Identifying Themselves as Members of the Federal Contractor Universe

Contractors who failed to comply with reporting requirements were omitted from the universes and were rarely, if ever, subjected to an evaluation of their compliance with EEO regulations. In addition, selection of supply/service contractors for review was based primarily on a single ranking criteria, and construction contractors were being selected for review without any indication of their potential degree of noncompliance with EEO regulations. Additional selection criteria were available which, if used, would result in significantly improving OFCCP's ability to identify and select for review those contractors with the greatest potential for noncompliance.

#### The Number of Federal Contractors Subjected to EEO Evaluations was Reduced Significantly Due to OFCCP's Limited Review Techniques

OFCCP limited EEO evaluations to full scope compliance reviews of single establishments. Sole reliance on this technique restricted the number of evaluations to just 3 percent of the Federal contractors covered by EEO regulations. Although the Federal Contract Compliance Manual (FCCM) provides for limiting compliance reviews to the desk audit phase, OFCCP seldom

used this survey technique. In addition, OFCCP's utilization of the single unit review resulted in the expenditure of significant enforcement resources by repeatedly reviewing individual establishments of multi-establishment corporations. For example, during a 3-1/2 year period, OFCCP expended over 7,000 Equal Opportunity Specialist hours conducting 73 compliance reviews on the individual establishments of just one parent corporation.

**Federal EEO Regulations Were Not Equally Enforced for All Federal Contractors**

OFCCP made a practice of excluding significant numbers of contractors from its standard review selection criteria based solely on their participation in one of several self-monitoring programs. OFCCP was unable to adequately evaluate their compliance with EEO regulations since the contractors were rarely, if ever, subjected to compliance reviews. These programs have been utilized since 1982. In 1984, both the House Committee on Education and Labor and the Office of Civil Rights, Federal Highway Administration, U.S. Department of Transportation, expressed concerns related to the utilization of these programs. The programs have resulted in inconsistent enforcement of EEO regulations and potentially lessen voluntary compliance by Federal contractors subjected to more stringent enforcement. Limited enforcement resources mandate that OFCCP rely on contractors to comply voluntarily with their EEO obligations. Voluntary compliance is greatly enhanced when Federal laws and regulations are equally and consistently enforced.

**Preaward Compliance Reviews Still Do Not Meet Regulatory Intent to Prevent the Award of Large Dollar Contracts to Contractors Unable or Unwilling to Comply with their EEO Obligations**

The inherent ineffectiveness and inefficiency of the preaward process has been recognized since 1981, and was reported in an OIG survey report on OFCCP operations in September 1985. OFCCP has not, however, acted to implement OIG's earlier recommendation to eliminate the preaward regulatory requirement. As a result, during fiscal year 1986, OFCCP expended 21 staff years processing 22,000 requests for preaward clearance. The large majority of requests for clearance are granted without an on-site review. Even more to the point, reviews have not prevented the award of a single Federal contract.

We recommended that OFCCP strengthen procedures to identify Federal contractors subject to EEO regulations; implement multiple criteria models for ranking and selecting, at the national level, Federal contractors for compliance reviews; more fully utilize desk audits to evaluate contractors' potential noncompliance with EEO regulations; elevate evaluations of contractor compliance with EEO regulations to the parent organizational level; rescind all self-monitoring agreements which exclude Federal contractors from standard compliance review selection criteria; and pursue steps which would remove Federal regulatory requirements for preaward clearance prior to the issuance of Federal contracts.

**Enforcement of EEO Regulations**

OFCCP should take stronger and more timely enforcement actions against Federal contractors who discriminated against or failed to take affirmative actions in hiring, training, and advancing protected group members. Our audit disclosed that underutilization of protected group members was not effectively identified and remedied; that the quality of compliance reviews could be improved; that the contractors' internal reviews were ineffective; that the enforcement actions were not timely utilized; that the monitoring contractor corrective actions for remedying EEO violations was inadequate; and that complaint appeals were not processed and resolved in a timely manner.

**Enforcement Regulations Were Weakened by Oral Policies and Procedures Issued at the National Level**

Implementation of these policies and procedures resulted in lowering the standard for identifying underutilization of protected group members and weakening the regulatory enforcement actions provided to remedy the underutilization. In determining whether protected group members are underutilized in construction contractor workforces, OFCCP historically has used what amounted to the "any difference" rule, *i.e.*, any difference between availability and utilization was seen as underutilization. On the other hand, the agency orally permitted supply/service contractors to use less rigid approaches. For example, contractors were not required to declare underutilization in those instances where their employment of protected group members was within 80 percent of availability. Oral policy and procedures which abolished the use of ultimate and makeup goals also drastically diminished OFCCP's ability to remedy the effects of underutilization.

**Ineffective Controls Over the Quality of Compliance Reviews Impeded OFCCP's Enforcement of Federal EEO Regulations**

We identified case quality deficiencies in 57 percent of the closed compliance cases included in our sample. Case quality problems were attributable to an ineffective policy and procedures system and the practice of using oral policy to direct the program; the lack of timely accountability reviews; and the lack of effective quality reviews at the area/field office level.

**The Contractor Internal Review Process (IRP) Has Proven Ineffective in Resolving Complaints of Discrimination Filed with OFCCP**

Based on our sample, IRPs were not only unsuccessful in resolving 89 percent of complaints, they significantly delayed OFCCP's investigations.

**Compliance Reiview and Complaint Investigation Time Standards Were Significantly Exceeded before Formal Enforcement Actions Were Recommended by OFCCP**

During fiscal year 1986, an average of 354 days elapsed before OFCCP recommended enforcement actions as a result of complaint investigations. OFCCP's reluctance to recommend timely formal enforcement resulted in compliance cases being closed by OFCCP without corrective actions taken to remedy major EEO violations.

**OFCCP Was Not Ensuring that Contractors Fully and Timely Remedied EEO Violations Identified During Compliance Reviews and Complaint Investigations**

Contractors were not consistently required to submit corrective action reports which contain sufficient information. These reports were not submitted frequently enough to thoroughly evaluate compliance with conciliation agreements. Therefore, enforcement actions were not being taken against contractors who failed to remedy EEO violations. Inadequate tracking and evaluation of corrective action reports was cited in a 1981 GAO report and again in the 1985 OIG survey report. Our follow-up review of this condition showed that OFCCP had not implemented effective corrective actions to remedy these operational weakness.

**OFCCP Was Not Effectively Controlling and Timely Resolving Complaint Appeal Cases**

Significant delays occurred in processing and resolving complaint investigation decisions appealed to the national office. Our review of a sample of completed cases indicated that processing timeframes ranged from 51 to 450 days, and averaged 156 days. These delays were attributed to the low priority assigned to processing and inadequate control over these cases.

We recommended that OFCCP:

1. Pursue the necessary steps under the Administrative Procedures Act to promulgate regulatory requirements which will clearly define underutilization;

2. Require contractors, in accordance with FCCM policy, to establish ultimate and makeup goals when necessary to promptly achieve full and equal employment of protected group members;

3. Reduce to writing and when required, publish for comment all oral policy currently being used;

4. Develop procedures to utilize trend analyses to effectively identify patterns and remedy causes of case quality deficiencies;

5. Implement controls to ensure that regional and field offices are subjected to timely accountability reviews;

6. Require contractors to measure, in corrective action reports, the effectiveness of corrective actions in increasing the utilization of protected group members;

7. Monitor contractors' compliance with conciliation agreements in a timely manner until it has been determined that effective corrective actions have been taken to remedy the cited EEO violations;

8. Recommend enforcement proceedings against contractors unable to demonstrate compliance with provisions of conciliation agreement in a timely manner; and

9. Develop and implement controls to ensure that appeals of complaint investigation decisions are processed and resolved in a timely manner.

**Program Accomplishments**

OFCCP did not measure the impact of its various enforcement programs to ensure nondiscrimination and affirmative actions among Federal contractors meaningfully and accurately. Our audit disclosed that: criteria used to measure program effectiveness were inadequate; and that financial accomplishments were not reported accurately and consistently.

**OFCCP Used a Variety of Staff Productivity Statistics in an Attempt To Measure Effective Achievement of Executive and Congressional Goals**

In response to recommendations made in the 1985 OIG survey report, OFCCP stated that it planned to choose a method of reporting which it believed would assess the program's impact. However, program accomplishments reporting for the two fiscal years subsequent to issuance of that earlier survey report were based on the same productivity statistics. While these productivity statistics may provide some measure of operational efficiency, they did not measure the program's results related to reduced discrimination and increased affirmative action.

**Inaccurate Data Was Used To Measure and Evaluate Program Effectiveness because of Ineffective Financial Reporting Systems**

As a result of using inaccurate data, financial accomplishments reported in OFCCP's fiscal years 1986 and 1987 annual budget request to the Congress were significantly overstated. Cases included in our sample accounted for $13.2 million or 45 percent of the $29.1 million of OFCCP's reported fiscal years 1986 and 1987 financial accomplishments. Case files did not support $10.4 million of the $13.2 million (78 percent) reported financial accomplishments. This overreporting was primarily due to OFCCP's basing accomplishments on inflated estimates and erroneously claiming accomplishments which were not the result of reported EEO violations.

We recommended that OFCCP develop and implement sufficient controls for ensuring that:

1. Contractor corrective action reports are used as a primary source of meaningful data elements needed to assess program effectiveness;

2. Program accomplishments claimed and reported are based on remedies for EEO violations identified and cited during OFCCP compliance reviews and complaint investigations; and

3. Program accomplishments are claimed and reported on only after adequate follow-up has occurred which will ensure that the contractors have taken the agreed upon actions.

**Agency Response to Draft Audit Report**

The Assistant Secretary for Employment Standards responded to the draft audit report on September 7, 1988. While the Assistant Secretary agreed with many of the report's specific recommendations, he disagreed with others and with the report's overall conclusions. He contended that the report contained:

1. Assertions and over-generalized conclusions based on fundamental misunderstandings about the OFCCP program, its policies and regulations;

2. Analyses and conclusions dated and removed from the current state of affairs in OFCCP, since the basic audit period was October 1, 1984 through September 30, 1986. The report does not reflect progress made during the review period, nor does it appropriately consider all relevant information from 1987. The report, as published in 1988, reflects for the most part 2- to 4-year old findings; and

3. Recommendations which suggest specific decisions among policy options that seek to preempt the exclusive policy making mandate of the Secretary, including one recommendation which conflicts with settled law in disregard of decisions by the Supreme Court.

The Assistant Secretary requested a cooperative effort to clarify and resolve specific issues of disagreement between OFCCP and OIG which could then lead to a more current and accurate report. The Assistant Secretary also requested formally that the audit be continued to incorporate consideration of the OFCCP activities during fiscal years 1987 and 1988.

**We Do Not Believe the Assistant Secretary's Contentions are Supported**

Instead, we believe that:

1. Conclusions reached and recommendations made in the audit report are based on large volumes of data, evaluation of OFCCP policy and procedures in effect during the review, and extensive interviews of enforcement staff and management officials at all levels of operations.

2. Data analyzed during the review was the most current available at the time of our on-site fieldwork. Also, our review of OFCCP's policies and procedures focused on those in effect during our audit fieldwork and included documented changes which had been implemented and which impacted our potential findings.

3. The audit report contains no instances where the OIG attempts to preempt the Secretary's authority to make policy. The OIG has, however, exercised its right and responsibility as mandated by the Inspector General Act of 1978, to provide independent and objective leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of Department of Labor programs and operations.

## Black Lung Program

ESA's Division of Coal Mine Workers' Compensation (DCMWC) administers the Federal Black Lung Program under the Black Lung Benefits Revenue Act, as amended. The Black Lung Benefits Revenue Act of 1977 established the Black Lung Disability Trust Fund (BLDTF) to shift fiscal responsibility for Black Lung benefit payments from the Federal Government to the coal industry.

The Act provides for monthly compensation and medical treatment benefits to coal miners who are totally disabled from pneumoconiosis arising from their employment in or around coal mines. The Act also provides for monthly payments to eligible surviving dependents. Benefit costs are paid by coal mine operators or by the BLDTF if no coal mine operator is liable for payment. For fiscal year 1989, Black Lung has a staffing level of 389 and a budget of $29.8 million. The appropriation for the BLDTF for disabled coal miners' benefits totals $633.4 million. Approximately 84,500 claimants are expected to receive monthly compensation benefits and an additional 42,500 miners are eligible to receive medical benefits.

### JOHNSTOWN BLACK LUNG PROGRAM

In response to a complaint, we completed a special review of selected management practices and procedures at the DCMWC District Office (D.O.) in Johnstown, Pennsylvania.

Specific areas covered in our review included: assessment and collection of funds due the BLDTF from responsible mine operators (RMOs); effectiveness and adequacy of ESA's accountability review process; referral of possible fraud cases to OIG's Office of Investigations; procedures to assure due process in the recovery of BLDTF overpayments; practices and procedures for preparing Certificate of Medical Necessity-Data Collection Forms (CMN-DCF); and compliance with standards and procedures for operation of ESA's Employee Suggestion Program. The D.O. was generally in compliance with the last two areas reviewed.

Our review of a sample of case files disclosed that RMOs were not billed for $271,503 of principal and interest by the BLDTF. This was contrary to ESA's directives and occurred because DCMWC failed to either calculate the amount due from the RMO or to calculate it correctly.

We were unable to express an opinion on the effectiveness and adequacy of the Johnstown D.O.'s accountability review process because, according to responsible agency officials, the workpapers from the last reviews were not retained. However, we did note that the fiscal year 1986 Accountability Review Report stated that the Johnstown D.O. exceeded the standard for interest calculation and assessments against RMOs. This conclusion is contrary to our findings discussed above.

Based on our findings, we recommended DCMWC:

1. Review all cases in which a mine operator was determined responsible to ensure that interest on interim benefits was properly assessed and collected from the RMO;

2. Strengthen the controls within the system for monitoring the assessment and collection of funds due the BLDTF from the RMOs, including procedures for establishing, liquidating and tracking accounts receivable;

3. Retain summary working papers generated by the accountability review that document cases reviewed and conclusions reached, and incorporate a standard into the accountability review process that addresses the issue of debt collection from the RMO;

4. Adhere to established procedures relative to the referral of possible fraud cases to the OIG; and

5. Utilize the procedures for recovery of funds from another Federal agency.

ESA concurred with our recommendations and is in the process of implementing corrective action. Beyond the $271,503, we directly identified as not properly billed to

RMOs, the D.O. had determined, as of September 13, 1988, approximately $479,000 in additional costs recoverable from RMOs. As a result, the D.O. has assessed RMOs amounting to approximately $750,503 to date based on our review. Further, the DCMWC Associate Director has advised us that a review initiated by the agency in April 1986, which was prompted by an OIG report issued in 1985, resulted in the collection of almost $1.2 million in 548 RMO cases. An additional 1,150 cases are still awaiting collection by DCMWC.

## Federal Employees' Compensation Program

The Federal Employees' Compensation Act (FECA) is the sole form of workers' compensation available to Federal employees who suffer on-the-job injury or occupational disease. DOL administers the Act, but all Federal agencies influence how effectively it is implemented. In fiscal year 1989, FECA's requested staffing level is 900 with a $50.1 million budget. With chargeback collections and the appropriation, ESA will pay out approximately $1.3 billion for Federal employees' and special benefits. Approximately 52,700 claimants will receive long-term benefits and another 77,000 Federal employees will receive continuation of pay for short-term job-related injuries.

### OWCP Should Evaluate Non-Federal Workers' Compensation Techniques To Assess their Adaptability to FECA

As reported in our prior semiannual report, we studied various non-Federal workers' compensation programs to identify practices and techniques that could be adapted to the FECA program. The purpose of the adaptations would be to improve the timely delivery of benefits, increase operating efficiencies, and contain program costs.

The agency has responded to our recommendations stating that they are looking forward to testing some of the techniques described in OIG's report. We support ESA's willingness to do so, particularly their plans to use nurses to increase personal contact; to evaluate a telephone-oriented intake approach; to develop a flexible approach for calling up cases using the expected duration of disability; and to continue efforts to work with employing agencies to increase the number of claimants who return to work for light duty.

While the agency believes that estimating the total "expected cost" of a case would not benefit FECA, we would hope that ESA will reconsider the "estimated cost" tool in its long-term plans for disability management. OIG believes that this tool can assist efforts in medical management as well as increase employing agency awareness and accountability over future compensation costs.

## MINE SAFETY AND HEALTH ADMINISTRATION

The Mine Safety and Health Administration (MSHA) administers the provisions of the Mine Safety and Health Act of 1977. The program is designed to reduce the number of mine-related accidents and fatalities and achieve a safe and healthful environment for the nation's miners. Approximately 5,000 coal and 11,600 metal/nonmetal mining operations are under MSHA's jurisdiction. For fiscal year 1989, MSHA had an approved staffing level of 2,790 and a $162.6 million budget.

## Mine Plan Approval and Selected Enforcement Activities

In March 1987, the Senate Committee on Labor and Human Resources held oversight hearings which were extremely critical of MSHA's Coal Mine Plan Safety Enforcement Program. As a result of this congressional interest and our prior audit work, we initiated a review in the areas of coal mine plan approval and selected elements of the inspection process. Our review was limited to Coal Enforcement because this program represents 60 percent of the MSHA budget. Also, coal mining is recognized as one of the nation's most hazardous occupations, with 63 deaths and over 11,500 workdays lost due to injuries in 1987.

Our review of MSHA coal enforcement activities identified systemic weaknesses that created agencywide vulnerabilities and inconsistencies in the conduct of coal enforcement activities. These weaknesses were:

1. The lack of Headquarters guidance, oversight and control over the mine plan approval process;

2. The inadequate documentation of mandatory inspections;

3. Inadequate and inconsistent systems for communicating policies and procedures to field enforcement personnel; and

4. The lack of any national programs to identify and address the problems of mine operators who show patterns of violations or who repeatedly violate the same standard.

Mine plans are critical to MSHA's enforcement program because, once approved, they are used in conjunction with Federal safety and health regulations as a basis for mine inspections. Our review disclosed MSHA has not effectively managed the mine plan approval process, and that the process lacks procedural uniformity and sufficient internal controls.

The cornerstone of MSHA's coal enforcement program is the legislatively-mandated comprehensive inspection of each underground mine four times per year and each surface mine twice per year. We found MSHA was not adequately documenting these mandatory inspections.

Because MSHA has decentralized its operations through use of a network of district offices, effective communication of procedures and guidance to field personnel is essential to achieving uniform enforcement. Our review disclosed that enforcement policy communications were fragmented and cumbersome and that inspectors had difficulty keeping track of current policies.

Finally, accomplishment of the statutory goals of reducing unsafe and unhealthful working conditions in the nation's mines would require MSHA to be proactive in obtaining abatement of hazards on a short-term basis, and identifying and resolving the causes of those hazards which result in repeated violations. We found MSHA has not implemented Section 104(e) of the Act which provides special sanctions for mine operators showing patterns of violations, and that MSHA has no nationwide program for reducing repeat violations.

We recommended MSHA institute controls over the mine plan approval process, develop standardized report formats to better document mine inspections, and revise and continuously update inspection manuals and procedures. Also, we recommended MSHA implement the "patterns of violations" provision of the Mine Safety and Health Act and establish a nationwide program for dealing with mine operators who repeatedly violate the same safety and health standards.

Throughout our review, MSHA undertook corrective actions to address identified weaknesses. Some weaknesses had previously been recognized by MSHA's management. In those cases, our review provided additional information on the scope of the problem and the required corrective actions. Actions initiated by MSHA during our review included the following:

1. MSHA requested detailed information from all district offices regarding existing procedures used for the mine plan approval process and the conduct of safety and health conferences. This was done to establish a national policy and standards for these activities.

2. In August 1988, MSHA established a committee to begin development of a national standard inspection report documentation format.

3. MSHA began to update its enforcement policies and procedures and to develop revised inspection manuals and a supplemental administrative procedural manual.

4. MSHA also took steps to establish regulations to implement Section 104 (e) of the Act, which covers patterns of violations.

MSHA concurred with the recommendations contained in the draft report and has already fully completed corrective actions on some of the recommendations. With regard to our recommendation that MSHA establish a program to address repeat violations, MSHA is convening a committee to identify elements required for an agencywide program and has requested OIG's input into the process.

## PENSION AND WELFARE BENEFITS ADMINISTRATION

The Pension and Welfare Benefits Administration (PWBA) administers the Secretary's authorities under two Acts which affect millions of individuals: the Employee Retirement Income Security Act of 1974 (ERISA) and the Federal Employees Retirement System Act of 1986 (FERSA). Under these delegations, PWBA is responsible for protecting the rights of approximately 64.5 million individuals covered by ERISA and about 1 million Federal employees currently enrolled under FERSA. Assets held by ERISA plan administrators and the Thrift Trust Fund under FERSA are estimated to be in excess of $1.7 trillion and growing.

### PWBA'S System Development Effort Shows Progress But Improvements Are Necessary To Ensure Success

OIG completed its review of PWBA's effort to develop a new Form 5500 system, the "ERISA Information

System." During this reporting period, OIG issued three interim reports and one final report. These reports discussed continued weaknesses in PWBA's system development documentation and project management. OIG also issued an interim report to PWBA project management and a draft report to the Directorate of Information Resources Management (DIRM) on weaknesses in the agency and departmental information collection and clearance process.

To ensure the success of the development effort, OIG recommended the Assistant Secretary take action to improve the system design strategy, documentation, project management, and project plans. In July 1988, the ERISA Database Steering Committee met and PWBA provided additional documentation to DIRM. In August 1988, DIRM granted approval for continued Phase B development (Storage and Access System) which included detailed system design and a phased implementation of technology. DIRM's approval stipulated development of additional documentation based on analysis of the results of the initial implementation.

OIG issued its final report to PWBA on September 23, 1988. The report recommended that the Assistant Secretary defer the detailed functional design and acquisition phases for the Storage and Access System (Phase B) until PWBA improved both the technical and management areas of PWBA's system development. These areas included system design strategy, system documentation, and overall management and control of the development effort with specific emphasis on project management.

In his response, the Assistant Secretary noted that many of the OIG's recommendations were no longer valid because PWBA had received approval from DIRM to proceed to the next phase (the design and acquisition of the ERISA Information System). PWBA will utilize facilities and software compatible with existing DOL contracts and systems and follow current DOL policy and DOL architecture. PWBA described the system development as a phased implementation approach in which PWBA will use relatively simple and low-risk technology during an initial stage of development. PWBA plans to assess patterns of data usage before committing to development of a higher, and possibly more risky, technology.

OIG, however, believes that the recommendations for improved planning and information resources management remain valid throughout the system development effort.

# Chapter 2

## OIG Continues to Promote Departmental Accountability with Second Annual Audited Financial Statements

During this reporting period, OIG issued a draft audit report on the fiscal year 1987 consolidated financial statements of the Department. The Department continues to be the only cabinet level department to issue consolidated annual financial statements which have been independently audited.

Along with the consolidated financial statements, we also audited the separate financial statements of the two largest DOL agencies: the Employment and Training Administration (ETA) and the Employment Standards Administration (ESA).

Each financial statement report contains the following components required under generally accepted government auditing standards: financial statements with auditors' opinion, a report on internal accounting control, and a report on compliance with laws and regulations. Management advisory reports were also issued in conjunction with the financial statement reports.

In addition to financial statements at the department and agency level, we compiled and audited the first financial statements and program output statistics for a major ETA program: Job Corps.

Although the Department is to be commended for preparing financial statements and subjecting the financial statements to audit, the report on internal accounting control identifies significant financial accounting and reporting problems which affect the Department's capability to fully comply with GAO and Treasury requirements.

**Comptroller General of the United States Commends Department**

On June 2, 1988, Charles A. Bowsher, Comptroller General of the United States, in a letter to Secretary of Labor Ann McLaughlin, commended the Department for its financial statement initiative.

The Comptroller General stated:

> "We applaud the Department of Labor for responding with such initiative by being the first department to both prepare and audit departmentwide financial statements.
>
> We are also pleased to see the display of financial highlights in DOL's annual report. The report is a good example of the direction that federal agencies should be taking in reporting on their stewardship. The concept of accountability reporting, while still new to many federal agencies, is an essential ingredient to bringing agency operations under control. It underscores for the public, the Congress, and top management those key measures of performance that are indicative of successful program administration.
>
> We commend DOL's management for stressing accountability and financial management and we encourage your efforts in these areas."

## DOL CONSOLIDATED FINANCIAL STATEMENTS

### Financial Statements and Opinion

The consolidated statement of financial position and the related statements of operations, changes in financial position, and reconciliation to budget reports for fiscal year 1987 were audited.

In our opinion, the consolidated statement of financial position fairly presents DOL's financial position as of September 30, 1987, and the results of its operations, changes in financial position, and reconciliation to budget reports for the year then ended in conformity with Federal generally accepted accounting principles (GAAP), with the following qualifications:

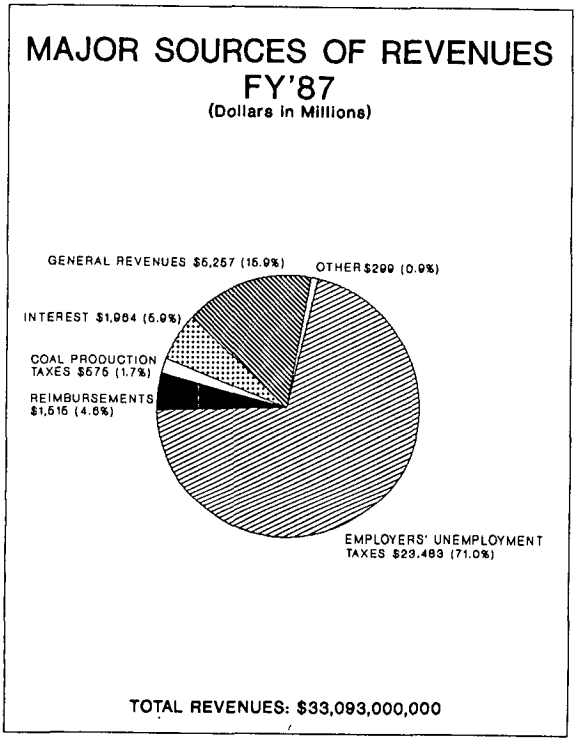
1. Accrued State and Federal unemployment insurance taxes due from employers totaling $3.8 billion were recorded based on actual tax collections from the next quarter. The validity of this amount could not be verified since neither ETA nor the individual States find it practicable to maintain subsidiary records for individual employers.

2. Because subsidiary accounting records which fully identify ETA contractor or grantee advances were not maintained, confirmation of individual account balances was impossible and we were unable to attest to advances to grantees of $559 million shown on the statement of financial position.

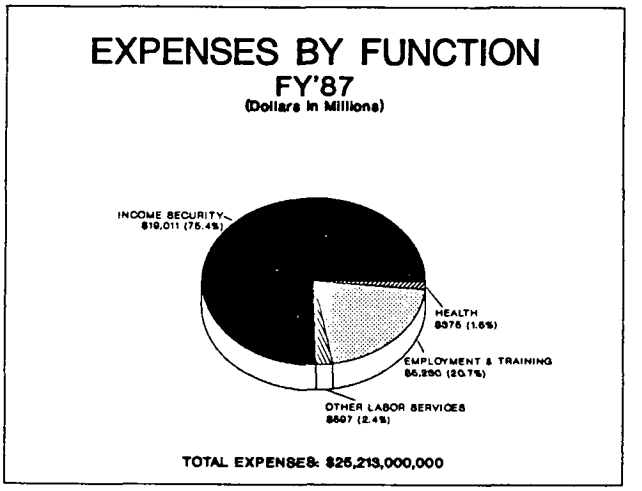
3. The liability of $1 billion in future FECA workers' compensation benefits was not determined using an actuarially acceptable method.

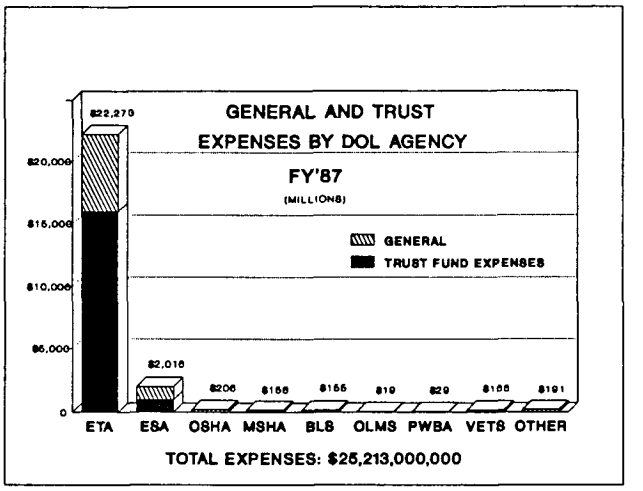
Audit tests were restricted to the Federal level. Reporting of State and local costs will be tested under the Single Audit Act.

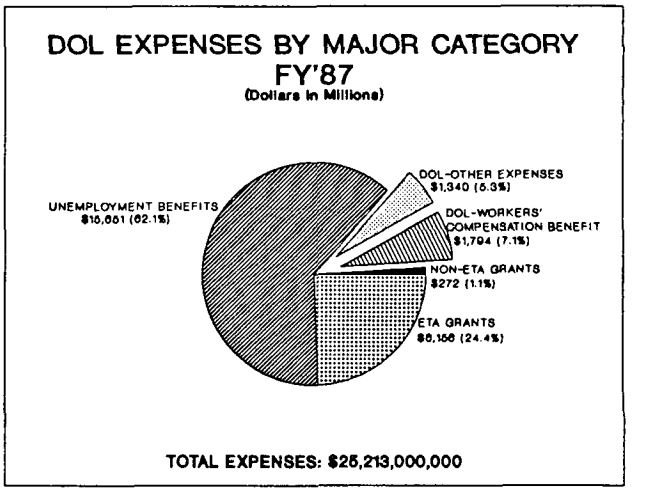
The following information is taken from the financial highlights section of the audited financial statements. The chart shows the major categories of revenues by source for the Department for fiscal year 1987.




DOL's fiscal year 1987 expenses are presented on the Statement of Operations by major function, by DOL agency, and by major category.

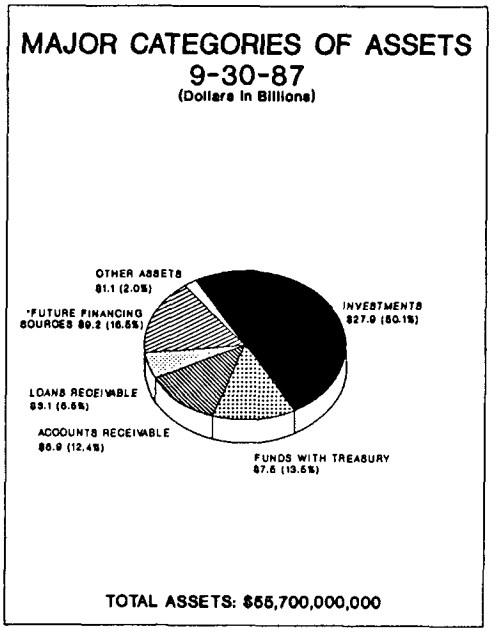


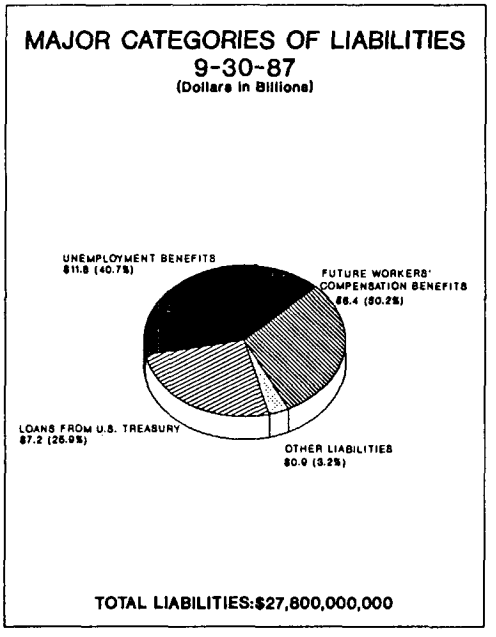



As indicated, the largest category of expenses was benefits. Benefits for unemployment ($15.7 billion) and workers' compensation ($1.8 billion) represent 69.2 percent of the Department's total expenses. Also, as highlighted, 87.6 percent of the Department's expenses, including unemployment benefits and grants, were actually incurred by State governments, local governments, or other organizations.

Assets are resources owned by the Federal Government that are available to pay liabilities or provide public services in the future.




Liabilities are amounts owed or payable to others.




## REPORT ON INTERNAL ACCOUNTING CONTROLS

The internal control report identified material internal weaknesses in the following areas: accounts payable and undelivered orders, ETA grant and contract management, and valuation of unemployment insurance receivables. The accounts payable and undelivered orders weakness is a Department-wide problem; the remaining weaknesses relate to ETA and thus are also included in the separate audit report of ETA's financial statements.

Departmental management has not yet had an opportunity to respond formally to this draft report; however, based on its comments related to similar findings in the audit report of 1986 financial statements, we do not expect full concurrence.

### Accounts Payable and Undelivered Orders

With respect to accounts payable and undelivered orders, the following major variances from established Federal accounting policy were identified:

1. The proper distinction between accounts payable and undelivered orders was not made by the Department in classifying and reporting of accounting transactions.

2. Both accounts payable and undelivered orders included amounts which no longer appear valid due to age or lack of supporting documentation.

3. Miscellaneous Obligating Reports (MORs) recorded in the Department's accounting system were not systematically reviewed and liquidated to accurately reflect the outstanding obligations of the Department.

### Grant and Contract Management

Regarding grant and contract management, we noted the following weaknesses:

1. Internal accounting controls over the entry of data into ETA's accounting system were ineffective and, in some cases, disregarded. Of 316 transactions examined, 46 entries (14.6%) were found to be in error. The cumulative effect of these errors was $10 million.

2. The process used to accrue unreported grantee and contractor costs for entry into the Department's Integrated Accounting System (IAS) was not documented and did not produce adequate records by individual contract or grant. As a result, accrued costs of $1.6 billion could not be adequately tested and the accrual system could not be adequately evaluated.

3. As was also noted in last year's report on internal accounting controls, the IAS general ledger balances for advances and the related expenditures for grants and contracts were not adequately supported by detailed subsidiary records in ETA's accounting system, nor were discrepancies between the two systems resolved in a timely manner. Unadjusted balances per the IAS general ledger and the ETA subsidiary records reflected discrepancies of $1.5 billion in advances and $264 milion in expenditures.

**Valuation of Unemployment Insurance Receivables**

The accounting control weaknesses over the valuation of unemployment insurance receivables related to inadequate reporting requirements for States. In administering the Unemployment Insurance Program, ETA requires States to report various types of financial information, including delinquent State unemployment taxes due from employers and overpayments of State and Federal unemployment taxes. In fiscal year 1987, States reported cumulative delinquent State taxes of $1.3 billion and benefit overpayments of $627 million. We noted that ETA does not require States to report an allowance for uncollectible accounts or an aging of the outstanding accounts receivable balance. As a result, ETA cannot adequately value accounts receivable in accordance with GAO and Treasury accounting and reporting requirements.

The report also notes prior years' internal control weaknesses relating to ETA advances to grantees; valuation of ETA property, plant, and equipment; Black Lung accounts receivable; and the liability for future FECA benefits, which are in the process of being resolved.

**Report on Compliance with Laws and Regulations**

The report on compliance with laws and regulations noted no exceptions. Our prior year finding regarding the reconciliation of ETA/DOL and Treasury records has been corrected.

# EMPLOYMENT AND TRAINING ADMINISTRATION

## Financial Statements and Opinion

Our draft report on the fiscal year 1987 ETA financial statements identified internal control weaknesses in accounting controls over grant and contract management and in the valuation of the allowance for uncollectible unemployment trust fund receivables. These findings are described above in the discussion of the Department's consolidated financial statements. We also issued a draft management advisory report which describes significant weaknesses that require management attention but that were not material to the financial statements. As a result of problems identified in our fiscal year 1986 management advisory report, we performed more detailed work and issued a draft report on the validity of "M" accounts.

ETA and departmental management have not had an opportunity to respond formally to this draft report.

## Management Advisory Report

In the draft management advisory report for fiscal year 1987, weaknesses were identified in the training and employment, unemployment insurance, and general administrative functions.

TRAINING AND EMPLOYMENT

The following problems with controls over grants and contracts were identified:

1. Payments to contractors and grantees as recorded in the Department's accounting system exceeded the amount recorded in ETA's accounting system by $180 million. These differences, caused primarily by timing, are not reconciled.

2. ETA's accounting system contains data which shows that reported costs and/or payments related to certain grantees/contractors exceeded obligational authority by $48 million.

3. The process of accruing costs through the ETA accounting system was not documented and consequently not verifiable. For fiscal year 1987, the amount of accrued costs was $1.6 billion.

4. Controls over the grant closeout process were not adequate. We found instances where open files could not be located or where the closeout process had not been completed in a timely manner. As of September 30, 1987, 877 files were still in the closeout process. Our audit sample of grant closeout files revealed that 26 percent could not be located and 17 percent had been in the closeout process for over 6 years.

UNEMPLOYMENT INSURANCE

During our examination of the Unemployment Trust Fund (UTF), we identified that internal controls over accounting for the Federal Employee Compensation account appear to be inadequate. We could not reconcile various reports showing the amount of ETA billings to and reimbursements from Federal employers for unemployment compensation. For example, reimbursements and credits for fiscal year 1987 were shown variously as $285 million, $316 million, or $90 million.

We also noted that Treasury administrative charges of $66 million for the UTF increased by $14 million, or 27 percent, over the past fiscal year. ETA has suggested that OIG investigate the justification for this increase.

GENERAL AND ADMINISTRATIVE

Our review of ETA debt management records disclosed that 22 percent of accounts receivable tested required audit adjustments.

We also found that 38 of 197 cash receipts tested were improperly credited to a miscellaneous income account rather than to the appropriation originally charged. Consequently, expenditures were overstated by $5 million.

Accounts payable and undelivered orders are not properly stated. ETA personnel did not distinguish between these accounts when obligating monies for a purchase order. This has made the reconciliation of these two accounts impossible.

ETA and departmental management have not yet had an opportunity to respond formally to this draft report.

**Validity of ETA's "M" Accounts**

During this semiannual period, OIG conducted a survey of ETA's $193 million "M" account and how the regional automation system accounts for liabilities, receivables, and obligations.

"M" account is a U.S. Treasury term or account title for the remaining unspent grant award balances of appropriations over 3 years old. Funds in the "M" accounts are available indefinitely to pay properly made (lawful and timely) obligations unless a specific appropriation act has a limitation of time for expending the funds.

The following problems were identified:

1. Large amounts of unliquidated obligations in the "M" accounts were not valid. Of the $193 million total, approximately $142 million could be deobligated: $110 million by updating the financial status of grants and contracts in administrative closeout process, and $32 million by deobligating "pool" accounts maintained to pay Comprehensive Employment and Training Act (CETA) expenditures remaining after the program expired in fiscal year 1983.

2. Questionable expenditures of $293,527 due to expenditure time violations and other accounting errors were found in the CETA "pool" accounts. In addition to deobligation, we recommended ETA issue guidance and clarification concerning time limitations and strengthen procedures to monitor expenditures.

3. Cash advances to grantees exceeded reported costs by $152 million. Most of this amount was erroneous due to time lags for recording cost reports during the administrative closeout process. Our audit of a sample of accounts resulted in the recovery of $534,154. This amount includes cash recoveries, transfers in obligational authority, and other financial off-sets. We recommended accountability of cash advances be strengthened and timely analysis be made of closed grants.

4. Accrued expenditure estimates of $63 million were no longer relevant to "M" account grants. Consequently, ETA's financial status was distorted for accounts receivable, accounts payable, and undelivered orders. We recommended that the estimates be eliminated when a grant merges into the "M" account.

5. Routine reconciliations and error corrections are necessary to improve financial reporting. We recommended that procedures be changed concerning adjusting accounting entries and coordination of accumulating data between the Department's accounting system and ETA's subsystem for accounting for grants and contracts.

Correction of the problems identified will require changes to ETA's Regional Automation System and, to a lesser degree, the Department's accounting system.

**AGENCY RESPONSE**

ETA does not agree that unliquidated obligations can be reduced $110 million, or that cash advances are erroneous by almost $152 million due to not updating the financial status of grants and contracts in the close-out process.

ETA's accounting system has an automated accrual (estimate) process for those contract/grants for which cost data is incomplete. Even though the actual cost may not be recorded on the individual contract or grant, such accruals compensate for the missing cost data.

ETA does agree that actual cost should be recorded when available; however, ETA does not feel that the missing cost data presents the serious implications alluded to in neither the draft report in the Departmental IAS nor the ETA financial statements. ETA feels that the automated accrual process presents a fair representation of the true status of cost under the circumstances.

ETA did not comment on questionable expenditures or deobligation of CETA "pool" accounts and has not yet responded in full to the draft report.

OIG continues to maintain ETA's automated accrual process is not revelant for grants or contracts in "M" accounts. Estimating or accrual basis accounting is a generally accepted accounting principle which attempts to record financial transactions in the period they occur. However, it is not a substitute for timely recording of *actual* costs when cost reports are in the hands of ETA. We question the accuracy and the propriety of accruals for the "M" account.

# EMPLOYMENT STANDARDS ADMINISTRATION

## Financial Statements and Opinion

The auditors' opinion on the fiscal year 1987 financial statements is qualified for lack of actuarial determination of the liability for future FECA benefits. There is also a contingency regarding the pending Supreme Court review of circuit court decisions which could lead to the reopening of closed Black Lung claims. Our continued work on the actuarial estimates for FECA may permit the qualification to be removed from the final audit report.

**REPORT ON INTERNAL CONTROL**

The internal control report identified material weaknesses related to the management of Black Lung accounts receivable. Adequate documentation was not available to support the program estimate of $108 million in interim benefit payments; accounts receivable were not properly or timely established for fiscal year 1987 payments; and duplicate recordings of accounts receivable were made.

**Management Advisory Reports**

We issued separate reports for the Black Lung program and Wage and Hour Division. The management letters identify weaknesses which, while not material to the financial statements, warrant management action.

Our management advisory report on the Black Lung program identified internal control weaknesses in the compensation and medical bill payment systems. We recommended improvements in the areas of: establishment of accounts receivable following final adjudication; review of medical bills; and case maintenance procedures regarding benefit augmentation.

We also issued a management advisory report on the Wage and Hour program. We identified areas where the Wage and Hour Division could improve its management of back wages and provided suggested improvements to the program.

**REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

No compliance exceptions pertaining to ESA were identified.

**EFFECT OF ACCOUNTING AND FINANCIAL REPORTING WEAKNESSES**

Because of financial accounting and reporting problems identified in our current and prior year reports on internal accounting control, the Department is unable to comply fully with Treasury and GAO reporting requirements. This problem is illustated by the schedule on page 39, which compares DOL submitted Treasury reports and the audited financial statements for fiscal year 1986.

One major reason for the differences is the fact that the U.S. Treasury has provided SF-220 report figures for the Unemployment Trust Fund and these figures are limited to the amounts they control rather than all Unemployment Trust Fund activity. Treasury has provided these figures since the Labor Department does not maintain a full accounting for Unemployment Trust Fund activity.

The Department has contracted to obtain a new financial accounting and reporting system which should facilitate correction of these deficiencies. Effective implementation and oversight by qualified departmental accountants is essential to its success. OIG plans to monitor the implementation of the new accounting system to ensure that it corrects these deficiencies.

## AUDITS AT THE PROGRAM LEVEL

We have begun to perform separate financial statement audits at the program level. Our first such audit is of the Job Corps program which is discussed in detail in Chapter 1.

**U.S. Department of Labor**
**Consolidated Reconciliation of Agency-Submitted Treasury Report to**
**Audited Statement of Financial Position**
**September 30, 1986**
(In thousands)

| ASSETS: | Treasury SF-220 | Audited Amounts | Difference |
|---|---|---|---|
| Funds with U.S. Treasury and cash | $7,032,751 | $7,328,902 | $296,151 |
| Accounts receivable, net of allowance | $5,982,740 | $6,730,285 | $747,545 |
| Loans receivable | 0 | $5,103,731 | $5,103,731 |
| Investments | $21,272,853 | $21,272,748 | ($105) |
| Advances | $488,239 | $805,664 | $317,425 |
| Property, plant and equipment, net | $224,546 | $269,128 | $44,582 |
| Future financing sources | 0 | $10,064,775 | $10,064,775 |
| Other assets | $457 | 0 | ($457) |
| **TOTAL ASSETS** | **$35,001,586** | **$51,575,233** | **$16,573,647** |
| LIABILITIES: | | | |
| Accounts payable | $7,630,250 | $224,461 | ($7,405,789) |
| Accrued payroll and benefits | $4,165 | $34,031 | $29,866 |
| Accrued annual leave | $40,679 | $48,670 | $7,991 |
| Unearned revenue | $16,457 | $16,457 | 0 |
| Loans from U.S. Treasury | 0 | $9,553,810 | $9,553,810 |
| Liability for future workers' compensation benefits | 0 | $8,389,537 | $8,389,537 |
| Accrued unemployment benefits | 0 | $11,237,497 | $11,237,497 |
| Other liabilities | $77,512 | $789,294 | $711,782 |
| **TOTAL LIABILITIES** | **$7,769,063** | **$30,293,757** | **$22,524,694** |
| EQUITY OF THE U.S. GOVERNMENT: | | | |
| Invested capital | $210,582 | $267,655 | $57,073 |
| Management fund balance | $130,496 | $10,434 | ($120,062) |
| Unexpended appropriations: | | | |
| Unobligated balance | $6,012,327 | $3,042,349 | ($2,969,978) |
| Undelivered orders | ($40) | $3,152,452 | $3,152,492 |
| Trust fund balance--Federal | $20,879,158 | $2,530,012 | ($18,349,146) |
| Trust fund balance--State | 0 | $12,278,574 | $12,278,574 |
| **TOTAL EQUITY** | **$27,232,523** | **$21,281,476** | **($5,951,047)** |
| **TOTAL LIABILITIES AND EQUITY** | **$35,001,586** | **$51,575,233** | **$16,573,647** |

# Chapter 3
# Program Fraud Civil Remedies Act

The Program Fraud Civil Remedies Act (PFCRA), Public Law 99-509, was enacted effective October 21, 1986. The Congress concluded that false, fictitious, and fraudulent claims and statements in Government programs are a serious problem; result in the loss of millions of dollars annually by allowing persons to receive Federal funds to which they are not entitled; and undermine the integrity of such programs by allowing ineligible persons to participate in them. Further, the Congress believed that existing civil and criminal remedies for such claims and statements were not sufficiently responsive.

PFCRA's intent is to provide Federal agencies with administrative remedies for losses resulting from false, fictitious or fraudulent *claims* of not more than $150,000 and any false, fictitious, or fraudulent written *statements* made in connection with a claim or a Federal or Federally financed contract, grant, loan, or benefit where accompanied by an express affirmation; and to provide due process protection to persons subject to these administrative proceedings.

The administrative remedies provided by the Act, which are in addition to any other remedy that may be prescribed by law, are:

1. $5,000 for each *false claim*, plus twice the amount of any false claim actually paid; and

2. $5,000 for each *false statement* accompanied by an express certification of the truthfulness and accuracy of the contents of the statement.

The Department's implementing regulations state that because of the intangible costs of fraud, the expense of investigating such conduct, and the need to deter others who might be similarly tempted, *ordinarily double damages and a significant civil penalty should be imposed.*

**Designation of Responsibilities**

The Act requires the following separation of functions:

1. An "investigating official" to investigate possible liability under the Act, and report findings and conclusions to a reviewing official;

2. A "reviewing official" to evaluate the adequacy of evidence of liability under the Act; obtain approval or disapproval from the Attorney General for proceeding with a case; and, if approved, issue notice of complaint to the defendant and refer complaint and answer to a presiding officer; and

3. A "presiding officer" to conduct requested hearings for determination of liability; and to issue a written decision on findings and determinations, including an assessment of civil penalties.

**Implementation in DOL**

The Department of Labor issued Final Rules and Regulations implementing PFCRA in the *Federal Register* of December 22, 1987, as 29 CFR Part 22, Program Fraud Civil Remedies Act of 1986.

These regulations designate the following DOL offices as having major responsibilities under the Act:

1. Investigating Official: Office of Inspector General
2. Reviewing Official: Solicitor of Labor (SOL)
3. Presiding Officer: Administrative Law Judge (ALJ)

## Actions Taken by OIG To Implement PFCRA

During the 12-month period ending September 30, 1988, the OIG took several steps to implement provisions of the PFCRA.

1. In October 1987, OIG established an Office of Program Fraud Audits as the operational arm to investigate possible liability under PFCRA and to refer potential cases to the reviewing official.

2. In July 1988, OIG issued the U.S. Department of Labor OIG Awareness Bulletin No. AB 88-2 (see page 105) to all DOL program offices and DOL employees describing PFCRA and providing a focal point for reporting possible false claims and statements.

3. During fiscal year 1988, particular emphasis was placed on identifying areas for consideration of PFCRA within the Department including the Employment Standards Administration's Wage and Hour Division and the Employment and Training Administration's JTPA and Job Corps programs.

4. During this period, OIG investigated and prepared its first three cases. Two of these cases were submitted to the reviewing official during the 6-month period ending September 30, 1988; the third case was submitted just after the close of the reporting period. Two of the cases come as a result of alleged violations of contract labor standards under the Davis-Bacon and Related Acts (DBRAs) and one relates to the alleged fraudulent receipt of JTPA funds. The maximum potential penalties that can be imposed for the three cases total about $529,000.

**POTENTIAL PFCRA CASES IN WAGE AND HOUR**

The area identified by OIG with the most potential for PFCRA consideration in the Wage and Hour Division (Wage and Hour) pertains to certified weekly payrolls required by the DBRAs. By virtue of the labor standards provisions contained in contract specifications which are generally in force when working on construction projects wholly or partly financed with Federal funds, contractors are required to pay their laborers and mechanics not less than the wages prevailing in the locality (DBRA); pay overtime compensation at one and one-half times the regular rate of pay for work in excess of 40 hours per week (Contract Work Hours and Safety Standards Act); and submit weekly a certified copy of all payrolls affirming that the payrolls were correct, complete and in accordance with the above requirements (DOL regulations).

No administrative remedies existed prior to PFCRA to assess civil penalties for falsification of these weekly payroll certifications.

As of September 30, 1988, the OIG, as investigating official, has identified 13 Wage and Hour enforcement findings of false payroll certifications for further investigation under PFCRA. For two of the cases, the investigations have been completed and have been submitted to the reviewing official. In both cases, the employees were actually paid less than the amounts shown on the certified payrolls.

In the first case, a firm employed a scheme involving false statements in order to defraud their employees of monies due for work on certain federally-funded highway construction projects. Two officials of the firm conspired to violate the Davis-Bacon Act's mandated prevailing wage requirements. Our investigation, which included information from a prior Wage and Hour compliance review, disclosed evidence showing that the company submitted certified payrolls which were deliberately falsified to reflect payment of prevailing wage rates when the firm's laborers had, in fact, received substantially less pay. Based on the Wage and Hour compliance review, the firm has since made restitution of the back wages due the employees.

The maximum penalty which can been imposed by an ALJ in this case is $225,000: $75,000 against the company ($5,000 for each of the false statements) plus $75,000 each against the individuals involved.

In the second case, a construction company, working on a federally-funded construction project, deliberately submitted certified payrolls which were falsified to reflect payment of prevailing wage rates and required overtime compensation. Our investigation, which included evidence from a prior compliance review by Wage and Hour, showed evidence that, in fact, its employees received lower rates of pay. The company's payroll records as well as employee interviews showed these lower rates of pay. Based on Wage and Hour's compliance review, the firm has since made restitution of the back wages due employees.

The maximum penalty which could be imposed by an ALJ in this case is a total of $210,000: $105,000 against the company ($5,000 for each of the false statements) plus $105,000 against the company officials involved in the scheme.

Assessment of penalties in the above cases, coupled with related dissemination of this fact by Wage and Hour, should assist in deterring potential future violations of fair labor standards by employers.

**POTENTIAL PFCRA CASE IN JOB TRAINING PARTNERSHIP ACT (JTPA)**

Funding for JTPA programs comes from the Congress to the Department which uses grants to allocate the monies to the governors of each State. They, in turn, allocate the funds to prime sponsors. These prime sponsors, known as Service Delivery Areas (SDAs), then distribute funding to various local service providers, who determine which local agencies and businesses should be contracted with to provide job training to eligible JTPA participants, *i.e.*, economically disadvantaged youth and unskilled adults who need such training to obtain productive employment.

One program established by JTPA was for on-the-job training (OJT). Under this program, an employer contracts for a specified number of JTPA slots and agrees to provide OJT, as well as a paid position at the end of the contract period, in exchange for receiving a 50 percent subsidy of the trainee's salary during that training. The intent of this program is to encourage employers to increase their work force with less skilled workers by compensating them for their investment of training time required to make the employee productive.

**PFCRA Case Against Employer**

This PFCRA case involves an individual who employed a scheme using false claims to obtain Federal monies from the JTPA program. Our investigation showed that the individual submitted false claims to a local service provider regarding the alleged training and placing in unsubsidized employment of individuals under JTPA. We concluded that two of the alleged participants were never trained or employed and the other participants were not paid the hourly wage rate required by the JTPA contract. The employer was reimbursed for 50 percent of the wages allegedly paid all individuals during their contracted-for-training periods.

The maximum penalty that can be imposed by an ALJ in this case is almost $94,000.

**Audit Exceptions Against Local Service Provider**

In conjunction with developing this case under PFCRA, we conducted a special program abuse review of the local service provider. The service provider was paid an average of $1,200 per participant for the alleged training. We found that 15 JTPA participants, who were alleged to have received OJT and then regular employment at two firms, were not being paid the hourly wages set forth in the training contracts.

This special program abuse review has resulted in audit exceptions totalling $62,050. Our review showed that the local service provider inappropriately submitted claims for the alleged training and placing (in unsubsidized employment) of 15 JTPA participants.

Based upon our investigation in this area and the aforementioned information developed during a nationwide JTPA audit conducted by the OIG, we plan to expand our efforts into other JTPA SDAs.

## ACTIONS TAKEN BY SOL TO IMPLEMENT PFCRA AND OUTLOOK FOR PROSECUTION

As previously noted, the regulations designate the Solicitor of Labor as the reviewing official. He has assigned the function to the Deputy Solicitor for Planning and Coordination. The first cases under PFCRA were referred by the Inspector General to the Solicitor for review shortly before this report was prepared. These files are being analyzed so that the reviewing official can, in accordance with the Act, determine whether "adequate evidence" exists to believe that the subject of the investigation is liable under PFCRA. If such evidence is determined to exist, the reviewing official will then seek approval from the Attorney General to institute proceedings before an Administrative Law Judge. In addition, the Solicitor's Office is in the process of establishing a structure for the prosecution of these cases.

Since our first three cases have only recently been submitted to the reviewing official and none has gone either to the Attorney General or the presiding officer for a decision, we have no actual experience to judge the success of prosecution under PFCRA.

Based on the potentially complicated flow of required activities and events under PFCRA, we can expect that the process will be time-consuming, complicated, and difficult. For example, there is no time limit imposed upon actions of the reviewing official either prior to the written notice to the Attorney General of intent to issue a complaint, or prior to service of the complaint on the defendant. The Attorney General can take up to 90 days to give approval or disapproval to process a PFCRA case. After that, there could be a delay by the presiding officer (ALJ) in holding a hearing. However, there is an overall statutory limitation that a notice of hearing must be served on a defendant by the presiding officer within 6 years of the date of submission of the claim or statement.

## PFCRA ANNUAL REPORT

The Program Fraud Civil Remedies Act of 1986 requires that the Secretary prepare and transmit to the Congress an annual report summarizing actions taken as a result of activities under the Act during the last fiscal year. That report will be transmitted by the Secretary under separate cover in accordance with the Act.

# Chapter 4
# Program Abuse

The primary functions of the OIG are to inform the Secretary and the Congress about problems relating to the administration of departmental programs; to work with departmental management to prevent fraud, waste, and abuse; and to identify corrective actions needed in departmental operations. By their very nature, potential program fraud and abuse or illegal acts in departmental programs or operations require immediate reaction and response.

During this semiannual period, we completed significant program abuse audit work in Job Corps, ETA grant procurement and management, and Indian and Native American programs.

ETA management has been very receptive and responsive to our program abuse work. ETA has made a number of referrals to us of potential program abuses and we have investigated these allegations. Based on our findings, ETA has taken swift and appropriate corrective action.

## Program Abuse Audits in Job Corps

Our purpose in conducting this work was to determine whether serious program abuse existed at various Job Corps centers and to provide swift response, specific information, and practical recommendations which Job Corps could readily use to improve program operations.

During this reporting period, OIG performed special program abuse surveys at four Job Corps centers operated by one contractor, followed by more detailed reviews at two of these centers. Our survey findings:

1. Indicated flagrant violations of program regulations regarding accounting for corpsmember attendance and the related monetary allowances;

2. Raised serious questions regarding the contractor's past performance record, *i.e.*, inherent weaknesses in the contractor's management, technical skills, and operational controls; and

3. Indicated that the patterns of corpsmember status changes (AWOL to administrative leave, administrative leave to AWOL, etc.) initiated by this contractor were not credible from a programmatic standpoint.

The information developed by OIG was presented to Job Corps so it could be taken into account by the Job Corps contracting officers and technical evaluation panels in their consideration of current and future competitions for center operations contracts where this contractor is a prospective bidder.

### MORE DETAILED REVIEWS SHOW SERIOUS PROBLEMS

We then revisited and conducted detailed reviews at two of the four centers. Our reviews indicated general failure of the contractor to meet projected goals for corpsmember completion: only 37 percent of the contracted target training completion rate was met at these two centers, whereas the contractor was expected to have 70 percent of its corpsmembers complete their intended training programs. Actually, only about 25 percent (737 of 2,923) of the corpsmembers at these two centers completed their training programs. The average cost per corpsmember completing training increases significantly when the corpsmember completion rate is only 25 percent instead of the targeted 70 percent.

We noted serious violations of program regulations and procedures by this Job Corps center operator which resulted in corpsmembers not being terminated for excessive AWOL. We noted inadequate control over the corpsmembers' allowance system, inadequate control over and reporting of corpsmembers' status, and inadequate corpsmember counseling. Also, the contractor's monitoring of the two centers was ineffective.

We believe the deficiencies in this contractor's operation of the two centers were caused by program abuse, failure to follow procedures, inadequate controls, staff which did not meet the educational requirements of their positions, insufficient staff training, and inadequate corporate monitoring. As a result, overpayments

to corpsmembers occurred, performance measurement statistics were distorted, and a less than acceptable percentage of corpsmembers completed the program. In addition, enrollment slots were unavailable that could have been used by other applicants who had the capabilities and aspirations needed to complete and secure the full benefit of the Job Corps program.

**Corrective Action Promised by Contractor**

In response to our special program abuse surveys, the contractor prepared corrective action plans. These plans included increased compliance with AWOL procedures by establishing an early warning system to identify corpsmembers who are on the verge of mandatory termination from the program because of excessive AWOL; counseling AWOL corpsmembers to improve their attendance; and, if all fails, prompt termination as required. The contractor is taking early steps to identify corpsmembers with problems. Also, the contractor's promised actions included improving documentation, compliance with leave procedures, and internal controls.

Based on the poor performance and program abuse identified in our reports, the Office of Job Corps is closely monitoring the operations of all centers currently operated by this contractor to ensure that the promised corrective actions are, in fact, implemented. For the one center with particularly poor performance, Job Corps did not exercise the option year on the contract. The contract has been competititvely advertised and awarded to another organization. For the second center where we found serious problems, the contractor promised a host of corrective actions; performance measurement statistics have improved; and the third option year of the contract was granted. Program management is continuing to closely monitor the operations of the center. Finally, this contractor was in contention in a procurement for operating another center; the company's technical rating was re-evaluated to include the results of our work. The contract was then awarded to another bidder. The amount of the two contracts lost by this contractor, including option years, totals over $49 million.

**Audit Work Expanded to Several Job Corps Centers**

We wanted to determine whether similar conditions existed throughout the 106 Job Corps centers which would indicate a system-wide problem, or whether the conditions were unique to this contractor's operated centers which would indicate insufficient managerial ability or oversight, or willful program abuse.

As a result, OIG expanded its scheduled financial statement audit work at 26 Job Corps centers to include limited abuse testing. Our limited tests at those centers did not disclose any center operators which granted leave and allowances to corpsmembers who were AWOL to improve center performance statistics. However, we found that, of the 275 corpsmembers tested, 29 percent had status errors that resulted in pay status differences between the centers and the U.S. Army Finance and Accounting Center (USAFAC); and almost 17 percent had been granted leave not in compliance with regulations.

The Office of Job Corps has contracted for technical assistance to develop policy guidance, update procedures and manuals as needed, improve internal controls, and develop training on corpsmembers leave and allowance procedures.

A more detailed discussion of the conditions identified in these reports is included in our Job Corps section in Chapter 1.

**Costs Recommended for Recovery from Job Corps Contractor**

During this reporting period, OIG issued a draft audit report on the costs billed by a contractor who performs support functions for the Job Corps program.

The draft audit report indicated almost $2 million in various audit exceptions in indirect costs. After application of the overhead rates to the $2 million in indirect costs, approximately $473,700 out of the $2.7 million reimbursed by the Department to the contractor was unacceptably charged to the Department's contract. The audit found inappropriate charges to the overhead accounts such as entertainment; rental of personal residences and the housekeeper's salary; purchases of antiques, rare books, silver, crystal, and other personal items; and foreign travel, including charter aircraft and limousine rentals.

The draft audit report recommended that the Department recover $473,700 consisting of $174,200 recommended for disallowance and $299,500 in questioned costs. OIG is awaiting comments from the auditee and is currently auditing this same contractor's expenditures and billings for 1986 to the present.

## NONCOMPETITIVE, SOLE SOURCE ETA GRANT REVIEWED: HUDSON INSTITUTE

In February 1986, the Department of Labor's Employment and Training Administration (ETA) awarded the Hudson Institute a noncompetitive grant to perform research and identify policy issues relating to employment and training issues. This grant, to prepare a "Workforce 2000" report and related policy issue papers, was originally estimated to cost $900,000. The grant has been modified six times to expand the scope of work, and the grant now totals $2.1 million.

On October 30, 1987, the New York *Times* published an article alleging that the grant award to the Hudson Institute was "a victory for the Old Boy network." The article prompted the OIG to conduct a special purpose review of the facts and circumstances surrounding the award of the "Workforce 2000" grant to the Hudson Institute. The review disclosed:

1. Questions about whether there were violations or the appearances of ethical violations by the former Assistant Secretary for Employment and Training.

2. Departmental procurement policy needs to be enforced and strengthened.

3. ETA provided oversight, but the oversight was unstructured and did not include compliance monitoring.

### Questions about whether there were violations or the appearances of ethical violations by the former Assistant Secretary

The former Assistant Secretary for Employment and Training had not only a professional relationship, but also a personal relationship, with the then President/Chief Executive Officer of the Hudson Institute and did not disclose that relationship to his procurement staff or to the Department's Procurement Review Board (PRB) when he personally selected the Hudson Institute for the sole-source grant award.

We recommended that the Solicitor of Labor determine and issue a report on whether the former Assistant Secretary for Employment and Training, during his tenure as a public official, violated any conduct standards in connection with the noncompetitive grant to the Hudson Institute.

### Solicitor Response

The Solicitor of Labor stated that he would be responsive to our request. The Solicitor further stated, however, that because the former Assistant Secretary is no longer an employee of the Department of Labor, and that because the OIG draft report did not set forth allegations of any criminal violations, the former Assistant Secretary is no longer subject to remedial disciplinary action (*i.e.*, in the absence of criminal violations, the Department's ethics and conduct regulations are the basis for remedial actions which, by their very nature, can be imposed only upon current employees).

### Departmental Procurement Policy Should be Enforced and Strengthened

Even though departmental policy encourages competition for *grants*, we concluded that ETA and the PRB did not adhere to that policy when the Hudson Institute was awarded the noncompetitive "Workforce 2000" grant. However, ETA disagrees with our conclusion. It believes that a sole source grant was justified and that all procedural requirements for sole source grants were met.

Furthermore, to encourage competition and ensure integrity in the award of the Department's discretionary grant funds, we concluded that additional procurement policies and procedures are needed for *noncompetitive discretionary grants*. We found that the following procurement policies and procedures exist for *contracts*: criteria for sole-source awards; requirements for market surveys; criteria for severability work; and requirements for competition advocacy functions. However, similar DOL, as well as Federal, procurement policies and procedures do not exist for *noncompetitive discretionary grants*.

We recommended a series of actions by the Assistant Secretary for Administration and Management to give the Department's procurement staffs additional policy and procedural guidance to ensure that the Department follows its established policy of making maximum practical use of competitive procedures for awarding discretionary grants, and to ensure integrity in the award of DOL's discretionary grant funds.

**OASAM and ETA Responses**

The Assistant Secretary for Administration and Management concurred with or made constructive modifications to nearly all of OIG's recommendations. The Assistant Secretary further stated that this concurrence was ". . . evidence of our [OASAM's] strong commitment to an effective and fair procurement process." The Assistant Secretary stated that the Department would, among other things, take the following corrective actions:

1. The Department will amend the sole-source request forms to obtain certification from Department of Labor officials regarding any past or existing relationships with interested performers.

2. The Department's Procurement Review Board will review potential conflict of interest situations and make appropriate recommendations to the Assistant Secretary for Administration and Management.

3. The Assistant Secretary will issue a memorandum to all agency heads and other political appointees of the Department reminding them of the need for public officials to avoid any action which might create the appearance of a violation of the conflict of interest rules.

4. The Assistant Secretary will issue a memorandum to the Agency Heads and procurement staffs reminding them of the need to conscientiously apply the requirements for competing grants found in the DOL's Long-Term Procurement Plan and Secretary's Order 11-79.

5. The Assistant Secretary will convene a group of DOL policy and procurement officials to properly implement our recommendation that a "Notice of Solicitation" be published in the *Commerce Business Daily* whenever a noncompetitive discretionary grant is contemplated.

6. The Department's internal operating regulations will be amended to require that all modifications of contracts and grants which are outside the scope of the original procurement must be processed as a new procurement.

7. The Department's internal operating regulations will be amended to extend the departmental and DOL agency competition advocate functions to include grants of discretionary funds as well as contracts.

The Assistant Secretary did not concur with our recommendation to have the Competition in Contracting Act's (CICA's) criteria for sole source *contracts* also apply to sole-source discretionary *grants*. He stated that the "Congress explicitly applied the CICA to contracts only." While the Assistant Secretary concurred with our intent to compete discretionary grants "where appropriate," he maintained that the Department should not adopt the "rigid methodologies" of CICA in awarding grants.

The Assistant Secretary for Employment and Training informed us that ETA favors public announcement of proposed sole-source grant awards, and the establishment of specific criteria by the Department for Procurement Review Board members who are required to conduct impartial reviews of requests for procurement. The Assistant Secretary further responded that ETA is willing to review the feasibility of a meaningful disclosure process with the Office of the Assistant Secretary for Administration and Management and the Solicitor's Office.

The Assistant Secretary also pointed out that ETA has made considerable gains in competing discretionary grants. According to the Assistant Secretary, in fiscal year 1987, 7 of 51 (14 percent) new discretionary grants were awarded using competitive procedures. In fiscal year 1988, 43 of 65 (66 percent) new discretionary grants were awarded competitively.

**ETA provided oversight, but the oversight was unstructured and did not include compliance monitoring**

Although ETA provided considerable oversight of the Hudson Institute "Workforce 2000" grant, our review showed that the required *compliance monitoring* did not occur. The absence of structured compliance monitoring permitted the Hudson Institute to submit research papers that were not in conformance with the terms of the grant. Also, Hudson failed to submit the required monthly reports on staff utilization and the required quarterly progress reports.

We recommended that the Assistant Secretary for Employment and Training require the ETA program agency staffs to develop and implement a structured and systematic monitoring program for "research" contracts and grants.

**ETA Response**

With respect to the Hudson Institute grant, in late September 1988, ETA sent a monitoring team on-site to ensure that the Hudson Institute fully understands and complies with its contractual terms during the remaining life of this grant.

OIG will consider the Solicitor of Labor and the two Assistant Secretaries' comments in finalizing the audit report. In addition, we will review the Solicitor of Labor's determination and report when it is issued on the ethical questions we raised. We will also summarize the Solicitor's determination and actions in our next semiannual report to the Congress.

**Financial and Compliance Audit of the Hudson Institute Grant**

In September 1988, we issued an interim financial and compliance audit report on $812,000 in costs billed by the Hudson Institute under the grant from February 1986 to September 1987. The report identified audit exceptions in three areas. First, the Hudson Institute chose not to credit the grant with the income from the sale of the "Workforce 2000" book ($13,000). Second, the Hudson Institute did not fully support expenditures for consultant fees ($82,000). Finally, at the time of the audit, the Hudson Institute had not submitted indirect cost proposals for 1986 and 1987 to support the $327,000 of overhead and general and administrative expenses allocated to the grant (since submitted but not yet audited).

In October 1988, ETA issued its initial determination to the Hudson Institute, sustaining all of our audit exceptions.

During the audit, we also identified an additional $48,000 in income from the sale of the "Workforce 2000" book after our audit period; ETA will also be addressing this audit exception.

## Indian and Native American Programs

Indian and Native American programs are federally administered programs authorized by Title IV of JTPA. Their purpose is to provide job training to economically disadvantaged, unemployed, or underemployed Indian and Native Americans. Fiscal year 1989 budget authority is $59 million.

Although the enactment of the Single Audit Act has reduced our activities in performing financial and compliance audits, we perform these reviews in support of investigations or by request of program administrators. OIG completed two such special requests where potential program fraud or abuse had been alleged.

**NATIONAL URBAN INDIAN COUNCIL/NATIONAL INDIAN BUSINESS COUNCIL**

From 1986 to the present, ETA's Division of Indian and Native American Programs has entered into grant agreements with the National Urban Indian Council (NUIC) and the National Indian Business Council (NIBC) to provide various training and employment services for Native Americans.

At the request of ETA, OIG initiated two audits which reviewed the propriety of the space and equipment expenses on four of these grants: three to NUIC and one to NIBC. Our objective was to determine whether these costs were allowable in accordance with the provisions of the grant and applicable Federal regulations.

We found that all the grant charges for space and equipment rental were the result of less-than-arm's-length transactions; we recommended disallowance totalling $170,218, less depreciation and other allowable expenses. We could not determine the allowable expenses or depreciation because the chief executive and the chairperson of the board of directors refused to give us access to appropriate records.

Prior to our audits, the Inspector General's Office of the Department of Health and Human Services (HHS-OIG) issued an audit report in 1986 on its review of HHS grants to NUIC. The HHS-OIG had also found that these NUIC grantees were involved in several less-than-arm's-length transactions concerning rental of space and equipment.

Considering the HHS-OIG report and the serious questions concerning less-than-arm's-length transactions and conflicts of interest in our two reports, ETA has taken this grantee off the Letter-of-Credit and is requiring the grantee to submit documentation of costs incurred prior to reimbursement. ETA has also intensified its monitoring of this grantee. In addition, our financial and compliance audit work is continuing on the four grants awarded to NUIC and NIBC.

**FRESNO AMERICAN INDIAN COUNCIL**

In 1987, ETA's Division of Indian and Native American Programs entered into a grant agreement with the Fresno American Indian Council (FAIC) to provide various training and employment services to Native Americans in central California. In February 1988, OIG and ETA jointly conducted a special program abuse review of selected grant line items. The special review produced the following findings:

1. The grantee failed to maintain an acceptable financial management system which would provide accurate and complete disclosure of financial transactions.

2. The grantee failed to have adequate internal program management procedures in place to prevent program abuse.

3. OIG has confirmed recommended disallowances of $22,640 for fiscal years 1985 and 1986. The funds were spent on unauthorized projects. In addition, the grantee needed to reimburse the JTPA grant for cash advances made for non-JTPA expenses.

4. Program income generated by the grantee with JTPA funds, participants, and staff were not retained by the grantee to carry out JTPA program objectives. The grantee must reimburse the JTPA account for all such funds.

# Chapter 5
# Audit Resolution

**Audit Resolution Activity**
**($ millions)**

| Period Ending | Audit Reports Resolved | Amount Disallowed | Amount Allowed | Total Resolved |
|---|---|---|---|---|
| 3/31/87 | 223 | $84.8 | $38.6 | $123.4 |
| 9/30/87 | 149 | $98.0 | $40.3 | $138.3 |
| 3/31/88 | 308 | $24.6 | $43.7 | $68.3 |
| 9/30/88 | 384 | $6.8 | $3.3 | $10.1 |

*Detailed information about audit resolution activity for the period may be found in the* Appendix *to this report.*

## Significant Resolution Actions

### MANAGEMENT COMMITMENTS TO RECOVER FUNDS

The following are examples of significant resolution actions taken by program officials which resulted in the disallowance of costs claimed by the Department's contractors and grantees.

**Minnesota Department of Jobs and Training Unemployment Insurance Automation Support Account (Audit Report No. 05-88-008-03-315)**

OIG audited $2,271,018 of Unemployment Insurance Automation Support Acount (UIASA) grants awarded to Minnesota for fiscal years 1984 through 1986. The audit cited exceptions totaling $553,649 because Minnesota bought equipment not authorized in the UIASA grants, used equipment for activities not authorized, had unused equipment, and either did not obligate funds properly or let obligational authority expire. ETA disallowed the entire amount.

**Employment Security Commission of North Carolina Unemployment Insurance Automation Support Account (Audit Report No. 05-88-009-03-315)**

OIG audited $2,442,493 of UIASA grants awarded to North Carolina for fiscal years 1984 through 1986. The audit cited exceptions totaling $459,186 because North Carolina bought equipment not authorized in the UIASA grants. ETA disallowed the entire amount.

**Pennsylvania Office of Employment Security Unemployment Insurance Automation Support Account (Audit Report No. 05-88-010-03-315)**

OIG audited $6,774,204 of UIASA grants awarded to Pennsylvania for fiscal years 1984 through 1986. The audit cited exceptions totaling $641,286 because Pennsylvania charged excessive costs to the grants and maintained questionable resources-on-order. ETA disallowed $491,286 of excessive costs charged to the grants. Pennsylvania has submitted a check for the full $491,286.

**Inappropriate Permanent Change of Station Reimbursement (Audit Report No. 02-7-014-10-105)**

An OIG review of an allegation indicated that a DOL employee was improperly reimbursed $9,487 for relocation expenses relating to a permanent change of station (PCS) move. The reimbursement should not have been made because the PCS was requested by the employee for his personal benefit, and the PCS at Government expense was authorized after the employee had actually relocated, which is contrary to Government travel regulations. The employee is reimbursing the Government the full $9,487.

## MANAGEMENT COMMITMENT TO REMEDY ADMINISTRATIVE ACTIONS

Non-monetary audit recommendations are important because they direct attention to improving internal controls and operating procedures. They also propose shifting program emphasis and policy direction and making legislative or regulatory changes. Corrective actions constitute reasonable remedies and include descriptions and timetables of specific actions taken, completion dates, and evidence to prove recommendations were implemented.

The following are examples of significant resolution actions taken by program officials to remedy administrative deficiencies.

**Follow-up Review of the Quality of Independent Public Accountant Audit Reports**

During this reporting period, OIG initiated a review of the quality of Independent Public Accountant (IPA) reports and supporting workpapers for audits of pension and welfare benefit plans covered by ERISA. This project directly follows up an earlier recommendation contained in OIG's report titled, "PWBA Should Expand the Role of the Independent Public Accountant in ERISA Enforcement."

The follow-up project is designed to:

1. Identify specific reporting problems mentioned in the earlier report;

2. Quantify the extent of audit and reporting deficiencies through the utilization of a random sample of approximately 300 audit reports selected for review; and

3. Develop a selection procedure designed to assist in the identification of deficient reports for an ongoing quality control review by program officials.

Deficient reports or workpapers identified as a result of our review will be referred to PWBA for appropriate corrective action with the IPAs or State Boards of Accountancy.

**Participation with PWBA and the American Institute of Certified Public Accountants in the Revision of Industry Audit Standards**

As a result of an OIG recommendation, this office and PWBA are participating with the American Institute of Certified Public Accountants (AICPA) on the revision of the industry audit standards for audits of pension and welfare benefit plans covered by ERISA.

To assist with the revision process, OIG formally presented to the AICPA the results of our review on the quality and usefulness of Independent Public Accountant audit reports prepared for pension and welfare benefit plans.

OIG has a keen interest in the ERISA safeguards afforded to all plan participants. These safeguards include the annual audit reports and the Secretary of Labor's oversight of the pension and welfare benefits industry.

As we presented our findings to the AICPA, we made several recommendations for improvements to the industry audit standards and the reporting process. In our opinion, the majority of those recommendations can be implemented without additional legislation. The industry audit guide is illustrative of where changes can be made to:

1. Define clearly that plan participants are the audit clients;

2. Stress the importance of the interest and reliance that plan participants and the Secretary of Labor place on information presented in audit reports;

3. Stress the importance of the Secretary of Labor's oversight responsibility on behalf of plan participants;

4. Clarify definitions of all known ERISA violations; and

5. Require disclosure of all known ERISA violations to the Secretary of Labor.

OIG remains committed to ensuring that adequate safeguards exist for plan participants by making tools of the IPA audit reports which are available to the Secretary to oversee the pension and welfare benefits industry.

**Reported Payments Under the Longshore and Harbor Worker's Compensation Act (Audit Report No. 02-84-073-04-432)**

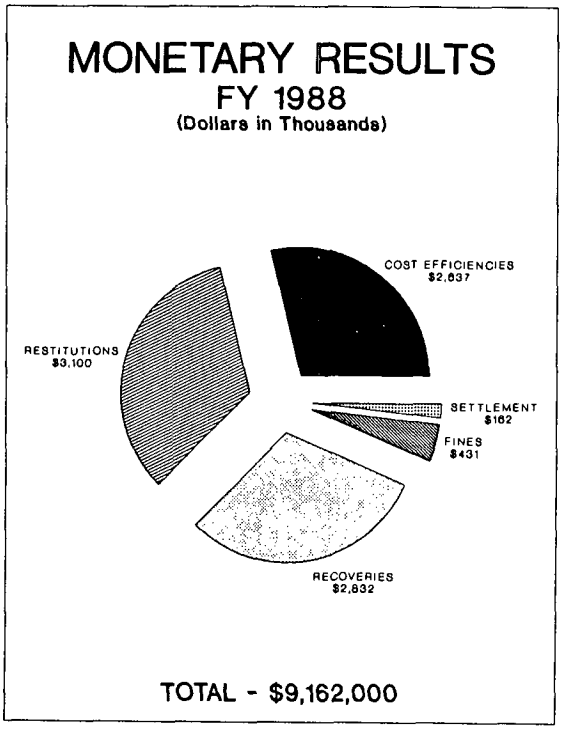
The audit report showed that reported payments did not accurately reflect the total compensation paid during the period covered, and that the Division of Longshore and Harbor Workers' Compensation (DLSHWC) assessed penalties rather than charged interest on late assessment payments. Penalties are not provided for under the Act.

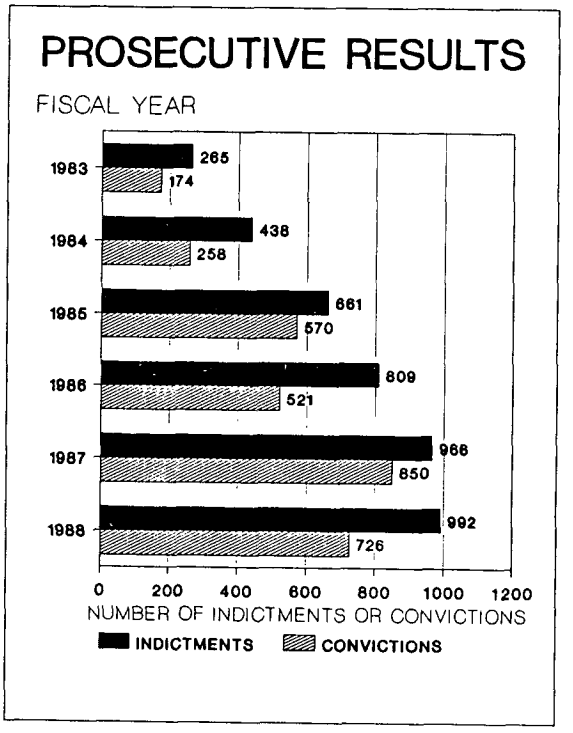
The inaccurate reports resulted from a lack of internal control through a reconciliation of reported payments and DLSHWC records, and specific reporting instructions to self-insured employers and insurance carriers on how to report prior years' adjustment activity. The DLSHWC assessed penalties because it misinterpreted the advice of its Associate Solicitor.

ESA's response to our recommendations indicates that it has taken or is in the process of taking corrective action to verify the accuracy of reported compensation payments, including reconciliation procedures and intends to seek independent audits to verify the reported payments. In addition, DLSHWC agrees that interest rather than penalties should be charged for late payment.

# OFFICE OF INVESTIGATIONS

From April 1 through September 30, 1988, the Office of Investigations (OI) opened 517 cases nationally; closed 641 cases; referred 452 individuals for prosecution and another 49 individuals to DOL agencies for administrative action. Investigative results for this semiannual period were 605 indictments, 390 successful prosecutions, and $4,390,443 in recoveries, fines, restitutions, settlements and cost efficiencies. Accomplishment statistics for fiscal year 1988 and comparative indictment/conviction results spanning the past six fiscal years are as follows.




## EMPLOYMENT AND TRAINING ADMINISTRATION (ETA)

### Job Training Programs

The problems relating to the Job Training Partnership Act (JTPA) program have created many new challenges for OI Special Agents. Poorly written contracts, lack of uniform substantive program regulations and administration, the disparity in the implementation of regulations and reporting requirements, and other problems associated with combating fraud and waste have been previously reported. Little has been done to correct these administrative problems.

Previous reports have listed our investigative findings on this issue. Office of Audit reports on JTPA Participant Training and Services (AIRS No. 06-86-801-03-340, issued January 25, 1988) and JTPA Service Provider Contracts (AIRS No. 06-88-802-03-340, issued during this reporting period) not only confirm our previous observations, but more specifically identify and establish the extent to which they exist throughout the program.

Developing cases in this inconsistent administrative environment, coupled with weak and often ignored regulations, is always labor intensive and often impossible when using standard investigative procedures and prosecutive approaches charging such crimes as embezzlement, false statements, and false claims. In

order to identify and prosecute those who would corrupt this program, our Special Agents, in conjunction with U.S. Attorneys, are developing new approaches which include the use of laws dealing with extortion, racketeering, conspiracy, and specific program funding. The complex financial obfuscations by some JTPA grant recipients must be translated into fact patterns readily understandable to a prosecutor and ultimately to a judge and jury.

While this shows the expertise and ingenuity of our agents, this extra effort should be unnecessary. Stronger program definition, such as more precisely written contracts and consistent implementation of regulations and instructions, coupled with better administrative oversight would reduce the opportunity for wrongdoing in the program. In those instances where problems do arise, these necessary improvements would allow investigations to be resolved without expending time learning differing procurement procedures and eligibility requirements. Recent case examples include:

Two former top Gary Manpower Administration (GMA) officials and a job training contractor were indicted on June 21 by a Federal Grand Jury at Hammond, Indiana, on charges of racketeering, racketeering conspiracy, bribery, and conspiracy to defraud the U.S. Department of Labor. From 1974 to 1984, GMA was responsible for administering Federal job training funds received by the City of Gary, Indiana. The indictment, which resulted from a joint investigation with the Internal Revenue Service, alleged that from about June 1980 through October 1980, the administrator and director of operations exacted approximately $49,000 in bribes from PLUS, Ltd., a GMA contractor. It further alleged that, from February 1983 to about October 1983, the former director of operations, who left GMA to become a principal of DECAR, Inc., another GMA contractor, along with the indicted contractor and administrator, engaged in another bribery scheme involving over $145,000. The indictment also alleged that the defendants conspired to defraud DOL by unlawfully using DOL funds to lease and operate a restaurant and lounge in the Sheraton Hotel at Gary. The indictment seeks forfeitures of at least $228,557. If convicted, each defendant faces a maximum sentence of 105 years in prison and a fine of up to $622,000. *U.S.* v. *Cain and Sullivan* (N.D. Indiana)

An investigation of a JTPA contractor for allegedly using DOL funds to operate a travel service disclosed that the individual was under independent investigation by the FBI for non-JTPA related violations of wire fraud, extortion, and conspiracy. A coordinated effort by OIG with the FBI and the Department of Justice ultimately resulted in the individual entering into a plea agreement for theft of JTPA funds and extortion. *U.S.* v. *Vickery* (W.D. Oklahoma)

In Houston, Texas, two individuals were named in an indictment charging them with theft of JTPA funds and conspiracy for their role in a fraud scheme. The individuals owned an insurance agency and received a substantial JTPA contract to provide secretarial, insurance processing, and computer programming training. The indictment alleged that the defendants falsified training documents and failed to pay participants as required by the contract. *U.S.* v. *Forward and Forward* (S.D. Texas)

The director and president of the National Institute of Youth Safety, Inc., a Delaware corporation, were recently indicted on charges of fraudulently obtaining and misusing JTPA funds. The defendants entered into contracts with various service delivery areas and contractors to train and place JTPA participants in full-time jobs. However, the indictment charged that some participants were paid approximately half their salary, mostly in cash, while others were given cash to sit at home and falsify reimbursement forms. *U.S.* v. *Clemmons* (E.D. Arkansas)

As a result of prior indictments charging conspiracy and mail fraud, on June 3, 1988, the former Assistant Director and Financial Officer of Northwest Vocational Technical School and others pled guilty to conspiring to defraud the State of Arkansas by submitting false vouchers. The scheme involved the creation of businesses to fabricate invoices, which were submitted for approval and payment under various State and JTPA contracts. The defendants are awaiting sentencing. *U.S.* v. *Taylor et al.* (W.D. Arkansas)

## UNEMPLOYMENT INSURANCE (UI)

The UI program reported that alleged UI fraud overpayments nationwide, as detected by the State Employment Security Agencies (SESAs), exceeded $124 million for fiscal year 1987. This underscores the Inspector General's motivation and continuing commitment to ensure the integrity of the UI program by detecting significant fraud and enhancing deterrents

by aggressively seeking prosecutions. During this period, several enforcement strategies were continued, which included clustering single-claimant investigations, seeking Federal and local prosecutions, identifying fictitious employee/employer schemes, promoting benefit payments control through prosecutions, and identifying internal breaches of trust.

To efficiently manage its very limited resources, OI clustered single-claimant fraud investigations and prosecutions at the Federal and State levels in Arkansas, Florida, Indiana, Louisiana, Michigan, Missouri, and the District of Columbia. In these jurisdictions, 192 clustered UI indictments were returned representing fraud overpayments which exceeded $448,000. The following is a typical cluster of cases:

In August, 32 individuals were indicted for mail fraud, having been accused of submitting false claims for UI benefits while employed. The indictments alleged that they obtained approximately $61,000 in benefits. This investigation was conducted jointly with the Caddo Parish Sheriff's Office and the Louisiana Department of Labor. *U.S.* v. *McEachern et al.* (W.D. Louisiana)

In a joint project with the Mississippi SESA to demonstrate the effectiveness of benefit payments control through prosecutions, OI presented 124 cases in 49 of the State's 82 counties during this period, all of which resulted in indictments. As of this date, 70 defendants have been convicted, while fines and court costs total approximately $72,000. UI losses were approximately $115,000 in these cases and full restitution of this loss is expected. *Mississippi* v. *Wells et al.* (D. Mississippi)

Fictitious employee/employer schemes still present the greatest single threat to UI integrity, particularly recidivist activity, which continues to surface. These schemes are pervasive, due to the widespread nature of the activity and the lack of SESA interstate enforcement jurisdiction:

On May 13, a federal grand jury in Illinois returned a 27-count indictment charging a recidivist with mail fraud. It alleged that he conducted a fictitious employee/employer scheme and illegally obtained approximately $9,000 in UI benefits from Minnesota and Oregon before indictment. Previously, he was convicted of a similar scheme in California, where he is presently incarcerated. *U.S.* v. *Dolliole* (N.D. Illinois)

In another fictitious employee/employer scheme previously reported, a Newport News, Virginia man received the strictest sentence yet imposed in a case of this type on May 16 at Richmond, Virginia. He was sentenced to 15 years' imprisonment with 5 years' probation to follow and was ordered to pay fines and restitution totaling approximately $16,000. On March 22 he was convicted on 33 counts, which included mail fraud and making false statements. He netted over $30,000 in UI benefits before detection. This was a joint investigation with the Postal Inspection Service. *U.S.* v. *Lang* (E.D. Virginia)

The following exemplifies the kinds of internal UI cases investigated by the Office of Investigations:

On August 12, a tax compliance auditor, who had been an employee of the Louisiana Department of Labor since 1967, was suspended without pay based upon allegations that he submitted false travel vouchers for travel not incurred.

On September 14, a clerk in the Berwind, Puerto Rico, SESA office was indicted for theft of Federal program funds. He was accused of a scheme where he reactivated closed UI claimant cases causing the computer to generate checks which he negotiated. He obtained approximately $6,100 before detection. *U.S.* v. *Pizarro* (D. Puerto Rico)

Another vulnerability to potential loss by the UI system occurs when illegal aliens, who are not legally entitled to work or receive UI compensation, establish a base period for potential UI claims by using false documents. The following is an example of our work with other interested Federal and State agencies to address this problem:

Agents of the U.S. Border Patrol developed information about an organized group that smuggled illegal aliens from Mexico by selling them fraudulent Social Security Administration cards and other documents which allowed illegal aliens to gain employment in the DeQueen, Arkansas, area. This led to a task force investigation which included the Border Patrol, the Department of Health and Human Services' OIG, the Immigration and Naturalization Service, the Arkansas State Police, the U.S. Attorney, and the DOL Office of Investigations. We identified 139 employees of Pilgrim's Pride Industries who obtained employment under false pretenses. On

June 13, nineteen individuals were arrested at Pilgrim's Pride plant for smuggling aliens and the illegal sale of Social Security Administration cards. On July 14, six individuals pled to single-count criminal informations. Four were sentenced to 1 years' imprisonment, credit for time served (64 days), 2 years' probation, and by order of the court "referred to the Border Patrol for processing." Another subject was sentenced to 94 days imprisonment, while the last received 1 year's probation. *U.S.* v. *Valdez et al.* (W.D. Arkansas)

## EMPLOYMENT STANDARDS ADMINISTRATION (ESA)

### Workers' Compensation Programs

Payment for authorized services to claimants is a part of ESA's responsibilities in administering certain benefit payments to individuals under the workers' compensation and Black Lung programs. Investigations into irregularities within these programs continue to receive priority attention by OI. Typical of these types of investigations are the following:

A joint investigative effort with the U.S. Postal Service, which should have significant impact on fraud and abuse of the Federal workers' compensation system within the State of Alaska, culminated in the indictment of five medical doctors in Alaska. The indictments, returned on July 13, alleged that the doctors falsified information relating to purported medical treatments for services rendered under the Federal Employees' Compensation Act (FECA). During the investigation, OIG agents made undercover visits to the doctors involved stating that they had not suffered any injury or illness, but rather wanted time off from work for personal reasons and travel. The doctors, according to the indictment, then prepared reports for the Postal Service and DOL which reflected that the agents had suffered job-related injuries or illnesses, when these doctors knew no such injury or illness had occurred and no medical treatment was warranted. *U.S.* v. *Savikko et al.* (D. Alaska)

A former postal employee was sentenced on July 14 in U.S. District Court, Middle District of Florida, to 5 years' probation and ordered to make restitution totalling $66,276. The subject operated an automobile body shop and towing business while fraudulently receiving FECA benefits. The subject also committed perjury in previous testimony to an OWCP Hearing Examiner. *U.S.* v. *Sorrentino* (M.D. Florida)

On August 15, a criminal information was filed in the United States District Court, Eastern District of New Orleans, Louisiana, charging a former fireman at the New Orleans Naval Station with making false statements to obtain FECA benefits. While receiving over $32,000 in disability payments, the subject served as a full-time lieutenant in the U.S. Naval Reserve, attended school and obtained his law degree. The defendant was subsequently sentenced to 5 years' supervised probation and ordered to make almost $32,000 restitution. Dallas OWCP personnel and the Naval Investigative Service were instrumental in the successful conclusion of the investigation. *U.S.* v. *Yarbrough* (E.D. Louisiana)

On June 29, 1988, a six-count indictment was returned charging a former postal employee with making false statements to the U.S. Government. In February 1986, while in the performance of her official duties, the subject reported having been injured during an alleged robbery. The investigation disclosed that the subject was not impaired as claimed and that she was gainfully employed while fraudulently claiming and receiving FECA benefits. *U.S.* v. *Nelson* (E. D. Michigan)

On August 23, 1988, a federal grand jury returned a three-count indictment charging a former civilian army employee with making false statements to the U.S. Government. The subject worked for three employers, earning over $27,375, while fraudulently obtaining FECA benefits by not reporting this income. In order to cover-up his activities, the subject used his wife's social security number. OWCP determined an overpayment of $97,912.98. *U.S.* v. *Head* (N.D. Georgia)

On July 15, 1988, the manager of a health care company that provided oxygen equipment to claimants for Black Lung benefits was sentenced in Federal District court to a suspended 3 year imprisonment term, ordered to make $10,390 in restitution, and fined $3,000. The individual was convicted of filing false statements with DOL surrounding his alteration of blood tests results used as the basis to qualify claimants for oxygen equipment. The company received reimbursement for unnecessary services based on the false test results. *U.S.* v. *Bevins* (S.D. West Virginia)

On August 4, 1988, a woman was sentenced to 3 years' probation during which she must perform 20 hours of public service work a week, was fined $1,000, and was ordered to pay $5,919 restitution as a result of a guilty plea to one count of making false statements to obtain Black Lung benefits. The defendant was the widow of a deceased miner eligible for Black Lung benefits. She concealed her re-marriage in 1970, which made her ineligible for continued benefits. She was also ordered to make restitution for that portion of the Government's loss within the applicable statute of limitations. *U.S.* v. *Greer* (S.D. West Virginia)

On June 18, an individual entered a pre-trial agreement approved by the Federal District Court in Charleston, West Virginia. He admitted to mail fraud and bribery violations. As part of the agreement, he was placed on one years' supervised probation. OI initiated its investigation upon receiving information from the DOL's Black Lung office that a claimant attempted to bribe a claims examiner to approve his Black Lung claims for benefits. During the investigation, the ineligible claimant offered an OIG agent, posing as a claims examiner, $30,000 to insure that his claim would be approved. Had the claim been approved, the subject would have received a retroactive payment of approximately $50,000 and monthly benefits of $507. *U.S.* v. *King* (S.D. West Virginia)

## Wage and Hour Division

OI has supported and strengthened the Wage and Hour Division's (WHD) enforcement activities by proactively conducting criminal investigations of Federal contractors who have violated the provisions of the Davis-Bacon Act and the Copeland Anti-Kickback Act. In addition, OI has sought to enter more joint efforts with WHD to identify criminal violations of the Fair Labor Standards Act (FLSA). Examples of this continuing effort are cited below:

On August 3, a federal grand jury returned a 38-count indictment charging three individuals with violations of conspiracy and false statements. They allegedly conspired to submit falsified payroll records, certifying that prevailing wages had been paid on a painting contract at a Marine Corps Air Station on the Island of Oahu. The $472,980 interior painting contract was awarded to this contractor, who had a long history of Davis-Bacon violations and who had been debarred in 1986. He continued to operate under numerous company names on both Federal and State construction projects in Washington, Oregon, California, Arizona, Hawaii, Colorado, and Texas. *U.S.* v. *Mantikes, et al.* (District of Hawaii)

On May 9, two officers of an electrical contractor company were indicted by a federal grand jury in Miami, Florida on 96 counts, including conspiracy and making false statements. The contractor allegedly falsified payroll reports to conceal underpaid wages on federally-funded work performed on the Miami Area Metrorail Stations. If convicted on all counts, the two could each face a maximum sentence of 245 years' incarceration and approximately $960,000 in fines. *U.S.* v. *Guerra* (S.D. Florida)

On April 20, a federal grand jury in Cleveland, Ohio returned an eight-count indictment against both the owner and his company for the submission of false statements. On eight different occasions, the subject, while working on a federally-funded contract with the City of Akron, prepared and submitted certified payroll forms in accordance with the Davis-Bacon Act, on which he allegedly falsely represented that he had paid the required prevailing wages to his employees. Investigation determined that he did not pay his employees approximately $47,000 which he certified he had. On September 23, following an eight-day jury trial, the owner and the company were found guilty of one count of the indictment and acquitted on the remaining counts. Sentencing is pending. *U.S.* v. *Gironda* (N.D. Ohio)

On July, 21 in Federal District Court, Detroit, Michigan, two officers of a contracting firm pled guilty to an information charging violations of the Fair Labor Standards Act (FLSA). The company also pled to a charge of false statements. The company's president and the secretary/treasurer admitted by their pleas that during the period April 1984 to April 1986, the company failed to pay some of its employees overtime compensation and failed to keep proper payroll records as required by FLSA. A plea agreement negotiated in this case specified that the company is to pay $44,887 in restitution to the affected employees and required the defendants and two related companies to enter into a consent judgement in a civil case filed against them in U.S. District Court by the U.S. Department of Labor. The defendants agreed to a permanent injunction requiring them to comply with the FLSA overtime and record keeping provisions. *U.S.* v. *Guzman et al.* (E.D. Michigan)

## PENSION AND WELFARE BENEFITS ADMINISTRATION (PWBA) and OFFICE OF LABOR-MANAGEMENT STANDARDS (OLMS)

Under the provisions of the Inspector General Act of 1978, OIG was given a very broad mandate and responsibility to investigate fraud in any program or operation of the Department. Special Agents of OIG are the only Departmental employees officially classified by Federal personnel regulations as criminal investigators. With the professional expertise of our agents, and the broad responsibility mandated by the Congress in the Inspector General Act, OI is undertaking a more aggressive proactive effort to identify, investigate, and seek prosecution of criminal violations within PWBA and OLMS. Historically, Departmental personnel who are not classified as criminal investigators have pursued these matters. The following are examples of this effort:

On June 6, a former postal employee pled guilty in the Eastern District of New York to embezzlement of union funds as a result of an OI investigation. The subject was a Postal Service window clerk and president of American Postal Workers Union Local 2939. The investigation determined that the employee embezzled postal funds and then attempted to replace that money with money taken from the union's treasury. Sentencing is pending. *U.S.* v. *Calonita* (E.D. New York)

On June 6, a former president of the First National Health Benefit Administrators was sentenced to 120 days' confinement in a community treatment center, 5 years' probation, and ordered to make $19,700 restitution. He pled guilty to 4 counts of a 13-count indictment which charged him with embezzlement of $54,000 from two health benefit plans. *U.S.* v. *Parham* (C.D. California)

## ETHICS AND INTEGRITY ISSUES

All Government employees have specific standards of conduct and conflict of interest laws which apply to the performance of their duties. Investigations of possible wrongdoing or misconduct by DOL employees and persons or firms acting in an official capacity directly with DOL remain a priority of the Inspector General. The following examples are representative of the ethics and integrity investigations which culminated during this reporting period. Some illustrate the variance in DOL program management's commitment to take positive action to prevent or deter similar action in the future.

On April 15, a former district director of the Office of Labor-Management Standards (OLMS), Nashville, Tennessee, was sentenced to 18 months' imprisonment, with 6 months to serve and 12 months' probation for criminal contempt after pleading guilty to providing protected grand jury information to a newspaper reporter. The reporter then used this information in an article published in a local newspaper. The judge admitted that the sentencing decision was a difficult one to make considering the employee's excellent past performance and career; the fact that he had gained nothing financially by his action; and that he had voluntarily retired from Government service to improve relationships between the OLMS and the U.S. Attorney's Office as a result of the disclosure. However, the judge felt that the security of the grand jury system must be observed, especially by those in supervisory and management positions. *U.S.* v. *Ward* (W.D. Tennessee)

In another case where a DOL employee received a prison term, a former MSHA inspector who had previously entered a *nolo contendere* plea to 2 counts of bribery, was sentenced on September 19 to 2 years' imprisonment with 1 year to serve, and 3 years' probation. He was also fined $1,000 and ordered to make restitution of $500. His guilty plea was accepted as part of an agreement in which 18 other counts charged in a January indictment were dismissed. The former inspector had been charged with soliciting and accepting approximately $10,000 in cash or other items of value from various coal mine operators with which he had official inspection oversight. *U.S.* v. *Jessee* (W.D. Virginia)

In another investigation by OI, two high-level OSHA management employees, including an acting regional administrator, received written reprimands for their personal involvement and directions given to subordinates regarding entries made on travel vouchers. An investigation determined that 25

OSHA employees, at the direction of, or with the knowledge of these two, submitted false travel vouchers for costs reportedly associated with an area directors' meeting. These management employees directed others to file travel vouchers claiming per diem costs as if they were in a high cost area even though they knew this was not true. In addition, it was determined that room costs for all travelers were subsidized by a master account, and a suite was subsidized for one OSHA employee. The investigation further revealed a number of weaknesses in the procurement process for official training meetings. Upon learning of the nature of the investigation by OIG, the Office of the Assistant Secretary for Administration and Management (OASAM) and the Office of the Comptroller published a conference planning checklist for distribution to all DOL employees. OASAM is currently recovering approximately $2,500 from culpable OSHA employees.

The Bureau of Apprenticeship and Training's management suspended a clerical employee for 14 days without pay and required her to repay DOL approximately $2,000 in overpaid salary after an OIG investigation disclosed that she had falsified time and attendance records and leave slips. This scheme resulted in her being paid a regular salary for hours not worked and no charge being made to her leave during periods she was absent from the office.

Another integrity investigation involved the theft of DOL funds by a DOL employee who entered false information into the automated procurement payment system, causing the generation of a check in the amount of $4,896. Entry was gained to the system by the use of an identification number assigned the employee, a payments clerk. The investigation revealed that the check was mailed to an address frequented by the employee's brother. The employee pled guilty in U.S. district court in August 1988 to one count of theft of public funds. Sentencing is pending. *U.S.* v. *Green* (D. District of Columbia)

On August 10, a federal grand jury in Dallas, Texas, returned an indictment charging a DOL employee with seven counts of false statements. The scheme was detected by the Office of Workers' Compensation Programs (OWCP) through their medical payment monitoring system and reported to OIG for investigation. It is alleged that the subject, an OWCP bill payer, embezzled funds through fabricated medical bills, which generated eight U.S. Treasury checks totaling $42,800. They were sent to a post office box rented by the subject. If convicted, the subject could face a maximum sentence of 35 years' imprisonment and fines totaling $70,000. *U.S.* v. *White* (N. D. Texas)

In an attempt to recover lost funds, a civil action was filed on May 19 in the U.S. District Court for the District of Columbia seeking a $588,000 judgment against a DOL contract court reporter. The suit, filed by the Federal Government, charged a Kansas woman with overcharging the U.S. Department of Labor for court reporting services. The woman was the principal operating officer and director of a Texas corporation that provided stenographic reporting services in cases heard before the Department's Office of Administrative Law Judges. An investigation found that from May 1982 through December 1983, she submitted, or caused to be submitted, false vouchers totaling $149,382. Treble damages of $448,145 and $140,000 in forfeitures are being sought under the False Claims Act. *U.S.* v. *Jackson* (D. District of Columbia)

# OFFICE OF LABOR RACKETEERING

Labor racketeering today is evolving rapidly from crimes of violence to more sophisticated acts of economic/financial crime such as bidrigging, kickbacks, and conflicts of interest. The traditional organized criminal element has been joined by a new generation of racketeers: attorneys, accountants, plan administrators, bankers, portfolio investment managers, and health care providers. Nowhere is this new generation of racketeers more prevalent than in the area of employee benefit plans, which, because of their sheer volume and structure, are highly vulnerable to criminal exploitation. This vulnerability, as illustrated in the significant case discussion below, extends to single-employer plans as well as to multi-employer, union affiliated plans.

Employing both criminal and civil methods of redress, OLR has continued to emphasize enforcement measures designed to prevent racketeering from occurring within organized labor. Significant effort was devoted to the investigation leading to the Government's June filing of a civil suit under provisions of the Racketeer Influenced and Corrupt Organizations (RICO) statute against the 18-member General Executive Board of the International Brotherhood of Teamsters (IBT) and 26 persons alleged to be major La Cosa Nostra members and associates. The civil complaint charges that the executive board has allowed the IBT to be corrupted by organized crime members and seeks appointment of a trustee to replace the executive board and run new IBT officer elections.

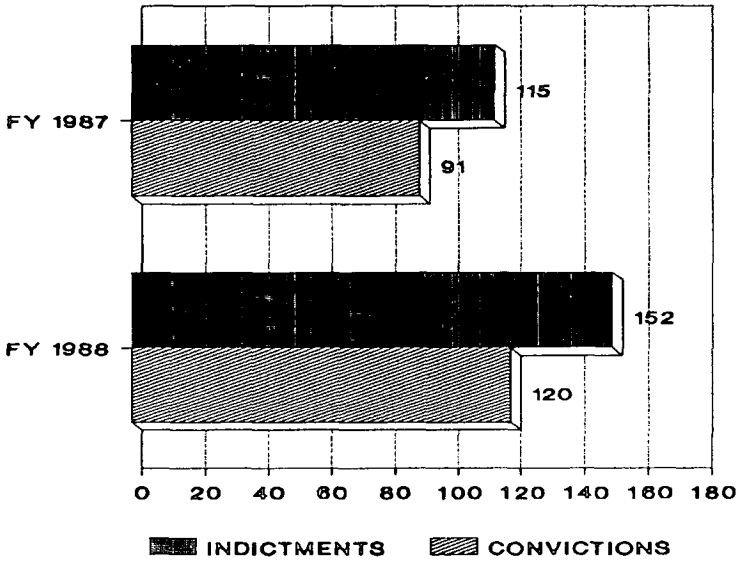
Vigorous, extensive investigation also has been dedicated to support the court-imposed "decreeship" of Roofers Local 30 and 30B, Philadelphia, Pennsylvania, and the court-imposed trusteeship of IBT Local 560, Union City, New Jersey, in an effort to eliminate violence and corruption from the affairs of these locals. In a parallel action, the Association of Bridge, Structural and Ornamental Iron Workers International imposed a trusteeship over its Local 350 in Atlantic City, New Jersey, following the conviction for racketeering of the Local's business manager and chief operating officer. Under the aegis of the trustees, Local 350 held its first free elections in 40 years.

In an effort to align limited law enforcement resources against the most significant racketeering problems, OLR has continued to participate in joint investigations with other Federal, State, and local agencies. During this period, 63 percent of indictments and 74 percent of convictions resulted from multi-agency investigations. Critical to this cooperative concept has been the OLR commitment to provide at least one labor racketeering enforcement training program to interested agencies each reporting period. One such seminar was held in San Francisco during June.

Organizational restructuring is expected to produce an expanded enforcement effort in future years. To address the labor racketeering potential in the nation's most populous State, California, an OLR field office has been established in San Diego, and the special agent complement in San Francisco will be increased. A resident agency has been established in Newburgh, New York, in response to identified racketeering problems in western and upstate New York.

OLR investigations during this semiannual period produced 81 indictments and 74 convictions while establishing a predicate for the potential civil recovery of $14.5 million.

As shown in the graph below, fiscal year 1988 convictions increased 32 percent to 120 compared to 91 in fiscal year 1987. The number of persons or entities indicted in fiscal year 1988 also increased 32 percent to 152 from 115 in the prior fiscal year.




Selected significant cases for this period are described below.

## EMPLOYEE BENEFIT PLANS

### Labor Health Benefit Plans, Inc.

"Dentex," a joint OLR-FBI investigation of corruption in the employee welfare plan industry, has resulted in seven federal grand jury indictments, unsealed on September 22, involving 11 defendants in five cities. The main defendant, charged in six of the indictments, is Angelo Commito, the principal officer of three companies--Labor Health and Benefit Plans, Inc., Diversified Benefit Systems, Inc., and Special Vision Services, Inc.,-- that provide health care services to employee benefit plans and are based in Chicago, Illinois, and San Francisco.

Commito and the other defendants are charged with schemes to defraud single-employer and union employee benefit plans through the payment of kickbacks to secure contracts to provide optical, dental, and other health care services. The nationwide investigation, which began in 1985, focused on the activities of Commito. Included in the various indictments are charges of racketeering, conspiracy, mail fraud, wire fraud, money laundering, embezzlement, kickbacks, and obstruction of justice.

Indicted in Baltimore, Maryland, were Commito, United HealthCare, Inc., and its vice president of marketing, Alan S. Cohn.

In Atlanta, one indictment charges Commito; Carl A. Mattison, owner of J.D. King Corporation and Multibenefit Systems, Inc., of California; and Monica Oss of Washington, D.C., a former senior vice president of marketing of U.S. Behavioral Health of Emeryville, California. A second indictment in Atlanta, charges Commito, Elliott F. Kusel of San

Diego, California, vice president of Eye Care U.S.A.; Marc L. Kusel of Mission Viejo, California, president of Contact Contact; and Thomas A. Parnham of Reston, Virginia, president of Quality Dental Plans, Inc.

In Chicago, one indictment names Commito, Mattison, and William Wire, the former manager of the Service Employees International Union Local 1 pension fund. Another indictment names William Hainsworth, a former administrator of the welfare fund of the Plasterers & Cement Masons Union Local 803 of DuPage County, Illinois.

In San Diego, an indictment names Commito, both Kusels, and Cheryl E. Fyten, former vice president of personnel at Eye Care U.S.A. Commito, Mattison, and Oss are again charged in San Francisco. *U.S.* v. *Commito et al.* (D. Maryland), *U.S.* v. *Commito, Mattison, & Oss* (N.D. Georgia), *U.S.* v. *Commito et al.* (N.D. Georgia), *U.S.* v. *Commito et al.* (M.D. Illinois), *U.S.* v. *Hainsworth* (M.D. Illinois), *U.S.* v. *Commito et al.* (S.D. California), and *U.S.* v. *Commito et al.* (N.D. California)

## Teamsters Local 436 Welfare and Pension Plans

The 5-year continuing investigation of corruption involving Teamsters Local 436 Welfare and Pension Plans in Cleveland, Ohio, continues to yield results. On May 9, William Reilly, owner of The Suburban Building and Supply Company and former trustee of Local 436's welfare and pension plans, pled guilty to a 2-count criminal information charging him with making false statements in reports required by ERISA. He had falsely listed family members and friends as his employees to enable them to receive medical insurance coverage under the Local 436 welfare fund. On September 13, Joseph Kalk, a former legal counsel for the Local 436 welfare fund was indicted on two counts of submitting false documents to an employee benefit plan and one count of being an accessory after the fact. He allegedly assisted Salvatore "Sam" T. Busacca, former president of the Local, and Busacca associate Louis J. Marrali in trying to prevent their prosecution for the embezzlement of over $27,000 from the welfare fund from 1982 through 1984. Allegedly, Kalk, who at the time was the fund's attorney, made false representations both in a letter to the Ohio Industrial Commission and to the fund's board of trustees concerning medical claims paid by the fund to Marrali. Marrali had submitted false employer contribution reports and medical bills that had already been paid or were to be paid by another insurance provider.

To date, 15 convictions have resulted from this investigation. *U.S.* v. *William Reilly* and *U.S.* v. *Joseph Kalk* (N.D. Ohio)

## Hotel Employees and Restaurant Employees Union Local 28

Raymond Lane, former secretary-treasurer of the Hotel Employees and Restaurant Employees Union (HERE) Local 28 in Oakland, California, pled guilty on June 20 to one count of accepting illegal payments to influence decisions regarding the Local's benefit plans.

Lane had been indicted in January 11, 1983, following a 4-year investigation by OLR and the FBI. Co-defendants in the indictment were Allen Dorfman, who was slain on January 20, 1983, while awaiting sentencing for his conviction of attempting to bribe a U.S. Senator; Sol C. Schwartz and Abe Chapman, both Dorfman associates; and Frank C. Marolda, president of HERE Local 19. Allegedly, from February 1979 to February 1980, the defendants plotted to defraud six employee welfare benefit or pension plans by, among other things, giving Dorfman privileged information so that his Amalgamated Insurance Company of Chicago could win a bid to administer a pre-paid dental plan for Local 28. In return, Dorfman was to use his influence with HERE International Union officials to merge Locals 19 and 28 and install Lane or Marolda as trustee of the newly created Local. Through the imposition of the merger, Lane would not have to face a hotly contested election.

Trial for the remaining three defendants is pending. *U.S.* v. *Lane et al.* (N.D. California)

## Timothy Smith, Benefit Plan Debarment

The first conviction under the Federal statute that prohibits persons convicted of certain crimes from serving as benefit plan fiduciaries occurred in U.S. District Court in Philadelphia. Timothy Smith, a benefit plan consultant, had been barred for 5 years from acting as a consultant to employee benefit plans because of a 1981 conviction for embezzling funds from the Roofers Union Local 30/30B Pension Fund. On July 28, he was found guilty on two counts of holding a position from

which he had been barred and four counts of income tax evasion. During some periods from 1981 to 1984, Smith acted as a consultant to the benefit plans of the New Jersey Liquor Store Association and the Globe Security Systems, Inc., via his employment with Pilgrim Insurance Company and Intergroup Administrators Corporation. He failed to report $423,807 for the years 1981 through 1984, causing an underpayment to the IRS of $153,975. *U.S.* v. *Timothy Smith* (D. Pennsylvania)

## LABOR-MANAGEMENT RELATIONS

### International Longshoremen's Association

Two defendants in a joint Federal and State investigation of corruption in the New York-New Jersey waterfront industry received heavy sentences following their convictions on racketeering conspiracy and extortion in the Bayonne, New Jersey, waterfront. Donald Carson, former executive vice president of the International Longshoremen's Association, was sentenced on August 18 in Newark to 7 years in prison and fined $20,000. Anthony Gallagher was sentenced to 12 years in prison on July 25. Both defendants were convicted on April 16. Carson had accepted approximately $175,000 in illegal payments from a stevedore company to assure labor peace in connection with the movement of containerized cargo. Gallagher used his company, B & A Reefer Company, to funnel the money to Carson.

High-ranking Genovese organized crime family member John Digilio had been acquitted in the April trial, but was subsequently found murdered. Milton Held, an officer of United Terminals, Inc., (UTI), and Harold Friedman, a senior vice president of UTI's parent company Diversified Transportation Resources (DTR), pled guilty to charges of bribery on July 29. John Barbato, a Digilio associate, pled guilty on September 14 to a criminal information charging interstate travel in aid of racketeering, but because of deteriorating health will not be sentenced. Trial for David Richman of New York City, president of UTI and DTR, is pending. *U.S.* v. *John Digilio et al.* (D. New Jersey)

### Roofers Local Union 30/30B

A chief liaison officer was appointed by a U.S. District Court judge as the principal enforcement officer in a "decreeship" imposed on Roofers Union Local 30/30B of Philadelphia, Pennsylvania, on May 23. The court also ruled that the December 21, 1987, union election would remain in effect until further court order. The court action resulted from a suit filed by the U.S. Attorney's Office under the civil provisions of the RICO statute.

The civil RICO suit was based on the findings of a 3-year investigation by OLR and the FBI that the union was run by violence and intimidation aimed at contractors and union members alike. The court agreed with those findings and ordered the 13 individual defendants, all former Roofers officials, barred until further court order from holding or controlling any leadership position or influence in Local 30/30B or any of its affiliated entities. The defendants are Stephen Traitz Jr., Edward P. Hurst, Michael Mangini, Robert Crosley, Michael Daly, Daniel Cannon, Mark Osborn, Robert Medina, Ernest Williams, James Nuzzi, Stephen Traitz III, Joseph Traitz, and Richard Schoenberger.

The civil suit sought a trusteeship for the union, but the court rejected that idea in favor of a "decreeship" with 22 court-ordered provisions that are being enforced by the court liaison and any appropriate deputy liaison officers. The provisions affect the daily and financial business of the union and its affiliated entities. *U.S. v. Local 30/30B United Slate, Tile and Composition Roofers, Damp and Waterproof Workers Association et al.* (D. Pennsylvania)

### Iron Workers Union Local 350

Thomas F. Kepner, the former business manager of the Bridge, Structural, and Ornamental Iron Workers Union Local 350 in Atlantic City, New Jersey, was sentenced in Camden on September 15 to serve 10 years in prison, followed by 5 years' probation, and fined $170,000. Kepner had been convicted on June 16 on charges of racketeering, RICO conspiracy, accepting over $115,000 in illegal payments in violation of the Taft-Hartley Act prohibiting certain payments from employers to union officials, conspiracy to obstruct justice, and filing false income tax returns. Kepner had been conducting the affairs of Local 350 through a pattern of racketeering activity involving several schemes, primarily prohibited payments to Kepner from businesses involved in the steel erection and construction industry. Five co-defendants were acquitted of charges.

Under the RICO forfeiture provisions, Kepner had been removed from his positions as business manager of Local 350 and trustee of the Local's benefit plans when he was convicted on June 16. On June 22, the International Association of Bridge, Structural, and Ornamental Iron Workers placed Local 350 under trustee-

ship and replaced all its officers and executive board members with officers appointed by the International.

On September 12, the trustees held an election and five new members were elected to act as an advisory committee for Local 350 until the next regular elections in June 1989. This was the first free election in 40 years for Local 350. Prior elections had resulted in violence, including shootings, arson, and throat slashings, aimed at dissidents. For the last 17 years, Kepner was the only candidate nominated. The September election resulted in 17 nominations for various posts. Joseph Lupton, a dissident union member during Kepner's regime, was overwhelmingly elected to the advisory committee and appointed to replace Kepner as business agent. A Lupton supporter, Frank Sach, Jr., was also appointed a business agent. *U.S.* v. *Kepner et al.* (D. New Jersey)

## INTERNAL UNION AFFAIRS

### International Brotherhood of Teamsters

A complaint against the 18-member General Executive Board of the International Brotherhood of Teamsters (IBT) was filed under the civil provisions of the RICO statute on June 28 by the U.S. Attorney for the Southern District of New York.

The complaint also names as defendants 26 persons alleged to be major La Cosa Nostra (organized crime) members and associates, including the bosses of six organized crime families. Within the last 8 years, 25 of these 26 defendants have been convicted of Teamsters-related crimes, including murder, racketeering, illegal labor and benefit fund payoffs, embezzlement of unions funds, and extortion through threats of labor problems.

The complaint charges that the defendants have allowed the union to be corrupted by organized crime members and associates. The complaint seeks a court-appointed trustee to ensure the elimination of organized crime from the union and the return of democratic processes. The civil RICO complaint, which resulted from a joint investigation by OLR, the FBI, and the Department of Justice, alleges that union members were deprived of their rights through a pattern of racketeering by organized crime with the assistance of the board members. Along with 20 murders, the racketeering acts include shootings, bombings, beatings, bribes, extortion, theft, misuse of union funds, and a campaign of fear. The complaint alleges that all 18 board members have committed mail fraud, that 7 have committed acts of racketeering that include embezzlement, receipt of illegal labor and benefit plan payoffs, and bribery. The complaint further charges that 12 board members aided and abetted wire fraud in organized crime's scheme to ensure the elections of the last two Teamsters presidents, Roy Williams and Jackie Presser. Presser died after the suit was filed. *U.S.* v. *the International Brotherhood of Teamsters et al.* (S.D. New York)

### Teamsters Local 560

Michael Sciarra, former Teamsters Local 560 president, and Joseph Sheridan, former Local 560 vice president, have been enjoined from running for union office in the upcoming elections for Local 560 in Union City, New Jersey. The preliminary injunction was issued by a U.S. District Court judge in Newark in response to a July court action by the U.S. Attorney, which charged that organized crime still tries to maintain control of the Local. In support of his decision, the judge stated, "The public interest in racketeer free corporations and unions overrides the interest of stockholders of corporations or members of unions freely to select their officers."

The July court action, "Application for Additional Relief," was the latest action, using the civil provisions of the RICO statute, to support the Local's 1986 court-imposed trusteeship. The trusteeship was the result of a civil RICO suit filed in 1982 charging the local, its benefit plans, and all its officers--led by Anthony Provenzano--with conducting the business of the local through a long history of corruption, murder, and violence under the influence of organized crime. Provenzano headed the local until he was convicted of racketeering and then of murder and sentenced to life in prison. In a hearing in August 1988, the court found that Sciarra is still aligned with the Provenzano Group and the Genovese crime family.

Sciarra and Sheridan had been expected to be nominated for office in October for elections scheduled for December 1988.

Sciarra and Sheridan now join Stanley Jaronko, also a former local 560 official, in being prohibited from running for office in the upcoming elections. Jaronko signed a consent judgment in January 1988 prohibiting him from ever participating in the affairs of any labor organization or employee benefit plan. *U.S. v. Teamsters Local 560 and Michael Sciarra and Joseph Sheridan* (D. New Jersey)

## RELATED CORRUPTION CASES

### Wedtech Corporation

U.S. Congressman Mario Biaggi (D-NY) and five co-defendants were convicted on August 4 in New York City of racketeering and other charges stemming from the awarding of contracts to the Wedtech Corporation, a defense contractor in Bronx County.

The convictions resulted from an investigation of illegal payments made by Wedtech officials to public officials to facilitate, receive, or maintain Government contracts. Department of Defense and U.S. Postal Service contracts accounted for 90 percent of Wedtech's gross revenues.

Convicted on one count each of racketeering and racketeering conspiracy were Congressman Biaggi; Stanley Simon, former Bronx Borough president; John Mariotta, former president and chairman of the board of Wedtech; and Bernard Ehrlich, former Wedtech counsel and Congressman Biaggi's former law partner. Peter Neglia, former chief of staff and regional director for the Small Business Administration, was convicted on one count of racketeering. All defendants, including Richard Biaggi, son of Congressman Biaggi, were convicted of various counts of extortion, giving and receiving bribes and gratuities, mail fraud, false statements, obstruction of justice, and perjury.

Seven other defendants, including four former executives of the company, have previously pled guilty to various charges involving Wedtech. Trial has begun in a related case involving Richard Stolfi, secretary-treasurer for Teamsters Local 875, and Frank Casalino, former business agent for Local 875. Their indictment charges that, together with five former senior Wedtech officials and other co-conspirators, they conducted and conspired to conduct the affairs of Local 875 through a pattern of racketeering from 1980 through 1987. *U.S.* v. *Simon et al. and U.S.* v. *Stolfi and Casalino* (S.D. New York)

### Asbestos Removal Contractors

While investigating labor racketeering in the building and construction industry in New York City, OLR uncovered widespread corruption in the asbestos removal segment of the industry.

On September 22, Toby Romano, president of Breeze Demolition, Inc., was found guilty of three counts of an indictment returned against him in February 1988. Romano and 16 other asbestos removal contractors had been indicted and a criminal information filed against another contractor between February and July 1988. They were charged with paying the EPA inspector to overlook violations of Federal asbestos removal procedures by their companies and to stay away from job sites where their companies were conducting asbestos removal.

Romano was found guilty of one count of giving a $1,500 bribe to an EPA compliance officer in December 1986, one count of giving a $7,000 gratuity to an EPA compliance officer in October 1983, and one count of offering and promising a $5,000 gratuity to an EPA compliance officer in October 1985. Romano is scheduled to be sentenced on November 4, 1988.

In August, John Fiume, president of Fiume Jet Spray Company; Sheldon Richman, vice president of RCI Contracting Company, Inc.; and Nelson Foucher, owner of Alpine-Jencris Industrial Wrecking, pled guilty to bribery or illegal gratuity charges.

The labor racketeering probe is continuing and is focused on suspected illegal payments between company and union officials and on fraud in union affiliated benefit plans. *U.S.* v. *Romano* (S.D. New York)

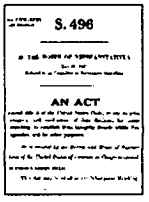
# OFFICE OF RESOURCE MANAGEMENT AND LEGISLATIVE ASSESSMENT

The Office of Resource Management and Legislative Assessment (ORMLA) supports the OIG by fulfilling several responsibilities mandated by the Inspector General Act of 1978, including legislative and regulatory review, reporting to the Congress, representing the OIG on various committees and initiatives of the President's Council on Integrity and Efficiency (PCIE), conducting a DOL awareness and integrity program, and performing ADP and other support activities to achieve the mission of the OIG. This section discusses the significant concerns and achievements of the previous six months.

## LEGISLATIVE AND REGULATORY ASSESSMENT

In carrying out our responsibilities under Section 4(a) of the Inspector General Act of 1978, ORMLA reviewed and cleared or provided comments on 408 legislative and regulatory items during this reporting period. The following measures that have been under consideration by the 100th Congress are of special interest to the OIG.

### The Computer Matching and Privacy Protection Act of 1988 (S.496 and companion measure H.R.4699)

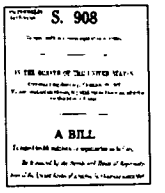

S. 496

AN ACT

The Computer Matching and Privacy Protection Act has passed both the House and Senate and was sent to the President on October 7, 1988. While we had agreed with the bill's objectives to protect the privacy and ensure due process rights of individuals, we had raised a number of problems with this proposal and continue to believe changes are necessary. The Department has supported our position on this bill. The following are areas of concern: Data Integrity Boards could compromise the independence of the Inspectors General; OIG criminal investigations and prosecutions could be jeopardized; additional losses could result from the required 30-day delay before altering or terminating payments; requirements for providing individualized notices are potentially costly; cost-benefit analyses and estimates of savings requirements would be unreliable; the exemptions for law enforcement matches is too limited; and the definition section contains ambiguous language.

Finally, we are concerned that this measure could well make computer matching applications so cumbersome, costly, and time consuming that most organizations will not attempt them. We believe that this would be an unfortunate result for legitimate efforts to rid Government programs of fraud and abuse.

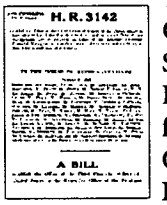
### Inspector General Act Amendments of 1988 (S.908)


S. 908

A BILL

This bill was adopted by the Congress and was sent to the President on October 7, 1988. We have strongly supported this measure which would include nearly 40 additional Federal agencies under provisions of the Inspector General Act of 1978, as amended. While we had made some technical suggestions and clarifications to earlier versions, we believe that this measure will improve the ability of many Federal agencies to combat waste, fraud, and abuse in their programs and operations.

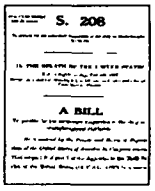
### Federal Financial Management Improvement and Public Accountability Act (H.R.3142)


H. R. 3142

A BILL

This bill would establish the Office of the Chief Financial Officer of the United States in the Executive Office of the President to direct and coordinate Federal financial management, and establish an Officer of the Assistant Secretary for Financial Management within each executive department and an Office of the Controller in each executive agency.

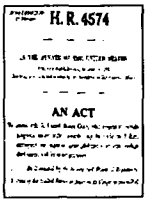
## Federal Government Contractors Personnel Protection Act (S.208)


S. 208

A BILL

This proposal would prohibit reprisal actions against officers and employees of Federal Government contractors for disclosing certain information to a Federal Government agency.

## Federal Employees Cost-Savings Awards Act (H.R.4574)


H.R. 4574

AN ACT

This measure would amend Title 5, United States Code, with respect to certain programs under which awards may be made to Federal employees for superior accomplishments or cost savings disclosures, and for other purposes. It has passed the House.

### OIG LEGISLATIVE AGENDA

For the 101st Congress, OIG supports several legislative proposals which we believe are essential to improve the efficiency and effectiveness of OIG operations and safeguard departmental resources. We recommend that the Department propose or support legislation in the following areas, should measures introduced into the 100th Congress that would correct some of these problems fail to pass.

#### Law Enforcement Authority for OIG Special Agents

The need for statutory law enforcement authority for Office of Inspector General special agents, particularly in our Office of Labor Racketeering (OLR), has continued to be a matter of dispute within the Department. Full law enforcement authority for OIG special agents includes the authority to carry firearms, make arrests, execute search warrants and administer oaths to witnesses.

The Office of Labor Racketeering, one of the two criminal investigation units within the OIG, has a special mission to identify and reduce labor racketeering by traditional and emerging organized criminal groups within employee benefit plans, in labor-management relations, and in internal union affairs. Because OLR's special agents are charged with investigating serious allegations of labor racketeering and organized criminal activity in the union movement, they need full law enforcement authority. The potential for violence is inherent in virtually every investigation undertaken by OLR. In gathering compelling evidence for successful prosecution of labor racketeers, OLR special agents must have the ability to protect witnesses and other cooperating third parties as well as themselves against criminals who have a demonstrated proclivity for violent retaliation.

The Office of Investigations (OI), the other investigative unit within the OIG, has statutory responsibility for conducting criminal investigations relating to programs and operations of the Department. Law enforcement authority for OI investigators would also help to ensure the protection of witnesses and enhance employee safety as well as to provide the critical traditional law enforcement tools necessary for this organization to be more effective, economical, and efficient.

Currently, all special agents in OLR and some special agents in OI are deputized for a limited time period through the U.S. Marshals Service. This interim, piecemeal deputization process, while necessary, has proved to be time consuming, cumbersome, and inefficient. Recognizing the need for a more permanent solution, the Senate Governmental Affairs Committee called for a hearing to consider the issue of *statutory* law enforcement authority for OLR. Such legislation was introduced in the 98th Congress with an "Act to Improve Enforcement Against Organized Crime" (S.2090) but the Department kept the issue "under study" and failed to support this bill. We believe that the Congress is prepared again to consider the issue of statutory law enforcement authority and is seeking Department concurrence.

Another bill, "The Comprehensive Federal Law Enforcement Improvements Act" (S.1975), was introduced in the Senate in the 100th Congress which would grant permanent, full law enforcement authority to all special agents in OIG's Office of Labor Racketeering and Office of Investigations. The Department did not take a position on the law enforcement provisions of this bill. The time has come and the need is clear for the Department to take a strong position in support of full law enforcement authority for its criminal investigators.

**Implementation of the Recommendations of the President's Commission on Organized Crime**

The report of the President's Commission on Organized Crime described the integration and penetration of the pervasive intrusion of organized crime into the entire marketplace. According to this report, organized crime is not only restricted to the influence of certain unions or the corruption of certain leaders, but has a broad base of economic corruption in a number of key industries and operates through various mediums. They include a combination of unions, trade associations, and legitimate and illegitimate businesses.

In order to deprive organized crime of its economic resources, the Commission recommended several legislative proposals. The Office of Inspector General supports legislation to implement some of the recommendations of the President's Commission. They include the following actions:

1. Enact a labor-bribery statute by amending the Labor Management Relations Act to prohibit the purchase of a union or union office or the sale of the right to obtain union work;

2. Amend Section 501 of the Labor Management Reporting and Disclosure Act (LMRDA) to give the Secretary authority, on behalf of union members, to enforce 29 USC 501(a) without a specific complaint and be able to remove, if needed, fiduciaries who have breached their fiduciary responsibilities;

3. Amend Section 209 of the LMRDA, to make delinquent and false reporting of union activities a felony; and

4. Amend the LMRDA, to prohibit persons convicted of any crimes in Title V and VI of the LRMDA from holding any union office under Section 504 of the LRMDA.

The Department's Policy Review Board has already approved these proposals in response to recommendations of the President's Commission and has supported an initiative in this area.

**Hobbs Act Amendment**

The Office of Inspector General recommends that the Department support legislation that would nullify the effect of the Supreme Court's decision in *United States v. Enmons,* 410 U.S. 396 (1973), by amending 18 USC 1951.

Such legislation would make clear that the Hobbs Act punishes the actual or threatened use of force or violence to obtain property as part of a labor-management dispute. The Department of Justice has sought this result for over a decade.

**OIG Authority to Use Testimonial Subpoenas**

Investigations which the Office of Inspector General conduct have, in many instances, both civil and criminal remedies. Many of these investigations and studies require complex analyses of books and records. The Office of Inspector General currently has the authority to serve administrative IG subpoenas *duces tecum*, thereby compelling the production of documents. However, OIG has no authority to serve and execute subpoenas *ad testificandum*, compelling testimony outside the grand jury which can be utilized in both criminal and civil proceedings. By not having the authority to serve and execute such subpoenas, OIG is at a substantial disadvantage in conducting more complex investigations or studies. For example, OIG cannot now require the subject of the subpoena *duces tecum* to explain anything about the books and records being produced without compelling grand jury testimony.

The subpoena *ad testificandum* is a law enforcement tool, the use of which has been approved as necessary to obtain compliance with many Department of Labor programs. The OIG investigative activities will operate more efficiently with this authority.

**Improve Cash Management in the Unemployment Insurance Trust Fund**

The Office of Inspector General recommends that the Department pursue a legislative change to prevent the loss of State Unemployment Trust Fund (UTF) earnings while funds are on deposit in the State Employment Security Agencies' benefit payment depository accounts. If such earnings could be recovered, the financial position of the UTF would be enhanced by an additional $15 million annually if revenue earned on benefit payment account float was credited to each State's account in the UTF.

A legislative proposal introduced in the 100th Congress, S.1381, the Cash Management Improvement Act of 1988, would require interest earned on any float in

SESA's benefit payment accounts to be paid the state account in the UTF. S.1381 was also incorporated into S.1920, the "Omnibus Budget Reconciliation Act of 1987."

The State/Federal Cash Management Reform Task Force has proposed a State/Federal Equity Program that would require payment of "reciprocal interest" by the Federal Government if the Treasury delays its response to requests for drawdowns of funds or by States for the time period between deposit of the funds and their redemption by check at the local level. The program proposes that such interest would be imposed through State/Federal agreements.

**Utilization of the Proceeds of Fines, Penalties, Restitutions, Judgments, Settlements, and Recoveries by the Department**

Between fiscal years 1983 and 1987, fraud investigations conducted by the Office of Inspector General's Office of Investigations (OI) resulted in fines, penalties, restitutions, judgments, and settlements totaling $24,997,361, with an additional $20,275,795 in recoveries. This 5-year total of over $45 million represents an average of more than $9 million per year (the OI annual budget is less than $7.5 million). The OIG proposes that the actual receipts that result from investigations conducted by OI be returned directly to the Department of Labor instead of the United States Treasury, in particular to offset the cost of investigations.

## COMMUNICATIONS, AWARENESS, AND PREVENTION ACTIVITIES

### Awareness Bulletins and Factsheets

During this reporting period, two additional awareness bulletins were published and distributed to all employees to provide general information and guidance about OIG operations and selected topics of concern. No. AB 88-1, The Audit, provides a basic description of the OIG audit and how it can improve program operations. No. AB 88-2, The Program Fraud Civil Remedies Act, includes a description of the Act and employees' responsibilities under it. Sample copies of these bulletins are provided on pages 103-106. Upcoming awareness bulletins include: The OIG Investigation, Investigating Labor Racketeering, Accepting Gifts and Gratuities, and Bribery. Factsheets describing OIG activities for the general public have been revised and updated during this reporting period. Sample copies can be found on pages 97-102.

### The DOL Employee Ethics Handbook

An ethics handbook has been newly developed for all Department employees. The handbook discusses major workplace ethical issues and focuses on employee integrity and OIG areas of concern, including such topics as conflicts of interest, acceptance of gifts and gratuities, outside employment, improper use of government resources or facilities, and reporting abuse. The handbook, which includes an introduction by the Secretary, is to be distributed to all DOL employees and will be part of the DOL employee orientation packet.

### Ethics Training Package

We are producing a video tape and accompanying instructor's manual which have been designed to effectively illustrate the issue areas that have been included in the ethics handbook. This video tape is an integral part of our ethics and employee integrity training initiative and is intended to form the core of a flexible, easily taught ethics seminar which provides guidance and instruction both to new DOL employees, and to present employees at headquarters and in the field.

## PCIE ACTIVITIES

### Smart Card Applications

The OIG is continuing its efforts to promote the use of computer card technology in the public sector. Computer cards are plastic cards with various capabilities. They can contain an embedded microcomputer chip, a magnetic stripe, or a bar-code and have the capability to store data, program logic, and maintain updated information.

In both on-line and off-line applications, a card or related device can be linked to a computer data base to positively identify individuals, to verify their eligibility, to specify benefit or services authorizations or limitations, to record transactions, to reconcile balances, to provide accounting, or to perform similar functions. Computer cards have the potential to reduce fraud and abuse, improve the delivery of services, and increase economy and efficiency of operations.

To promote computer cards, the OIG recently participated in two successful projects. The IG served on the Executive Steering Council for the international conference on "Smart Card Applications and Technologies." The IG led the benefit delivery module at the conference.

Under the auspices of the PCIE Computer Committee chaired by the Inspector General, the OIG developed a comprehensive inventory of computer card applications entitled, *Applications of Computer Card Technology*. This compendium of public sector uses of on-line and off-line computer systems using card technology provides an overview both of applications in actual operation as well as developed proposals.

Individual copies of the inventory are available from the U.S. Department of Labor, Office of Inspector General, 601 D Street, NW, Room 4120, Washington, DC 20210.

## Investigative Standards Booklet


The demand for our recently revised and published 24-page booklet entitled, "Quality Standards for Investigations" has been so great that several thousand additional copies are now being printed. This booklet contains general guidelines for qualitative standards applicable to all types of investigative efforts. This OIG had taken lead responsibility for the PCIE for the development and production of these standards.

# SUPPORT INITIATIVES

## Standardization of OIG Minicomputer Systems

The Division of Information Resources initiated a program to standardize all systems operations software and hardware configurations to the maximum extent possible. New modular system operator menus were developed, tested, and installed on all OIG minicomputers. These menus incorporate an on-line help facility that obviates the need for a tailored operations manual.

The standardized operations software, which has been in place for only a few months, has greatly simplified the training required for operators of remote systems and improved the reliability of OIG minicomputers. Because less time must be spent in supporting day-to-day operations, the professional computer staff has been better able to plan service improvements and to focus on the implementation of the OIG ADP Modernization Plan.

# COMPLAINT HANDLING ACTIVITIES

The OIG Complaint Analysis Office and OIG Regional Offices serve employees and the general public for reporting suspected incidents of fraud, waste, and abuse in the Department of Labor programs and operations. The Inspector General Act of 1978 provides that employees and others may report such incidents with the assurance of anonymity and protection from reprisal. Nationwide, the OIG received, analyzed, and processed 939 complaints from all sources during this period. Over 600 calls were received on the OIG Hotline; however, of that number, only 48 were actual allegations.

The following hotline complaints are examples of allegations which resulted in successful prosecutions, administrative action, and/or identified weaknesses in programs operations:

A recipient of JTPA funds submitted false time sheets indicating program work, when actually he was engaged in private business. The recipient received funds based on these falsified time and attendance reports. As a result of an investigation, $14,940 of questioned costs were disallowed.

A contractor filed fraudulent time cards while working on a project for the Department of Labor, Office of Workers Compensation. Administrative action was taken which required sign-in/sign-out logs for all contractor personnel and a Notice was issued emphasizing the procedures for Time Verification Sheets.

As a result of a complaint referred by the Complaint Analysis Office, a Job Corps contractor, who was submitting false billings, entered into a settlement agreement and over $10,000 was recovered by the Department of Labor.

## TOTAL ALLEGATIONS REPORTED NATIONWIDE: 939

## ALLEGATIONS BY SOURCE:

| | |
|---|---|
| Walk-in | 3 |
| IG Hotline | 48 |
| Other telephone calls | 26 |
| Letters from Congress | 7 |
| Letters from individuals or organizations | 80 |
| Letters from DOL agencies | 206 |
| Letters from non-DOL agencies | 417 |
| Incident Reports from DOL agencies | 95 |
| Reports by agents or auditors | 52 |
| Referrals from GAO | 5 |

## BREAKDOWN OF ALLEGATIONS REPORTS:

| | |
|---|---|
| Referred to Audit or Investigations | 371 |
| Referred to program management | 49 |
| Referred to other agencies | 19 |
| No further action | 260 |
| Pending disposition at end of period | 240 |

# MONEY OWED TO THE DEPARTMENT OF LABOR

In accordance with a request in the Senate Committee on Appropriations' Report on the Supplemental Appropriation and Rescission Bill of 1980, the chart below shows unaudited estimates provided by departmental agencies on the amounts of money owed, overdue, and written off as uncollectible during the current 6-month reporting period.

**SUMMARY OF ESTIMATED DEPARTMENT OF LABOR RECEIVABLES**
**(Dollars in thousands)**

| Program Name | Collections This FY thru 9/30/88 | Outstanding Receivables 9/30/88[1] | Delinquencies 9/30/88[2] | Adjustments & Write-offs 9/30/88[3] | Under Appeal as of 9/30/88[4] |
|---|---|---|---|---|---|
| **ESA** | | | | | |
| FECA - beneficiary/provider overpayments | $ 11,426 | $ 20,870 | $ 8,944 | -$ 4,416 | $ 2683 |
| Black Lung Program - responsible mine operator reimbursement; beneficiary/provider overpayments | 27,423 | 168,248 | 12,263 | - 47,975 | 103,492 |
| **ETA** - disallowed costs; outstanding cash balances; grantee overpayments | 31,957 | 200,192 | 200,192 | -117,743 | 143,979 |
| **MSHA** - mine operator civil penalties | 14,107 | 10,511 | 7,151 | -1,167 | 10 |
| **PENSION BENEFIT GUARANTY CORPORATION** - plan assets subject to transfer; employer liability; accrued premium income | 483,867 | 26,231 | 5,490 | -24,130 | 400 |
| **OSHA** | 18,428 | 43,481 | 4,245 | -367 | 35,689 |
| **BLS** | 559 | 117 | 117 | -4 | 0 |
| **Total** | $587,767 | $469,650 | $238,452 | -$195,802 | $286,253 |

[1] Includes amounts identified as contingent receivables that are subject to an appeals process which can eliminate or reduce the amounts identified.

[2] Any amount more than 30 days overdue is delinquent. Includes items under appeal and not available for collection.

[3] Includes write-offs of uncollectible receivables and adjustments of contingent receivables as a result of the appeals process and reclassification of disallowed costs based on documentation submitted after audit resolution.

[4] Approximately 61 percent of the total outstanding receivables (Column 2) are currently under appeal to an Administrative Law Judge.

# APPENDIX

## SELECTED STATISTICS
## April 1 to September 30, 1988

### Audit Activities

| | |
|---|---|
| Reports issued on DOL activities | 396 |
| Audit exceptions | $33.3 million |
| Reports issued for other Federal agencies | 33 |
| Dollars resolved | $10.1 million |
| Allowed | $3.3 million |
| Disallowed | $6.8 million |

### Fraud and Integrity Activities

| | |
|---|---|
| Allegations reported | 939 |
| Cases opened | 517 |
| Cases closed | 641 |
| Cases referred for prosecution | 452 |
| Individuals or entities indicted | 605 |
| Successful prosecutions | 390 |
| Referrals for administrative action | 49 |
| Administrative Actions | 88 |
| Fines, penalties, restitutions, and settlements | $1,553,263 |
| Investigative recoveries | $1,763,584 |
| Cost efficiencies | $1,073,652 |

### Labor Racketeering Investigation Activities

| | |
|---|---|
| Cases opened | 34 |
| Cases closed | 23 |
| Individuals indicted | 81 |
| Individuals convicted | 74 |
| Fines | $561,200 |
| Forfeitures | $2,133 |
| Restitutions | $911,047 |

## SUMMARY OF AUDIT ACTIVITY OF DOL PROGRAMS
## APRIL 1-SEPTEMBER 30, 1988

| Agency | Reports Issued | Grant/Contract Amount Audited | Amount of Questioned Costs | Amount Recommended Disallowance |
|---|---|---|---|---|
| OSEC | 9 | $806,887 | $31,600 | 0 |
| VETS | 34 | $53,243,370 | $4,688 | $691,640 |
| ETA | 236 | $4,188,876,862 | $25,397,641 | $7,013,035 |
| ESA | 9 | $2,030,839,250 | 0 | 0 |
| MSHA | 23 | $4,102,506 | $73,826 | 0 |
| OSASAM | 11 | $53,801,527 | $65,749 | $26,735 |
| OSHA | 22 | $38,508,647 | $12,681 | $3,962 |
| BLS | 18 | $15,830,075 | 0 | 0 |
| PWBA | 1 | 0 | 0 | 0 |
| Other Agencies | 33 | 0 | 0 | 0 |
| TOTALS | 396 | $6,386,009,124 | $25,586,185 | $7,735,372 |

## SUMMARY OF AUDIT ACTIVITY OF ETA PROGRAMS
## APRIL 1-SEPTEMBER 30, 1988

| Program | Reports Issued | Grant/Contract Amount Audited | Amount of Questioned Costs | Amount Recommended Disallowance |
|---|---|---|---|---|
| ADMIN | 2 | 0 | 0 | 0 |
| UIS | 6 | $812,472,062 | $395 | $459,186 |
| USES | 1 | $2,123,830 | 0 | 0 |
| SESA | 17 | $825,640,273 | $18,707 | $22,306 |
| OTAA | 3 | $58,573,913 | 0 | $1,911,839 |
| JTPA | 35 | $1,746,662,001 | $19,109,518 | $340,213 |
| CETA | 11 | $355,699,413 | $5,701,044 | $3,883,347 |
| DINAP | 98 | $47,770,519 | $76,018 | $269,666 |
| DOWP | 20 | $232,846,012 | 0 | 0 |
| DSFP | 31 | $55,248,904 | $5,456 | 0 |
| OJC | 10 | $54,628,474 | $90,109 | $63,471 |
| OSPPD | 3 | $5,426,454 | $396,789 | $63,007 |
| TOTALS | 237 | $4,197,091,855 | $25,398,036 | $7,013,035 |

# SUMMARY OF AUDITS PERFORMED UNDER THE SINGLE AUDIT ACT* APRIL 1-SEPTEMBER 30, 1988

| Agency | Entities Audited | Reports Issued | DOL Grant/Contract Amount Audited | Amount of Questioned Costs | Amount Recommended Disallowance |
|---|---|---|---|---|---|
| OSEC | 2 | 8 | $806,887 | $31,600 | 0 |
| VETS | 2 | 29 | $43,496,786 | 0 | $4,140 |
| ETA | 84 | 198 | $3,710,140,731 | $5,891,283 | $189,744 |
| ESA | 0 | 1 | $3,187,530 | 0 | 0 |
| MSHA | 1 | 21 | $3,473,334 | $65,449 | 0 |
| OSHA | 4 | 19 | $38,077,522 | $12,681 | $2,711 |
| BLS | 1 | 18 | $15,830,075 | 0 | 0 |
| Other Agencies | 26 | 32 | 0 | 0 | 0 |
| TOTAL | 120 | 326 | $3,815,012,865 | $6,001,013 | $196,595 |

*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 150 reports on 120 entities for which DOL was cognizant; in addition, DOL issued 176 reports which included direct DOL funds for which we were not cognizant.

# AUDITS BY NON-FEDERAL AUDITORS[1]
## PCIE Semiannual Reporting - Summary Results of IG Reviews
## SIX MONTHS ENDED SEPTEMBER 30, 1988

| | A-128/102-P AUDITS | | | OTHER AUDITS (Performed Pursuant to A-110[3] /program regulations, etc.) | | | |
|---|---|---|---|---|---|---|---|
| | INDEPENDENT PUBLIC ACCOUNTANT | STATE & LOCAL AUDITOR | TOTAL | INDEPENDENT PUBLIC ACCOUNTANT | STATE & LOCAL AUDITOR | TOTAL | GRAND TOTAL |
| A. STATISTICAL TABLE | | | | | | | |
| 1. Reports issued without change or with minor changes | | | | | | | |
| a. Based on desk review[2] | 100 | 13 | 113 | 4 | 0 | 4 | 117 |
| b. Based on QCR | 3 | 1 | 4 | 0 | 0 | 0 | 4 |
| 2. Total without change or minor changes | 103 | 14 | 117 | 4 | 0 | 4 | 121 |
| Reports issued with major changes | | | | | | | |
| a. Based on desk review | 2 | 0 | 2 | 0 | 0 | 0 | 2 |
| b. Based on QCR | 1 | 0 | 1 | 0 | 0 | 0 | 1 |
| Total with major changes | 3 | 0 | 3 | 0 | 0 | 0 | 3 |
| 3. Reports with significant inadequacies | | | | | | | |
| a. Based on desk review | | | | | | | |
| b. Based on QCR | | | | | | | |
| Total reports with significant inadequacies | | | | | | | |
| 4. Number of auditors referred to State Boards/ AICPA | | | | | | | |
| 5. Number of auditors which other sanctions were taken | | | | | | | |

[1]The non-Federal audit information on this form pertains only to those non-Federal audits where the audit services were procured or obtained by the auditee organization and where the audits are subject to the reporting agency's quality review system (i.e., desk revies and QCRs).

[2]Desk Reviews are conducted on all reports received for which we are cognizant except for those which receive QCRs

[3]The A-110 audits for which DOL was cognizant were conducted to A-128 requirements, thus were issued as A-128 reports.

# SUMMARY OF AUDIT RESOLUTION ACTIVITY
# 01-APR-88 TO 30-SEP-88

| AGENCY | 01-APR-88 BALANCE UNRESOLVED | | ISSUED (INCREASES) | | RESOLVED (DECREASES) | | | 30-SEP-88 BALANCE UNRESOLVED | |
|---|---|---|---|---|---|---|---|---|---|
| PROGRAM | REPORTS | DOLLARS | REPORTS | DOLLARS | REPORTS | ALLOWED | DISALLOWED | REPORTS | DOLLARS |
| OSEC | 0 | 0 | 9 | 31,600 | 6 | 0 | 0 | 3 | 31,600 |
| VETS | 5 | 1,524,330 | 34 | 696,328 | 30 | 0 | 26,640 | 9 | 2,194,018 |
| ETA: | | | | | | | | | |
| ADMIN | 1 | 0 | 2 | 0 | 2 | 0 | 0 | 1 | 0 |
| UIS | 11 | 1,992,485 | 5 | 459,186 | 13 | 218,487 | 1,773,998 | 3 | 459,186 |
| USES | 1 | 0 | 1 | 0 | 2 | 0 | 0 | 0 | 0 |
| SESA | 12 | 2,399,217 | 17 | 41,013 | 14 | 2,133,271 | 278,160 | 15 | 28,799 |
| OTAA | 0 | 0 | 3 | 1,911,839 | 1 | 0 | 0 | 2 | 1,911,839 |
| JTPA | 19 | 120,454 | 35 | 19,449,731 | 32 | 32,665 | 97,023 | 22 | 19,440,497 |
| CETA | 9 | 81,486,599 | 11 | 9,584,391 | 12 | 120,052 | 4,289,253* | 8 | 87,945,853 |
| OSTP | 1 | 75,013 | 0 | 0 | 0 | 0 | 0 | 1 | 75,013 |
| DINAP | 22 | 143,784 | 98 | 345,684 | 91 | 52,352 | 219,714* | 29 | 237,748 |
| DOWP | 1 | 619 | 20 | 0 | 19 | 619 | 0 | 2 | 0 |
| DSFP | 2 | 0 | 31 | 5,456 | 27 | 0 | 0 | 6 | 5,456 |
| OJC | 2 | 0 | 10 | 153,580 | 5 | 0 | 0 | 7 | 153,580 |
| OSPPD | 0 | 0 | 3 | 459,796 | 2 | 33,203 | 2,991 | 1 | 423,602 |
| ESA | 1 | 0 | 9 | 0 | 6 | 0 | 0 | 4 | 0 |
| LMSA | 2 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 |
| MSHA | 1 | 0 | 23 | 73,826 | 20 | 12,500 | 0 | 4 | 61,326 |
| OASAM | 15 | 12,902,389 | 11 | 92,484 | 20 | 82,462 | 51,948 | 6 | 12,860,463 |
| OSHA | 8 | 535,925 | 22 | 16,643 | 25 | 534,995 | 930 | 5 | 16,643 |
| BLS | 3 | 58,628 | 18 | 0 | 21 | 58,628 | 0 | 0 | 0 |
| PWBA | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 0 |
| MULTI | 1 | 77,450 | 0 | 0 | 1 | 0 | 77,450 | 0 | 0 |
| OT AGY | 0 | 0 | 33 | 0 | 32 | 0 | 0 | 1 | 0 |
| TOTAL | 117 | 101.316.893 | 396 | 33.321.557 | 384 | 3.278.508 | 6,818,107* | 129 | 125,845,623 |

**Dollars** represents both questioned costs (costs that are inadequately documented or that require the grant officer's interpretation regarding allowability) and costs recommended for disallowance (costs that are in violation of law or regulatory requirements).

**Audit Resolution** occurs when the program agency and the audit organization agree on action to be taken on reported findings and recommendations. Thus, this table does not represent any activity subsequent to the final determination such as results of the appeals process, the results of the program agency debt collection efforts or reflect the revision of prior determinations.

**Differences** between the beginning balances in this schedule and the ending balances of the previous semiannual report result from adjustments required during the reporting period.

* **Disallowed costs** include additional claim amounts of $1,284,168 (CETA) and $20,346 (DINAP) for a total additional claim amount of $1,304,514.

# STATUS OF RESOLUTION ACTIONS ON BEGINNING BALANCE OF UNRESOLVED AUDITS OVER 6 MONTHS

| AGENCY PROGRAM | 01-APR-88 BALANCE UNRESOLVED REPORTS | DOLLARS | (DECREASES) REPORTS | DOLLARS | 30-SEP-88 BALANCE UNRESOLVED REPORTS | DOLLARS |
|---|---|---|---|---|---|---|
| VETS | 5 | 1,524,330 | 3 | 26,640 | 0 | 0 |
| ETA: | | | | | | |
| ADMIN | 1 | 0 | 1 | 0 | 0 | 0 |
| UIS | 11 | 1,992,485 | 11 | 1,992,485 | 1 | 0 |
| USES | 1 | 0 | 1 | 0 | 0 | 0 |
| SESA | 12 | 2,399,217 | 12 | 2,411,431 | 0 | 0 |
| JTPA | 19 | 120,454 | 19 | 119,874 | 0 | 0 |
| CETA | 9 | 81,486,599 | 8 | 2,788,711 | 1 | 78,697,888 |
| OSTP | 1 | 75,013 | 0 | 0 | 1 | 75,013 |
| DINAP | 22 | 143,784 | 27 | 143,628 | 0 | 0 |
| DOWP | 1 | 619 | 1 | 619 | 0 | 0 |
| DSFP | 2 | 0 | 4 | 0 | 0 | 0 |
| OJC | 2 | 0 | 2 | 0 | 0 | 0 |
| ESA | 1 | 0 | 1 | 0 | 0 | 0 |
| LMSA | 2 | 0 | 2 | 0 | 0 | 0 |
| MSHA | 1 | 0 | 1 | 0 | 0 | 0 |
| OASAM | 15 | 12,902,389 | 15 | 88,754 | 1 | 12,813,635 |
| OSHA | 8 | 535,925 | 8 | 535,925 | 0 | 0 |
| BLS | 3 | 58,628 | 4 | 58,628 | 0 | 0 |
| MULTI | 1 | 77,450 | 1 | 77,450 | 0 | 0 |
| Other Agencies | 0 | 0 | 1 | 0 | 0 | 0 |
| TOTAL | 117 | 101,316,893 | 122 | 8,244,145 | 4 | 91,586,536 |

**NOTE:** Reflects resolution activity for assignments which had been unresolved at the beginning of the period; includes only those assignments whose unresolved status is over 180 days.

# UNRESOLVED AUDITS OVER 6 MONTHS PRECLUDED FROM RESOLUTION APRIL 1-SEPTEMBER 30, 1988

| AGENCY | PROGRAM | AUDIT REPORT NUMBER | NAME OF AUDIT/AUDITEE | NO OF REC | AUDIT EXCEPTIONS |
|---|---|---|---|---|---|
| UNDER INVESTIGATION OR LITIGATION: | | | | | |
| ETA | OSPPD | 05-81-301-03-350 | CONSORTIUM VENTURE CORP | 5 | 75,013 |
| OASAM | OCD | 05-83-065-07-742 | CITY OF DETROIT | 11 | 12,813,635 |
| AWAITING RESOLUTION: | | | | | |
| ETA | UIS | 03-83-203-03-315 | UI EXPERIENCE RATING[1] | 1 | 0 |
| ETA | CETA | 02-84-136-03-345 | PUERTO RICO BOS[2] | 6 | 78,697,888 |
| TOTAL AUDIT EXCEPTIONS | | | | 23 | $91,586,536 |

[1]As part of OIG's continuing effort to resolve the UI Experience Rating audit, we are currently working with several SESAs to reinforce the viability of our audit recommendation to reconcile the State Unemployment Funds. We plan to automate the process so all the SESAs can efficiently adopt it.

[2]This follow-up review identified material financial weaknesses which contributed to the questioned costs. Over the last 6 months, OIG, ETA, and SOL reviewed extensive documentation submitted by the Commonwealth of Puerto Rico's Right to Employment in response to the final report. ETA's final determination is expected to be issued early in the next period.

# FINAL AUDIT REPORTS ISSUED
# APRIL 1-SEPTEMBER 30, 1988

| AUDIT REPORT NUMBER | AGENCY | PROGRAM | DATE SENT TO PROGRAM AGENCY | NAME OF AUDIT/AUDITEE |
|---|---|---|---|---|
| 02-88-085-01-010 | OSEC | ASP | 27-JUL-88 | CITY OF HARTFORD CT. A-128 |
| 02-88-094-01-010 | OSEC | ASP | 16-MAY-88 | CITY OF JAMESTOWN, NY A-128 |
| 02-88-149-02-001 | VETS | ADMIN | 17-JUN-88 | CITY OF SYRACUSE, NY A-128 |
| 02-88-017-02-210* | VETS | VETSPM | 15-JUL-88 | SUFFOLK COUNTY A-128 |
| 02-88-118-02-210 | VETS | VETSPM | 24-MAY-88 | NEW YORK STATE A-128 |
| 02-88-194-02-210 | VETS | VETSPM | 22-SEP-88 | COMM OF MASSACHUSETTS A-128 |
| 02-87-105-03-315* | ETA | UIS | 22-JUN-88 | THE VIRGIN ISLANDS ATT P |
| 02-88-106-03-325* | ETA | SESA | 23-MAY-88 | MAINE DOL A-128 |
| 02-88-114-03-325 | ETA | SESA | 24-MAY-88 | NEW YORK A-128 |
| 02-88-191-03-325 | ETA | SESA | 22-SEP-88 | COMM OF MASSACHUSETTS A-128 |
| 02-86-010-03-340* | ETA | JTPA | 27-MAY-88 | COMM OF PUERTO RICO ATT P |
| 02-87-128-03-340 | ETA | JTPA | 19-JUL-88 | NEW YORK A-128 |
| 02-88-075-03-340 | ETA | JTPA | 16-MAY-88 | OFFICE OF YOUTH AFFAIRS A-128 |
| 02-88-084-03-340 | ETA | JTPA | 27-JUL-88 | HARTFORD CT A-128 |
| 02-88-092-03-340* | ETA | JTPA | 28-APR-88 | RURAL OPPORTUNITIES INC A-128 |
| 02-88-105-03-340 | ETA | JTPA | 23-MAY-88 | MAINE DOL A-128 |
| 02-88-113-03-340 | ETA | JTPA | 24-MAY-88 | NEW YORK A-128 |
| 02-88-152-03-340* | ETA | JTPA | 19-JUL-88 | NATIVE AMER COMM SVCS A-128 |
| 02-84-076-03-345 | ETA | CETA | 27-MAY-88 | CITY OF MAYAGUEZ |
| 02-84-151-03-345 | ETA | CETA | 17-JUN-88 | MUNICIPALITY OF CAGUAS |
| 02-86-038-03-345 | ETA | CETA | 11-AUG-88 | NEW YORK CITY DEPT OF EMPL |
| 02-87-067-03-345 | ETA | CETA | 17-JUN-88 | MONMOUTH COUNTY NJ A-128 |
| 02-88-093-03-345 | ETA | CETA | 05-MAY-88 | HUDSON COUNTY A-128 |
| 02-88-135-03-345 | ETA | CETA | 23-MAY-88 | MAINE DOL A-128 |
| 02-88-198-03-345 | ETA | CETA | 30-AUG-88 | MASS BOS CETA SPECIAL REPORT |
| 02-87-142-03-355* | ETA | DINAP | 16-MAY-88 | AM INDIAN COMM HOUSING A-128 |
| 02-88-064-03-355 | ETA | DINAP | 04-AUG-88 | MASHPEE WAMPANOAG A-128 |
| 02-88-089-03-355 | ETA | DINAP | 12-APR-88 | SENECA NATION A-128 |
| 02-88-154-03-355* | ETA | DINAP | 01-AUG-88 | AMERICAN INDIANS FOR DEV A-128 |
| 02-88-115-03-360 | ETA | DOWP | 24-MAY-88 | NEW YORK A-128 |
| 02-88-037-03-365* | ETA | DSFP | 24-MAY-88 | NEW ENGLAND FARM WKRS A-128 |
| 02-88-054-03-365 | ETA | DSFP | 30-JUN-88 | TRNG & DEV CORP A-128 |
| 02-88-053-03-370* | ETA | OJC | 30-JUN-88 | TRNG & DEV CORP A-128 |
| 02-88-097-03-380* | ETA | SPPD | 11-AUG-88 | MNPWR DEMONSTRATION RES CORP |
| 02-88-070-04-001 | ESA | ADMIN | 30-SEP-88 | FY 86 ESA MGT LETTER |
| 02-84-073-04-432 | ESA | DLHWC | 03-MAY-88 | SPECIAL ASSESSMENT FUND |
| 02-87-106-04-432 | ESA | DLHWC | 14-JUL-88 | LONGSHORE HARBOR WORKERS F&C |
| 02-86-037-04-435 | ESA | DSWCS | 01-AUG-88 | PRIVATE VS. FED WORKERS' COMP |
| 02-88-109-06-601 | MSHA | GRTEES | 23-MAY-88 | MAINE DOL A-128 |
| 02-88-117-06-601 | MSHA | GRTEES | 24-MAY-88 | NEW YORK A-128 |
| 02-88-193-06-601 | MSHA | GRTEES | 22-SEP-88 | COMM OF MASSACHUSETTS A-128 |

# FINAL AUDIT REPORTS ISSUED
# APRIL 1-SEPTEMBER 30, 1988

| AUDIT REPORT NUMBER | AGENCY | PROGRAM | DATE SENT TO PROGRAM AGENCY | NAME OF AUDIT/AUDITEE |
|---|---|---|---|---|
| 02-88-078-07-735 | OASAM | OPGM | 04-AUG-88 | RURAL OPPORTUNITIES INC |
| 02-88-131-10-001 | OSHA | ADMIN | 09-JUN-88 | UNIVERSITY OF MAINE A-128 |
| 02-88-107-10-101 | OSHA | OSHAG | 23-MAY-88 | MAINE DOL A-128 |
| 02-88-116-10-101 | OSHA | OSHAG | 24-MAY-88 | NEW YORK A-128 |
| 02-88-192-10-101 | OSHA | OSHAG | 22-SEP-88 | COMM OF MASSACHUSETTS A-128 |
| 02-88-108-11-111 | BLS | BLSG | 23-MAY-88 | MAINE DOL A-128 |
| 02-88-119-11-111 | BLS | BLSG | 24-MAY-88 | NEW YORK A-128 |
| 03-87-001-03-001 | ETA | ADMIN | 31-AUG-88 | (CARE) PROGRAM STATISTICS |
| 03-88-063-03-340* | ETA | JTPA | 05-AUG-88 | EPILEPSY FOUNDATN/AMERICA A-128 |
| 03-88-071-03-340* | ETA | JTPA | 19-SEP-88 | EPILEPSY FOUNDATN/AMERICA A-128 |
| 03-88-068-03-355* | ETA | DINAP | 18-AUG-88 | MATTAPONI-PAMUNKEY-MONACAN A128 |
| 03-88-073-03-355* | ETA | DINAP | 27-SEP-88 | COUNCIL OF THREE RIVERS A-128 |
| 03-88-051-03-360* | ETA | DOWP | 05-AUG-88 | NATL CNCL/SENIOR CITIZENS A-128 |
| 03-88-057-03-360* | ETA | DOWP | 05-AUG-88 | AMER ASSN/RETIRED PERSONS A-128 |
| 03-88-066-03-360* | ETA | DOWP | 18-AUG-88 | GREEN THUMB, INC. A-128 |
| 03-88-072-03-360* | ETA | DOWP | 19-SEP-88 | AMER ASSN/RETIRED PERSONS A-128 |
| 03-88-059-03-370 | ETA | OJC | 14-SEP-88 | KEYSTONE JOB CORPS F&C |
| 03-88-075-04-420 | ESA | WHD | 31-AUG-88 | INTERNAL CONTROLS & BACKWAGES |
| 03-88-025-04-433 | ESA | CMWC | 23-SEP-88 | JOHNSTOWN BLACK LUNG OFFICE |
| 03-88-054-06-601 | MSHA | GRTEES | 31-AUG-88 | WV DIV OF VOC REHAB |
| 03-88-042-06-610 | MSHA | CMSH | 30-SEP-88 | MINE PLAN APPROVAL/ENFORCE ACT |
| 03-88-069-07-711 | OASAM | OA | 18-AUG-88 | PETTY CASH REVIEW |
| 03-88-055-10-101 | OSHA | OSHAG | 18-AUG-88 | NEW DIRECTIONS |
| 03-88-052-98-599 | OT AGY | NO/DOL | 14-APR-88 | VIRGINIA COMM COLL A-128 |
| 03-88-064-98-599 | OT AGY | NO/DOL | 10-AUG-88 | BUCKS COUNTY PA A-128 |
| 03-88-065-98-599 | OT AGY | NO/DOL | 10-AUG-88 | FRANKLIN COUNTY PA A-128 |
| 03-88-067-98-599 | OT AGY | NO/DOL | 17-AUG-88 | CITY OF BALTIMORE A-128 |
| 03-88-070-98-599* | OT AGY | NO/DOL | 19-SEP-88 | PRINCE GEORGE'S COUNTY MD A-128 |
| 03-88-074-98-599* | OT AGY | NO/DOL | 19-SEP-88 | WASHINGTON COUNTY PA A-128 |
| 04-88-005-02-201* | VETS | CONTR | 06-JUN-88 | ORANGE COUNTY FL FYE 9/87 A-128 |
| 04-88-102-02-201 | VETS | CONTR | 26-JUL-88 | N.C. EMPL SEC COMM FY 85 A-128 |
| 04-88-077-02-210 | VETS | VETSPM | 20-APR-88 | NO. KY AREA DEV DIST A-128 |
| 04-88-084-02-210 | VETS | VETSPM | 23-JUN-88 | S.C.FY 86/87 A-128 |
| 04-88-086-02-210 | VETS | VETSPM | 22-JUN-88 | FLORIDA FY 85 A-128 |
| 04-88-108-02-210 | VETS | VETSPM | 01-AUG-88 | TENNESSEE FY 86 A-128 |
| 04-88-125-02-210 | VETS | VETSPM | 27-SEP-88 | NASHVILLE/DAVIDSON CO TN A-128 |
| 04-88-127-02-210 | VETS | VETSPM | 27-SEP-88 | TENNESSEE FY 87 A-128 |
| 04-86-074-03-315 | ETA | UIS | 23-SEP-88 | HIGH RISK EMPLOYERS & TAX AUDIT |

# FINAL AUDIT REPORTS ISSUED
# APRIL 1-SEPTEMBER 30, 1988

| AUDIT REPORT NUMBER | AGENCY | PROGRAM | DATE SENT TO PROGRAM AGENCY | NAME OF AUDIT/AUDITEE |
|---|---|---|---|---|
| 04-87-030-03-325 | ETA | SESA | 08-AUG-88 | SESA INVESTMENTS OF UI FUNDS |
| 04-88-082-03-325* | ETA | SESA | 23-JUN-88 | S.C. SESA FY 86/87 A-128 |
| 04-88-085-03-325 | ETA | SESA | 16-JUN-88 | FLORIDA FY 85 A-128 |
| 04-88-101-03-325* | ETA | SESA | 26-JUL-88 | NC EMPL SEC COMM FY 85 |
| A-12804-88-106-03-325 | ETA | SESA | 01-AUG-88 | TENNESSEE FY 86 A-128 |
| 04-88-126-03-325 | ETA | SESA | 27-SEP-88 | TENNESSEE FY 87 A-128 |
| 04-88-050-03-330 | ETA | OTAA | 01-AUG-88 | SURVEY OF TRA - TEXAS |
| 04-88-051-03-330 | ETA | OTAA | 12-SEP-88 | SURVEY OF TRA - PENNSYLVANIA |
| 04-88-052-03-330 | ETA | OTAA | 09-JUN-88 | SURVEY OF TRA - WEST VIRGINIA |
| 04-87-092-03-340 | ETA | JTPA | 30-SEP-88 | N.C. DEPT OF ADMIN A-128 |
| 04-87-094-03-340* | ETA | JTPA | 01-APR-88 | PIC OF ESCAMBIA, INC A-128 |
| 04-88-009-03-340 | ETA | JTPA | 15-JUL-88 | REVIEW OF LCAPDC |
| 04-88-069-03-340 | ETA | JTPA | 15-JUL-88 | HOME BUILDERS F&C |
| 04-88-081-03-340 | ETA | JTPA | 29-APR-88 | N.C. DIV OF SOCIAL SVCS A-128 |
| 04-88-093-03-340 | ETA | JTPA | 23-SEP-88 | KENTUCKY |
| 04-88-094-03-340 | ETA | JTPA | 16-AUG-88 | MISSISSIPPI SUMMER REMED PRGM |
| 04-88-104-03-340* | ETA | JTPA | 01-AUG-88 | SULLIVAN CO TN FYE 6/87 A-128 |
| 04-88-109-03-340 | ETA | JTPA | 01-AUG-88 | TENNESSEE DOL FY 86 A-128 |
| 04-88-129-03-340 | ETA | JTPA | 27-SEP-88 | TENNESSEE FY 87 A-128 |
| 04-88-006-03-355* | ETA | DINAP | 13-JUN-88 | FL GOV CNCL/INDIAN AFF A-128 |
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| 04-88-060-03-355* | ETA | DINAP | 01-APR-88 | LUMBEE REGIONAL DEV ASSN A-128 |
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| 04-88-111-06-601 | MSHA | GRTEES | 01-AUG-88 | TENNESSEE FY 86 A-128 |
| 04-88-131-06-601 | MSHA | GRTEES | 27-SEP-88 | TENNESSEE FY 87 A-128 |
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| 04-88-070-07-735 | OASAM | OPGM | 15-JUL-88 | HOME BUILDERS INDIRECT COSTS |
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| 04-88-130-10-101 | OSHA | OSHAG | 27-SEP-88 | TENNESSEE FY 87 A-128 |
| 04-88-083-11-111 | BLS | BLSG | 23-JUN-88 | S.C. FY 86/87 A-128 |
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| 04-88-107-11-111 | BLS | BLSG | 01-AUG-88 | TENNESSEE FY 86 A-128 |
| 04-88-128-11-111 | BLS | BLSG | 27-SEP-88 | TENNESSEE FY 87 A-128 |
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| 04-88-024-98-599 | OT AGY | NO/DOL | 10-JUN-88 | PALM BEACH COUNTY FY 86 A-128 |
| 04-88-032-98-599* | OT AGY | NO/DOL | 15-JUN-88 | SARASOTA COUNTY FY 85 A-128 |
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| 05-88-116-02-201 | VETS | CONTR | 20-SEP-88 | MINNESOTA A-128 |
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| 05-88-072-02-210 | VETS | VETSPM | 13-MAY-88 | OMAHA, NEBRASKA A-128 |
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| 05-88-096-03-325* | ETA | SESA | 25-AUG-88 | NEBRASKA DOL A-128 |
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| 05-88-081-03-340 | ETA | JTPA | 01-JUN-88 | IOWA PLANNING/PRGMING A-128 |
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| 05-88-086-03-345 | ETA | CETA | 22-JUN-88 | HAMILTON CO OHIO E&T DEPT |
| 05-88-055-03-355* | ETA | DINAP | 01-APR-88 | MINN AMER INDIAN CTR A-128 |
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| 05-88-090-03-355 | ETA | DINAP | 29-JUL-88 | ONEIDA TRIBE OF WISCONSIN A-128 |
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| 06-88-802-03-340 | ETA | JTPA | 28-SEP-88 | SVC PROVIDERS CONTRACTS-RPT II |
| 06-88-044-03-355* | ETA | DINAP | 13-APR-88 | MONTANA INDIAN ASSN A-128 |
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| 06-88-269-06-601 | MSHA | GRTEES | 10-MAY-88 | NM ENERGY/MINERALS DEPT A-128 |
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| 06-88-116-10-101 | OSHA | OSHAG | 13-SEP-88 | UTAH A-128 |
| 06-88-046-11-111 | BLS | BLSG | 19-APR-88 | AR EMPL SEC DIV A-128 |
| 06-88-064-11-111 | BLS | BLSG | 02-MAY-88 | ND JOB SERVICE A-128 |
| 06-88-078-11-111 | BLS | BLSG | 05-MAY-88 | NM STATE EMPL SEC A-128 |
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| 06-88-108-11-111* | BLS | BLSG | 29-JUL-88 | WY DOL/STATS A-128 |
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| 09-88-612-02-210 | VETS | VETSPM | 26-MAY-88 | NEVADA A-128 |
| 09-88-622-02-210 | VETS | VETSPM | 29-JUN-88 | CALIFORNIA FY 87 A-128 |
| 09-88-654-02-210 | VETS | VETSPM | 15-SEP-88 | ANCHORAGE, AL A-128 |
| 09-88-661-02-210 | VETS | VETSPM | 12-SEP-88 | WASHINGTON A-128 |
| 09-88-663-03-320 | ETA | USES | 13-SEP-88 | AMERICAN SAMOA A-128 |
| 09-88-569-03-325 | ETA | SESA | 01-APR-88 | WASHINGTON EMPL SEC DEPT A-128 |
| 09-88-609-03-325 | ETA | SESA | 26-MAY-88 | NEVADA A-128 |
| 09-88-656-03-325* | ETA | SESA | 12-SEP-88 | COOP PERSONNEL SVCS A-128 |
| 09-88-548-03-340 | ETA | JTPA | 27-SEP-88 | JTPA-SDA PROCUREMENT PRACTICES |
| 09-88-590-03-340* | ETA | JTPA | 13-APR-88 | ALASKA COMM/REGNL AFFAIRS A-128 |
| 09-88-595-03-340 | ETA | JTPA | 19-APR-88 | PACIFIC ISLANDS TR TERR A-128 |
| 09-88-619-03-340 | ETA | JTPA | 23-SEP-88 | CALIFORNIA FY 87 A-128 |
| 09-88-638-03-340 | ETA | JTPA | 13-JUL-88 | JTPA COST LIMITATIONS |
| 09-88-658-03-340 | ETA | JTPA | 12-SEP-88 | WASHINGTON A-128 |
| 09-88-509-03-355 | ETA | INAP | 02-MAY-88 | W WASHINGTON INDIAN E&T PROGRAM |
| 09-88-524-03-355 | ETA | DINAP | 24-MAY-88 | KAWERAK INC A-128 |
| 09-88-544-03-355* | ETA | DINAP | 21-APR-88 | INDIAN CENTER OF SAN JOSE A-128 |
| 09-88-549-03-355* | ETA | DINAP | 21-APR-88 | MANILAG MANPOWER INC A-128 |
| 09-88-566-03-355* | ETA | DINAP | 11-APR-88 | PHOENIX INDIAN CENTER INC A-128 |
| 09-88-582-03-355 | ETA | DINAP | 01-APR-88 | WHITE MOUNTAIN APACHES A-128 |
| 09-88-583-03-355 | ETA | DINAP | 01-APR-88 | COLVILLE CONFED TRIBES A-128 |
| 09-88-584-03-355 | ETA | DINAP | 01-APR-88 | COLVILLE CONFED TRIBES A-128 |
| 09-88-588-03-355 | ETA | DINAP | 01-APR-88 | METLAKATLA INDIAN COMM A-128 |
| 09-88-589-03-355 | ETA | DINAP | 14-APR-88 | METLAKATLA INDIAN COMM A-128 |
| 09-88-591-03-355 | ETA | DINAP | 14-APR-88 | SILETZ CONFED TRIBES A-128 |
| 09-88-597-03-355* | ETA | DINAP | 21-APR-88 | MAUNELUK MANPOWER INC A-128 |

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# APRIL 1-SEPTEMBER 30, 1988

| AUDIT REPORT NUMBER | AGENCY | PROGRAM | DATE SENT TO PROGRAM AGENCY | NAME OF AUDIT/AUDITEE |
|---|---|---|---|---|
| 09-88-599-03-355 | ETA | DINAP | 26-AUG-88 | TANANA CHIEFS CONFERENCE A-128 |
| 09-88-601-03-355 | ETA | DINAP | 04-MAY-88 | AK TLINGIT/HAIDA TRIBES A-128 |
| 09-88-603-03-355 | ETA | DINAP | 11-MAY-88 | PASCUA YAQUI TRIBE A-128 |
| 09-88-605-03-355 | ETA | DINAP | 25-MAY-88 | KAWERAK INC A-128 |
| 09-88-606-03-355 | ETA | DINAP | 30-SEP-88 | CHE-HO-QUI-SHO CNSRT A-128 |
| 09-88-613-03-355* | ETA | DINAP | 15-SEP-88 | AM INDIAN COMM CTR ASSN A-128 |
| 09-88-614-03-355 | ETA | DINAP | 01-JUL-88 | ALEUTIAN/PRIBILOFF ASSN A-128 |
| 09-88-615-03-355 | ETA | DINAP | 15-SEP-88 | PASCUA YAQUI TRIBE A-128 |
| 09-88-617-03-355* | ETA | DINAP | 12-SEP-88 | BRISTOL BAY NATIVE ASSN A-128 |
| 09-88-623-03-355 | ETA | DINAP | 10-AUG-88 | AZ TOHONO O'ODHAM/ PAPAGO A-128 |
| 09-88-624-03-355* | ETA | DINAP | 13-SEP-88 | UNTD INDIAN NATIONS CNSRT A-128 |
| 09-88-627-03-355* | ETA | DINAP | 16-SEP-88 | W WASHINGTON INDIAN E&T A-128 |
| 09-88-633-03-355* | ETA | DINAP | 27-JUN-88 | N CA INDIAN DEV CNCL INC A-128 |
| 09-88-634-03-355 | ETA | DINAP | 14-SEP-88 | THE NORTH PACIFIC RIM A-128 |
| 09-88-635-03-355 | ETA | DINAP | 16-SEP-88 | TANANA CHIEFS CONFERENCE A-128 |
| 09-88-637-03-355 | ETA | DINAP | 15-SEP-88 | SANTA CRUZ HOUSING AUTH A-128 |
| 09-88-639-03-355 | ETA | DINAP | 16-SEP-88 | CONFED TRIBES UMATILLA A-128 |
| 09-88-650-03-355 | ETA | DINAP | 15-SEP-88 | TOHONO O'ODHAM NATION A-128 |
| 09-88-652-03-355 | ETA | DINAP | 13-SEP-88 | WASHINGTON SR COMM SVC A-128 |
| 09-88-653-03-355 | ETA | DINAP | 03-SEP-88 | KENAITZE INDIAN TRIBE A-128 |
| 09-88-655-03-355 | ETA | DINAP | 13-SEP-88 | AK SR CITIZENS EMPL A-128 |
| 09-88-665-03-355 | ETA | DINAP | 15-SEP-88 | HOPI TRIBE A-128 |
| 09-87-543-03-365* | ETA | DSFP | 28-APR-88 | CTR FOR EMPL & TRNG A-128 |
| 09-87-598-03-365* | ETA | DSFP | 10-MAY-88 | CTR FOR EMPL & TRNG A-128 |
| 09-88-585-03-365* | ETA | DSFP | 01-APR-88 | ASSN/HISPANIC ELDERLY A-128 |
| 09-88-600-03-365 | ETA | DSFP | 04-MAY-88 | KERN COUNTY A-128 |
| 09-88-604-03-365* | ETA | DSFP | 27-MAY-88 | PORT PRACTICAL ED/PREP A-128 |
| 09-88-607-03-365 | ETA | DSFP | 24-MAY-88 | COMM HOUSING IMPROVEMT A-128 |
| 09-88-625-03-365* | ETA | DSFP | 16-JUN-88 | IDAHO MIGRANT COUNCIL A-128 |
| 09-88-626-03-365 | ETA | DSFP | 10-AUG-88 | RURAL COMM ASSISTANCE A-128 |
| 09-88-628-03-365* | ETA | DSFP | 13-SEP-88 | RURAL/FARMWORKER HOUSING A-128 |
| 09-88-629-03-365* | ETA | DSFP | 13-SEP-88 | RURAL/FARMWORKER HOUSING A-128 |
| 09-88-630-03-365* | ETA | DSFP | 26-AUG-88 | RURAL/FARMWORKER HOUSING A-128 |
| 09-88-632-03-365 | ETA | DSFP | 13-SEP-88 | SANTA CRUZ HOUSING AUTH A-128 |
| 09-88-602-03-370 | ETA | OJC | 11-MAY-88 | UNIVERSITY OF NEVADA A-128 |
| 09-88-572-06-601* | MSHA | GRTEES | 14-APR-88 | IDAHO DOL/INDUSTR SVCS A-128 |
| 09-88-611-06-601 | MSHA | GRTEES | 26-MAY-88 | NEVADA A-128 |
| 09-88-621-06-601 | MSHA | GRTEES | 29-JUN-88 | CALIFORNIA A-128 |
| 09-88-660-06-601 | MSHA | GRTEES | 12-SEP-88 | WASHINGTON A-128 |
| 09-87-005-07-001 | OASAM | ADMIN | 26-SEP-88 | CARE DPMS TFRA |
| 09-88-009-07-001 | OASAM | ADMIN | 27-SEP-88 | CARE PERMIS TFRA |
| 09-88-008-07-730 | OASAM | DAPP | 01-APR-88 | REGION IX IMPREST FUND |
| 09-88-593-10-001 | OSHA | ADMIN | 30-SEP-88 | WASHINGTON DOL/INDUS A-128 |
| 09-88-610-10-101 | OSHA | OSHAG | 26-MAY-88 | NEVADA A-128 |
| 09-88-620-10-101 | OSHA | OSHAG | 23-SEP-88 | CALIFORNIA FY 87 A-128 |
| 09-88-659-10-101 | OSHA | OSHAG | 12-SEP-88 | WASHINGTON A-128 |
| 09-88-664-10-101 | OSHA | OSHAG | 13-SEP-88 | AMERICAN SAMOA A-128 |
| 09-88-570-11-111 | BLS | BLSG | 01-APR-88 | WASHINGTON EMPL SEC DEPT A-128 |
| 09-88-608-11-111 | BLS | BLSG | 26-MAY-88 | NEVADA A-128 |
| 09-88-618-11-111 | BLS | BLSG | 23-SEP-88 | CALIFORNIA FY 87 A-128 |

# FINAL AUDIT REPORTS ISSUED
# APRIL 1-SEPTEMBER 30, 1988

| AUDIT REPORT NUMBER | AGENCY | PROGRAM | DATE SENT TO PROGRAM AGENCY | NAME OF AUDIT/AUDITEE |
|---|---|---|---|---|
| 09-88-657-11-111 | BLS | BLSG | 12-SEP-88 | WASHINGTON A-128 |
| 09-88-502-98-599* | OT AGY | NO/DOL | 24-JUN-88 | LOS ANGELES FY 1986 A-128 |
| 09-88-573-98-599* | OT AGY | NO/DOL | 13-APR-88 | SANTA CRUZ COUNTY AZ A-128 |
| 12-88-007-01-001 | OSEC | ADMIN | 19-APR-88 | FY 1986 DOL ANNUAL REPORT |
| 12-88-010-03-001 | ETA | ADMIN | 30-SEP-88 | FY 86 ETA MANAGEMENT ADVISORY |
| 12-87-020-04-001 | ESA | ADMIN | 12-SEP-88 | FY 86 ESA FINANCIAL STATEMENTS |
| 12-87-022-07-001 | OASAM | ADMIN | 30-SEP-88 | FY 86 DOL CONSOL FIN STMTS |
| 12-88-019-98-599 | OT AGY | NO/DOL | 30-SEP-88 | DOL DAY CARE CENTER |
| 13-87-003-03-370 | ETA | OJC | 10-JUN-88 | OP PLASTERERS/CEMENT MASONS |
| 13-87-002-03-380 | ETA | SPPD | 09-JUN-88 | HUMAN RESOURCES DEV INSTITUTION |
| 13-87-005-07-735 | OASAM | OPGM | 16-MAY-88 | IL COMMERCE & COMMUNITY AFFAIRS |
| 17-87-056-02-001 | VETS | ADMIN | 11-JUL-88 | CALIFORNIA DVOP FUND |
| 17-87-057-02-001 | VETS | ADMIN | 06-APR-88 | WASHINGTON DVOP FUND |
| 17-88-003-02-210 | VETS | VETSPM | 14-SEP-88 | MARYLAND DVOP FUND |
| 17-88-009-02-210 | VETS | VETSPM | 09-AUG-88 | MINNESOTA DVOP FUND |
| 17-88-014-02-210 | VETS | VETSPM | 26-AUG-88 | MINNESOTA DVOP FUND FY 87 |
| 18-88-004-03-340 | ETA | JTPA | 28-SEP-88 | PICO UNION NBRHD CNCL INC |
| 18-88-002-03-355 | ETA | DINAP | 05-MAY-88 | NATL INDIAN BUSINESS COUNCIL |
| 18-88-037-03-355 | ETA | DINAP | 08-JUL-88 | NATL URBAN INDIAN COUNCIL |
| 18-88-009-03-370 | ETA | OJC | 28-SEP-88 | JOLIET JOB CORPS CENTER |
| 18-88-010-03-370 | ETA | OJC | 30-SEP-88 | ENROLLEES ALLOWANCE SYSTEM |
| 18-88-017-03-370 | ETA | OJC | 16-AUG-88 | CORPSMEMBERS' LEARNING GAINS |
| 18-88-018-03-370 | ETA | OJC | 30-SEP-88 | ATTERBURY JOB CORPS CENTER |
| 18-88-032-03-370 | ETA | OJC | 30-SEP-88 | CORPS MEMBERS STATUS CHANGES |
| 18-88-036-03-370 | ETA | OJC | 25-APR-88 | SOUTH BRONX JOB CORPS CENTER |
| 18-88-001-03-380 | ETA | SPPD | 14-SEP-88 | HUDSON INSTITUTE, INC F&C |
| 19-87-049-07-720 | 0ASAM | DIRM | 29-SEP-88 | AUTOMATED PURCHASE/PMT SYSTEM |
| 19-88-003-12-001 | PWBA | ADMIN | 23-SEP-88 | SYSTEM DEVELOPMENT MONITORING |

* DOL has cognizant responsibility for specific entities under the Single Audit Act. Reports listed above indicate those entities for which DOL has cognizance. More than one audit report may have been issued or transmitted based on the type of funding and the agency/program responsible for resolution. For example, DOL has cognizancy for Maine DOL. Most of the funds audited were SESA funds, thus the "lead" report is asterisked and is the one used to count the total number of entities audited during the period. However, reports were also issued on JTPA, CETA, MSHA, OSHA, and BLS funds and transmitted for determination and resolution. Thus, one entity was audited but six reports were issued to various program on their funds.

# ABBREVIATIONS USED IN THIS REPORT

**The OIG offices are:**

| | |
|---|---|
| IG | Inspector General |
| 02 | New York |
| 03 | Philadelphia |
| 04 | Atlanta |
| 05 | Chicago |
| 06 | Dallas |
| 09 | San Francisco |
| 12 | Office of Financial Management Audits |
| 17 | Office of Performance Audits |
| 18 | Office of Program Fraud Audits |
| 19 | Office of Information Resource Management Audits |
| OA | Office of Audit |
| OI | Office of Investigations |
| OLR | Office of Labor Racketeering |
| ORMLA | Office of Resource Management and Legislative Assessment |

**The Agencies are:**

| | |
|---|---|
| BLS | Bureau of Labor Statistics |
| ESA | Employment Standards Administration |
| ETA | Employment and Training Administration |
| MSHA | Mine Safety and Health Administration |
| OASAM | Office of the Assistant Secretary for Administration and Management |
| OIG | Office of Inspector General |
| OLMS | Office of Labor-Management Standards |
| OSEC | Office of the Secretary |
| OSHA | Occupational Safety and Health Administration |
| PWBA | Pension and Welfare Benefits Administration |
| SOL | Office of the Solicitor |
| VETS | Veterans Employment and Training Service |
| | |
| DOD | Department of Defense |
| DOL | Department of Labor |
| EPA | Environmental Protection Agency |
| FBI | Federal Bureau of Investigations |
| GAO | General Accounting Office |
| IRS | Internal Revenue Service |
| OMB | Office of Management and Budget |

**The types of programs are:**

| | |
|---|---|
| ADMIN | Agency administration |
| ADP | Automatic Data Processing |
| BAT | Bureau of Apprenticeship and Training |
| BL | Black Lung |
| BLDTF | Black Lung Disability Trust Fund |
| BLSG | Bureau of Labor Statistics Grantees |
| CCCA | Comprehensive Crime Control Act |
| CETA | Comprehensive Employment and Training Act |
| CMSH | Coal Mine Safety and Health |
| COMP | Comptroller |
| DCMWC | Division of Coal Mine Workers' Compensation |
| DFEC | Division of Federal Employees' Compensation |
| DINAP | Division of Indian and Native American Programs |
| DIRM | Directorate of Information Resources Management |
| DLHWC | Division of Longshore and Harbor Workers' Compensation |
| DPGM | Directorate of Procurement and Grant Management |
| DSFP | Division of Seasonal Farmworker Programs |
| DOWP | Division of Older Worker Programs |
| ERISA | Employee Retirement Income Security Act |
| FECA | Federal Employees' Compensation Act |

| | |
|---|---|
| FLSA | Fair Labor Standards Act |
| GRTEES | Grantees |
| ILA | International Longshoremen's Association |
| IRM | Information Resources Management |
| JTPA | Job Training Partnership Act |
| LMRDA | Labor Management Reporting and Disclosure Act |
| LSHWCA | Longshore and Harbor Workers' Compensation Act |
| OJC | Office of Job Corps |
| OPS | Office of Procurement Services |
| OSPPD | Office of Strategic Planning and Policy Development |
| OT AGY | Agency other than DOL |
| OWCP | Office of Workers' Compensation Programs |
| PCIE | President's Council on Integrity and Efficiency |
| PWBP | Pension and Welfare Benefits Program |
| RICO | Racketeer Influenced and Corrupt Organizations Statute |
| SESA | State Employment Security Agency |
| TRA | Trade Readjustment Allowances |
| UIS | Unemployment Insurance Service |
| USES | United States Employment Service |
| WH | Wage Hour Division |

**Miscellaneous:**

| | |
|---|---|
| AICPA | American Institute of Certified Public Accountants |
| CARE | Controls and Risk Evaluation (GAO Audit Methodology) |
| CPA | Certified Public Accountant |
| DTR | Diversified Transportation Resources |
| FMFIA | Federal Managers' Financial Integrity Act |
| GAAP | Generally Accepted Accounting Principles |
| GMA | Gary Manpower Administration |
| HERE | Hotel Employees and Restaurant Employees |
| IBT | International Brotherhood of Teamsters |
| IPA | Independent Public Accountant |
| PFCRA | Program Fraud Civil Remedies Act (of 1986) |
| SCAT | Smart Card Applications and Technologies |
| SDA | Service Delivery Area (under JTPA) |
| UTI | United Terminals, Inc. |

# FACTSHEETS AND AWARENESS BULLETINS

The following factsheets are part of a series designed to provide information and guidance to DOL employees and members of the general public. Samples are provided on pages 97-102.

| *Factsheet No.* | *Title* |
|---|---|
| OIG 88-1 (rev.) | Office of Inspector General |
| OIG 88-2 (rev.) | Reporting Fraud, Waste, and Abuse |
| OIG 88-3 (rev.) | Ethics and Integrity in the Workplace |

During this reporting period, the OIG published two awareness bulletins. The awareness bulletin series is designed to inform DOL personnel of OIG functions within the Department and employees' ethical responsibilities. Samples are provided on pages 103-106.

| *Awareness Bulletin No.* | *Title* |
|---|---|
| AB 88-1 | The Audit |
| AB 88-2 | The Program Fraud Civil Remedies Act |

Copies of these documents may be obtained by writing to:

U.S. Department of Labor
Office of Inspector Genral
200 Constitution Ave., N.W., Room S-5506
Washington, D.C. 20210

# U.S. Department of Labor
# Program Highlights

Fact Sheet No. OIG 88-1 (rev.)

## OFFICE OF INSPECTOR GENERAL

In order to increase economy and efficiency within the Federal Government, while improving accountability for the vast amounts of funds assigned to various agencies, the Inspector General Act of 1978 and its amendments have established an Office of Inspector General (OIG) in the Department of Labor as well as in most other major departments and agencies.

Under the Act, each OIG is charged with preventing fraud, waste, and abuse as well as promoting economy, efficiency, and effectiveness in Federal programs and operations. This broad and complex mandate not only expanded the scope of traditional audit and investigative work, but added a critical new dimension—that of preventing fraud, waste, and abuse. This expansion of responsibility gave the Inspectors General additional authority to investigate and gain access to information.

In addition, the Labor Department has the only Federal OIG engaged in a cooperative effort with the U.S. Department of Justice to control the influence of organized crime in labor-management relations.

Because of the OIG's unique role, the Act ensures independence in conducting activities through selection and appointment of Inspectors General directly by the President, a direct reporting channel to the individual Secretary or agency head, freedom from interference in the conduct of all audits or investigations or issuance of subpoenas, a semi-annual report to the Congress highlighting problems, and a requirement that the agency head report to the Congress within seven days any particularly serious problem or deficiency identified by the Inspector General.

Within the Department of Labor, the OIG's specific functions are to:

— Conduct and supervise audits and investigations relating to DOL programs and operations;

— Investigate areas vulnerable to labor racketeering, such as employee benefit funds, labor-management relations, and internal union affairs;

— Recommend policies to prevent and detect fraud, waste, and abuse and increase economy, efficiency, and effectiveness in Department programs and operation; and

— Keep the Secretary of Labor and the Congress informed about programs and corrective actions needed in administering Department operations.

## The OIG's major programs include:

### OFFICE OF AUDIT

The OIG Office of Audit is responsible for reviewing the fiscal and programmatic integrity and efficiency of Department activities. Audits are performed to evaluate compliance with applicable laws and regulations, to review use of resources for economy and efficiency, and to determine whether desired program results are effectively achieved. Audits are planned on the high priority areas that affect Department programs and activities.

### OFFICE OF INVESTIGATIONS

Investigations are usually conducted as a result of allegations or suspicions of criminal activity or misconduct. Once investigated, cases are presented to the U.S. Attorney or local law enforcement agencies for possible prosecution. Examples of possible cases include employee misconduct, fraud schemes involving Department programs, and improper use of Government funds. In addition, this office may pursue specific investigative projects to deter improper activities. Matters may also be referred to the program agencies for administrative action.

### OFFICE OF LABOR RACKETEERING

Formed in response to concern over the growth of labor racketeering by organized crime, this office conducts investigations into three general areas: employee benefit plans, labor-management relations, and internal union affairs. Activities of interest include embezzlement of union or employee benefit funds, kickbacks to benefit plan officials, illegal payments from management to labor officials, and extortion. Investigations establishing evidence of labor racketeering are prosecuted by the U.S. Attorney's Office or the U.S. Department of Justice Strike Force.

### OFFICE OF RESOURCE MANAGEMENT AND LEGISLATIVE ASSESSMENT

This office provides support and direction to the OIG through various program and policy functions. Examples include policy development and program analysis; legislative and regulatory analysis; congressional reporting; training, communication, and awareness programs; liaison with the President's Council on Integrity and Efficiency and other organizations; information resources for the OIG through ADP functions; and budget, administrative, and personnel management.

## Reporting fraud, waste, and abuse

An OIG Hotline has been established for employees and the public to report suspected fraud, waste, and abuse. In Washington, D.C., the phone number is 357-0227. Elsewhere, the toll-free number is 800-424-5409.

Regional Offices are maintained in New York, Philadelphia, Atlanta, Chicago, Dallas, San Francisco, and Washington.

For further information contact:

Office of Inspector General
U.S. Department of Labor
Room S-1303
200 Constitution Ave., N.W.
Washington, D.C. 20210

(202) 523-9909

# U.S. Department of Labor
# Program Highlights

Fact Sheet No. OIG 88-2 (rev.)

## REPORTING FRAUD, WASTE, AND ABUSE

If you had information about a wrongdoing or crime involving the Department of Labor, would you know where to report it? Many people are unsure or uncomfortable about reporting fraud, waste, or abuse. Yet, depending upon the circumstances, several options may be available.

One of the simplest and most direct approaches employees can take is notifying their supervisors of any information they reasonably believe indicates wrongdoing. In many cases Form DL-156, the *Incident Report*, can be used to report allegations of wrongdoing as well.

Department of Labor employees and members of the general public can also make use of the Hotline, operated by the Office of Inspector General (OIG), to report fraud, waste, or abuse in programs or operations. Situations in which the Hotline should be considered include any activity which constitutes a serious violation of Federal law, gross mismanagement or waste of funds, abuse of authority, or a substantial and specific danger to public health and safety.

Wrongdoing also pertains to improper conduct and activities which relate to or have an impact on the official positions of Department officers and employees, as well as persons involved in business with the Department of Labor, such as grantees, contractors, and other groups.

Some specific examples of wrongdoing which should be reported to the Hotline include:

— Submission of false claims or fraudulent statements by employees, contractors, or grantees of the Department of Labor;

— Conspiracy to defraud the United States;

— Conflicts of interest;

— Concealment, removal, falsification, forgery, or alteration of official documents;

— Misappropriation or embezzlement of Federal funds; and

— Other serious violations or misconduct.

Calls are not recorded, and no attempts are made to track down anonymous callers. However, if a caller wishes to remain anonymous, that decision may limit the scope of an investigation, especially if information given by the caller is insufficient and the investigators have no way of following-up the allegation.

The identity of an individual who makes a complaint or provides information to the Labor Department's Hotline generally will not be disclosed unless the Inspector General determines such disclosure is unavoidable during the course of an investigation.

The Inspector General Act of 1978 protects employees against reprisals for making complaints or disclosing information to the Inspector General, unless the complaint was made with the knowledge that it was false. Employees who believe that they have been threatened or harmed in any way from making complaints may request the Office of Special Counsel of the Merit Systems Protection Board (MSPB) to review the allegations. A special hotline is operated by MSPB for reporting prohibited personnel practices such as reprisals, as well as for Hatch Act violations.

The General Accounting Office (GAO) also maintains a hotline that both Federal employees and the general public may use to report wrongdoing within the Government. Calls made to that hotline are usually referred to the appropriate Inspector General for the Government agency involved.

Telephone numbers for the hotlines are:

U.S. Department of Labor Hotline ..... (202) 357-0227
Toll-Free Number ..... 800-424-5409

MSPB Prohibited Personnel Practices Unit ..... (202) 653-7188
Toll-Free Number ..... 800-872-9855
Whistleblowing Unit ..... (202) 653-9125
Hatch Act Violations Unit ..... (202) 653-7143

GAO Hotline ..... (202) 272-5557
Toll-Free Number ..... 800-424-5454

# U.S. Department of Labor
# Program Highlights

Fact Sheet No. OIG 88-3 (rev.)

## ETHICS AND INTEGRITY IN THE WORKPLACE

Can the Government decide whether or not you are allowed to moonlight?

Can you make an official decision that will affect the value of your stocks?

Can you use office equipment for personal business matters?

Can you accept free lunches from Government contractors?

These questions are among many considerations which arise under the broad topic of ethics and integrity in the workplace. A wide variety of laws, rules, and regulations apply. Some requirements are Government-wide. Others are specific to the Labor Department. And still others reflect the particular concerns of the individual agency. For answers to the questions listed above, as well as many others, the following is a brief summary of rules which are generally applicable throughout the Labor Department.

### OUTSIDE EMPLOYMENT

**Federal employees should not hold outside jobs or engage in other business or professional activities which result in a conflict of interest or an appearance of a conflict with their official Government responsibilities.** Nor should Federal employees hold outside jobs which impair their ability to perform their duties acceptably. Labor Department employees considering outside jobs or related business or professional activities which raise a substantial question of conflict or appearance of conflict must obtain prior written permission from the authorized supervisory level within the agency.

### CONFLICT OF INTEREST

**Employees are not permitted to have direct or indirect financial interests that conflict substantially or appear to conflict substantially with their official duties and responsibilities.** Certain employees must also report their financial holdings to determine whether their interests conflict or appear to conflict with their Government duties. There is also a specific prohibition against acting as an attorney, agent or representative of another person in matters of interest to the United States Government or the Government of the District of Columbia. This prohibition applies to representation before all courts and all Federal agencies, not just the one for which the individual works.

### MISUSE OF OR TAKING FEDERAL PROPERTY

**Employees are expected to use Government property only for officially approved activities and to protect all property, equipment, or supplies entrusted to them.** This requirement applies to such areas as the mailing frank, the telephone, office machines, and office supplies.

## GIFTS, GRATUITIES, REIMBURSEMENTS, AND ENTERTAINMENT

**Employees are generally prohibited from accepting items offered by those who could be affected by agency actions or those appearing to provide a reward for individual actions.** A number of specific rules and requirements apply: for example, a separate criminal statute prohibits employees from receiving salary or anything else of monetary value from a private source as compensation for services to the Government. Federal employees generally should not accept payments for honorariums from private sources in matters related to official business. Moreover, contributions and gifts to supervisors or superiors are prohibited under most circumstances, except for those of nominal value given for special occasions, such as retirement. Information regarding these rules can be found in the Department's ethics and conduct regulations.

## TIME AND ATTENDANCE

**Some serious time and attendance abuses are violations of Federal statutes and can result in fines or even imprisonment.** Failure of an employee to comply with time and attendance requirements can result in a number of disciplinary actions ranging from administrative reprimand to dismissal. Employees should know what rules and procedures apply.

## TRAVEL

**There are detailed rules and procedures relating to travel that may lead to serious consequences for those who try to use the system for fraudulent claims.** Employees should become thoroughly familiar with all applicable rules and requirements.

## REPORTING FRAUD, WASTE, ABUSE, OR MISMANAGEMENT

Employees have both a right and a responsibility to report wrongdoing. Such reports may be made to the supervisor or to the Department's Hotline, operated by the Office of Inspector General. In many cases, Form DL-156, the *Incident Report*, can be used for reporting allegations. Other Government hotlines also exist for specified purposes. It is illegal for any supervisor or official to take reprisal against any employee for reporting allegations of wrongdoing.

## ADVICE AND ASSISTANCE

Information presented here is only a summary and should not be used alone for making decisions about serious matters. Any employee wishing additional information or assistance should seek advice from his or her own supervisor or another, appropriate office listed below.

## OFFICES TO CONTACT

| | |
|---|---|
| **Office of the Solicitor** | **523-7675** |
| **Associate Solicitor for Legislation and Legal Counsel** | **523-8201** |
| **Counsel for Special Legal Services** | **523-8088** |
| **Office of Inspector General** | **523-9909** |
| **DOL Hotline** | **357-0227** |
| **Toll-Free Hotline** | **800-424-5409** |
| **Department Office of Personnel** | **523-9191** |
| **Office of Government Ethics** | **632-2792** |
| **General Accounting Office Hotline** | **272-5557** |
| **Merit Systems Protection Board** | **653-7188** |
| **Office of Government Ethics** | **632-2792** |

# U.S. Department of Labor
# OIG Awareness Bulletin

Bulletin No. AB 88-1

## THE AUDIT

This bulletin describes what an Office of Inspector General (OIG) audit means to you as a DOL employee or manager and how it can improve program operations.

An auditor visits the various programs and agencies of the Department to review program operating procedures and to help agencies improve economy and efficiency. Although there are many kinds of audits, in general, an audit is a look at the past performance of a program to determine whether funds and property were properly handled and whether government programs or projects have met or have fallen short of aims and expectations. Various types of audits may include financial and compliance reviews, reviews of the economy and efficiency of operations, and assessments of program results.

The purpose of an audit is not to rehash past mistakes but to look at past events with a view toward improving future performance. Findings from an audit can be used as a basis for adjusting policies, priorities, structure or procedures in order to make operations as efficient, economical and effective as possible.

OIG's audit priorities are established based on a number of criteria and are described in its annual plans. In the audit planning process, DOL programs or activities are considered in light of:

(1) their susceptibility to fraud, abuse, embezzlement, program manipulation or other types of irregularities;

(2) their newness or changed conditions;

(3) the sensitivity of the organization, program, activity or function;

(4) the dollar magnitude, resources involved or duration of the program; and

(5) the results of other evaluations, inspections, audits and program reviews.

Key questions which may be asked include: Are employees being used in a way that leads to maximum potential? Is money being managed well? Are objectives met and expected results achieved?

(more)

**The audit entrance conference** begins an OIG audit and is held prior to the start of field work. The purpose is to provide a description of the audit's scope and objectives. Other areas covered include the timeframes for completing the audit, access to required records and information, space accommodations and introduction of the audit team members. Identification of potential areas which may warrant special review are also discussed at this time.

**Audit field work** consists of reviewing, documenting and analyzing relevant data. The Inspector General Act of 1978 authorizes the OIG to have access to all records, reports, audits, reviews, documents, papers, recommendations or other materials. Accordingly, DOL managers are to ensure that employees at all levels cooperate with the OIG by making available all documents and information deemed necessary for the adequate conduct of the audit.

**An exit conference** is held with program officials when field work is completed at each level. The purpose of the exit conference is to communicate audit results to the affected program or agency before issuance of the audit report.

**The audit report,** given after completion of the audit, is the primary document used by the OIG to officially present the findings and recommendations of an audit or review to appropriate officials. The audit report generally includes a description of the scope and objectives of the audit, a statement that the audit was made in accordance with accepted government auditing standards, and a description of weaknesses found in the internal control system. The report may also include recommendations for corrective actions; the views of an official in the program concerning the auditors' findings, conclusions and recommendations; and noteworthy accomplishments disclosed by the audit.

The audit process should be viewed as an opportunity for an objective, skilled and impartial review of program operations, and, if appropriate, can result in suggestions for improvement. In most instances, implementing audit recommendations can lead to better program operations and resource savings.

For additional information about audits performed by the OIG, review the most recent copy of the Semiannual Report of the Inspector General, which may be obtained from the Office of Inspector General, Office of Resource Management and Legislative Assessment, Frances Perkins Building, Room S-5506, telephone (202) 523-6747.

# U.S. Department of Labor
# OIG Awareness Bulletin

Bulletin No. AB 88-2

## THE PROGRAM FRAUD CIVIL REMEDIES ACT

The Program Fraud Civil Remedies Act (PFCRA) establishes an additional, administrative remedy against anyone who makes a false claim or false written statement to the Department of Labor (or to any other Department or Agency of the United States Government covered by the Act). In general, this remedy applies to any person who, with knowledge or reason to know, submits a false, fictitious, or fraudulent claim or statement to the Department. Such a person can be held liable for up to a $5,000 penalty per claim or statement, as well as an assessment of up to double the amount falsely claimed. PFCRA does not create any new violations or change the way DOL receives allegations of false claims or statements. It simply provides an additional legal remedy.

### *What are your responsibilities under the Act?*

DOL employees who deal with grantees, claim recipients, contractors, or others who submit claims or statements to the Department for money, services, or property should be aware that these clients are subject to the provisions of the Act, which may include penalties of up to $5,000 for each false claim or statement as well as an assessment of up to double damages.

Employees of the Department should also be aware that the Act applies to themselves, with respect to submission to the Department of false or fraudulent claims for FECA, travel reimbursement, time and attendance, or any other claims for property, services, or money.

### *What is the Program Fraud Civil Remedies Act?*

The Program Fraud Civil Remedies Act (PFCRA) was enacted on October 21, 1986, as Section 6103-6104 of the Omnibus Budget Reconciliation Act of 1986, and is codified at 31 U.S.C. Section 3801-3812. DOL's regulations implementing the Act were published in the Federal Register on June 2, 1987. Copies of these regulations may be obtained from: OIG/Office of Audit, FPB S-5022.

The Department's Office of Inspector General (OIG) will be the investigative agency under PFCRA and will have the power to subpoena documents and records.

*This is one of a series of bulletins highlighting U.S. Department of Labor OIG areas of concern. It is intended as a general description only and does not carry the force of legal opinion.*

### *Who is subject to PFCRA?*

Any person (or organization) who submits a false or fraudulent claim or a written, certified statement to the Department is covered by the Act.

Any person who submits false claims or statements to any recipient of money, property, or services from the Department if the Government pays for any portion of the underlying contract, grant, or loan is covered by the Act.

Each false claim is subject to a civil penalty even if the property, services, or money is not actually delivered or paid.

### *What is a false statement?*

Any falsely written representation, certification, affirmation, document, record, or accounting or bookkeeping entry made with respect to a claim, contract, bid or proposal for contract, grant, loan, or benefit and accompanied by an express certification or affirmation of the truthfulness and accuracy of its contents is considered to be a false statement.

Any omission of a material fact when there is a duty to provide a fact with respect to a claim or a statement and the claim or statement becomes false, fictitious, or fraudulent due to the omission is considered to be a false statement as well.

### *What is a false claim?*

Any false, fictitious, or fraudulent claim for property, services, money, grants, loans, insurance, or benefits is considered to be a false claim.

### *What is the standard of knowledge?*

A person must have actual knowledge that the claim or statement is false; be deliberately ignorant of its truth or falsity; or recklessly disregard its truth or falsity.

### *What are the penalties?*

Up to $5,000 per claim or statement.

For false claims, an assessment of up to twice the amount falsely claimed on claims which were paid may also be levied.

### *How does PFCRA work?*

If, after investigating a fraud case of claims less than $150,000 under PFCRA, the OIG concludes that an action is warranted, a report of investigation is submitted to the Solicitor's Office (SOL). If SOL determines that there is adequate evidence for liability under the Act, it sends a written notice of intent to issue a complaint to the Department of Justice. If the Attorney General approves the complaint the defendant is notified and may request a hearing. The complaint is then referred to a DOL Administrative Law Judge for hearing.

### *What do you do when you encounter a possible false claim problem?*

Allegations of PFCRA fraud are handled by the same mechanisms in place for any other significant allegations of fraud, waste, or criminal activity. If you are aware of possible false claims or statements either by outside parties who may be involved in procurement, grants, contracts, or entitlement programs or by DOL employees, you have a responsibility to report them to: **DOL/OIG Hotline**.....357-0227 *(Washington Dialing Area)*

(800) 424-5409 *(Toll Free/Outside Washington Area)*

Copies of this report may be obtained
from the U.S. Department of Labor,
Office of Inspector General,
Room S-5506
200 Constitution Avenue N.W.,
Washington, D.C. 20210.

**DEPARTMENT OF LABOR**
**OIG HOTLINE**

357-0227 (Washington Dialing Area)

(800) 424-5409 (Toll Free—outside Washington Area)

The OIG Hotline is open 24 hours a day, 7 days a week to receive allegations of fraud, waste, and abuse. An operator is normally on duty on work-days between 8:15 AM and 4:45 PM, Eastern Time. An answering machine handles calls at other times. Federal employees may reach the Hotline through FTS. The toll-free number is available for those residing outside the Washington Dialing Area who wish to report these allegations. Written complaints may be sent to:

OIG Hotline
U.S. Department of Labor
Room S1303 FPB
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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