

U.S. Department of Labor Office of Inspector General



November 2016

Table of Contents

Table of Contents	ii
TAB 1: OIG MISSION AND SIGNIFICANT CONCERNS	1
Mission.....	1
OIG Significant Concerns.....	1
Top Management and Performance Challenges	4
Major Legislative Recommendations	4
TAB 2: OIG ORGANIZATION	6
Authorizing Legislation	6
Organizational Structure	6
Key Leaders	7
TAB 3: OIG ACTIVITIES	8
OIG Investigations	8
OIG Audits.....	9
Other Significant OIG Reports	10
TAB 4: OIG BUDGET	11
TAB 5: OIG PERFORMANCE	14

TAB 1: OIG MISSION AND SIGNIFICANT CONCERNS

Mission

The Office of Inspector General (OIG) at the U.S. Department of Labor (DOL) conducts audits to review the effectiveness, efficiency, economy, and integrity of all DOL programs and operations, including those performed by its contractors and grantees. The OIG also conducts investigations relating to violations of federal laws, rules, or regulations, as well as investigations of allegations of misconduct on the part of DOL employees. In addition, the OIG has an external program function to conduct criminal investigations to combat the influence of labor racketeering and organized crime in the nation's labor unions.

OIG Significant Concerns

The OIG works with the Department and Congress to provide information and recommendations that will be useful in their management or oversight of the Department. The OIG has identified the following areas of significant concern that cause the Department to be particularly vulnerable to mismanagement, error, fraud, waste, or abuse:

Controlling the Rising Costs of Pharmaceuticals in Workers' Compensation Programs - As reported by DOL, pharmaceutical costs in the Federal Employees' Compensation Act (FECA) program jumped from \$184 million in FY 2011 to \$413 million in FY2015, or 124 percent. Costs for compound drugs (drugs created by combining, mixing, or altering the ingredients of drugs to tailor them to individual patients) accounted for much of this increase, rising from just \$2 million in FY2011 to \$214 million in 2015. The \$214 million in compound drug costs in FY2015 was more than the cost (\$199 million) of all other drugs billed to FECA. DOL needs to determine what it can and cannot do to manage pharmaceutical costs, including addressing the rising use and costs of compound drugs, per the laws and regulations governing the FECA, Energy Workers, Black Lung, and Longshore programs.

Ensuring the Safety of Students and Staff at Job Corps Centers - The OIG remains concerned about the ability of the Job Corps program to provide a safe environment for students and staff. Job Corps centers have been troubled by violence and other criminal behavior for years, as some center operators have not been enforcing disciplinary policies. In 2015, a student at the St. Louis (Missouri) Job Corps Center allegedly shot and killed another student in their dormitory room, and center operations at the Homestead Job Corps Center in South Florida were suspended and students transferred to other centers after a student was murdered near the center, allegedly by several of his fellow students. Previous to these serious incidents, OIG audits disclosed that some Job Corps centers failed to report and investigate serious misconduct, such as drug abuse and assaults, or downgraded incidents of violence to lesser infractions, creating an unsafe environment for students and staff. In response to these incidents, Job Corps reported an increased programmatic focus on student misconduct issues at all centers and that it has taken actions to improve center safety. The OIG is currently conducting an audit to assess the impact of Job Corps' efforts on preventing or mitigating violence and other serious crimes at its centers.

Protecting the Safety and Health of Workers and Miners - With more than 8 million establishments under the oversight of the Occupational Safety and Health Administration (OSHA), the OIG remains concerned with OSHA's ability to best target its compliance activities to those areas where they can have the greatest impact. OSHA carries out its enforcement responsibilities through a combination of self-initiated and complaint investigations but can reach only a fraction of the entities it regulates. Consequently, OSHA must strive to target the most egregious and persistent violators and protect the most vulnerable worker populations. The OIG is also concerned with OSHA's ability to measure the impact of its policies and programs and those of the 27 OSHA-approved State Plans for occupational safety and health.

The ability of the Mine Safety and Health Administration to effectively manage its resources to meet statutory mine inspection requirements while successfully administering other enforcement responsibilities is a concern for the OIG. A recent review of emergency response plans maintained by mine operators revealed that one-third of the 779 emergency contact telephone numbers the OIG called were incorrect or unidentifiable, including numbers for fire department and ambulance services, hospitals, and mine rescue teams.

Improving the Performance Accountability of Job Training Programs - Another area of concern for the OIG is DOL's ability to ensure that its job training programs are successful in training and placing workers, including adults, youth, and veterans, in suitable employment. Critical to this task is the DOL's ability to obtain accurate and reliable data by which to measure, assess, and make decisions regarding the performance of grantees, contractors, and states in meeting the programs' goals. In addition, our audit work over several decades, primarily as it relates to discretionary grants, has documented the difficulties encountered by DOL in ensuring that performance expectations are clear; providing active oversight; disseminating proven strategies and programs for replication; and, importantly, ensuring that training leads to placement in training-related jobs that reduce participants' reliance on social programs.

Protecting the Security of Employee Benefit Plan Assets - The OIG remains concerned with DOL's ability to administer and enforce Employee Retirement Income Security Act (ERISA) requirements that protect the benefit plans of approximately 143 million plan participants and beneficiaries, particularly in light of statutory limitations on DOL's authority. One challenge facing the Employee Benefits Security Administration (EBSA) over the past couple decades has been the fact that ERISA allows billions in pension assets held in otherwise regulated entities, such as banks, to escape full audit scrutiny. These concerns were renewed by recent audit findings that as much as \$3.3 trillion in pension assets, including an estimated \$800 billion in hard-to-value alternative investments, received limited-scope audits that provided few assurances to participants regarding the financial health of their plans. In addition, given the number of benefit plans that the agency oversees relative to the number of investigators, EBSA needs to focus its available resources on investigations it believes will most likely result in the deterrence, detection, and correction of ERISA violations.

Securing and Protecting Information Management Systems - Safeguarding data and information systems is a continuing challenge for all federal agencies, including DOL. Consistent with findings reported over the past ten years, in FY2015, the OIG identified continuing deficiencies in the areas of identity and access management, monitoring of contractor systems, configuration management, contingency planning, incident response and reporting,

remediation of identified weaknesses, and risk management. Despite many previous reports that have repeatedly identified similar control weaknesses, the deficiencies have not been corrected in part because the Chief Information Officer does not have visibility at the department level for implementing and maintaining an effective information security program and an immature continuous monitoring program has allowed ineffective information security controls to operate without the remediation of the identified deficiencies across all systems. Without aligning the CIO position so that it directly reports to the Secretary, DOL's information security continuous monitoring program will continue to present DOL with many unnecessary and unacceptable risks that could result in serious disruptions of service.

Managing Information Technology Investments - Ensuring proper management of multimillion-dollar information technology systems is also of concern to the OIG. Most significantly, DOL has faced challenges in managing its financial system due to the sudden legal and bankruptcy issues faced by the private-sector firm that was providing these services. DOL procured the financial system assets and entered into an interagency agreement for a federal shared services provider to assume operations and maintenance of the system at a cost of more than \$2 million per month. Since April 2015, DOL has been operating under time and materials contracts to run and maintain the financial system. Initially, a time-and-materials agreement may have been the most appropriate, as the shared services provider was gaining an understanding of the operations and stabilizing the system; however, more than 18 months later DOL has still not been able to define its requirements and move to a fixed-price agreement.

Reducing Improper Payments - The DOL's ability to identify and reduce the rate of improper payments in the Unemployment Insurance (UI), Federal Employees' Compensation Act (FECA), and Workforce Investment Act (WIA) programs continues to be a concern for the OIG. Most significantly, for the period July 1, 2014, to June 30, 2015, DOL reported UI improper payments totaling approximately \$3.5 billion. The estimated UI improper payment rate of 10.7 percent exceeded the threshold of 10 percent established by OMB. The improper payments were due mainly to claimants continuing to claim UI benefits after they had returned to work and to claimants' failure to conduct and document work search activities in accordance with states' UI laws. OIG investigations also continue to uncover fraud committed by individual UI recipients who do not report or who underreport earnings, as well as fraud related to identity theft and fictitious and fraudulent employer schemes. Identity thieves and organized criminal groups exploit program weaknesses by taking advantage of the anonymity of the Internet, banking privacy laws, limited communication among the 53 State Workforce Agencies (SWAs), and weaknesses in SWA system capabilities. In the FECA program, DOL excluded two categories of compensation payments in its improper payment estimates for FY2015, but did not determine and report the full effect of those exclusions on its estimates. In the WIA grants program, DOL continued to use A-133 single audit reports to estimate improper payments even though single audits are not designed to be systematic assessments of the allowance of WIA grant costs.

Ensuring the Equitable Release of Economic Data - DOL issues a number of reports and statistics that include "leading economic indicators," such as the Unemployment Insurance Weekly Claims Report and the Producer Price Index. Because the data in these reports have the potential to move financial markets, DOL protects this data via an embargo, meaning the data cannot be disseminated or used in any unauthorized manner before its release to the public. DOL allows pre-release access to approved news organizations 30 minutes prior to the official

release time with the objective of improving the accuracy of initial news reports about the information. News organizations' use of pre-formatting and data-queuing software to transmit the data positions their paying clients to trade on this data faster than DOL can post the information to its website and the general public can access it once the embargo is lifted. Even fractions of a second can provide a significant trading advantage to these clients over individuals and other organizations not permitted in the lock-up. To ensure an equitable release of such data, DOL must eliminate this competitive advantage either through changes to the lock-up process or the elimination of these optional lock-ups. DOL has been in consultation with other federal agencies that conduct similar press lock-ups since we first reported on this in January 2014; however, no action has been taken to resolve this issue.

Providing Access to DOL Electronic Data - DOL is challenged to provide availability to the information systems it operates and access to the data those systems contain. This challenge is especially acute in systems operated by third parties on the behalf of DOL. As DOL continues to push its information to the cloud, the management and control of these systems and the data they contain become even more crucial. DOL needs to create effective Memorandums of Understanding and Interagency/Intra-agency Security Agreements regarding data access. It also needs to ensure contract language for third-party operated systems specifically allows DOL and all other oversight organizations to have unfettered access to those systems and the data they contain. To make this happen throughout DOL, top leaders will need to dedicate sufficient resources to the effort and clearly communicate this requirement as urgent and critical to the DOL's efforts to combat fraud, waste, and abuse.

Top Management and Performance Challenges

Beginning in 1998, members of Congress asked Inspectors General to provide an assessment of the most serious management challenges facing their respective agencies. In 2001, this requirement was codified in the Reports Consolidation Act of 2000. This Act requires the Office of Inspector General to prepare a statement that summarizes what the Inspector General considers the most serious management challenges facing the DOL. The Act also requires that this statement be included, unmodified, in the DOL Annual Report on Performance and Accountability.

[Top Management and Performance Challenges for DOL
\(https://www.oig.dol.gov/public/topchallenges/2015.pdf\)](https://www.oig.dol.gov/public/topchallenges/2015.pdf)

Major Legislative Recommendations

The Inspector General Act requires the OIG to review existing or proposed legislation and regulations and to make recommendations concerning their impact on the economy and the efficiency of the Department's programs and on the prevention of fraud, waste, and abuse. The OIG's legislative recommendations have remained largely unchanged over the last several semiannual reports, and the OIG continues to believe that the following legislative actions are necessary to increase efficiency and protect the Department's programs.

Allow OIG Direct Access to NDNH Records - The National Directory of New Hires (NDNH) is a nationally consolidated database that contains Unemployment Insurance (UI) claimant data

and wage information from state and federal agencies. NDNH cannot be used for any purpose not authorized by federal law. In 2004, the law was amended to allow the State Workforce Agencies to cross-match UI claims against NDNH in order to better detect overpayments to UI claimants who have returned to work but continue to collect UI benefits. However, the applicable law does not permit the OIG to obtain NDNH data, and the OIG cannot use its subpoena authority to obtain NDNH records. Granting the OIG statutory access to NDNH data would provide the OIG with a valuable source of information for both audits and investigations.

Amend Pension Protection Laws - Legislative changes to the Employee Retirement Income Security Act (ERISA) and criminal penalties for ERISA violations would enhance the protection of assets in pension plans. To this end, the OIG recommends the following:

- Expand the authority of the Employee Benefits Security Administration (EBSA) to correct substandard benefit plan audits and ensure that auditors with poor records do not perform additional plan audits.
- Repeal ERISA’s limited-scope audit exemption.
- Require direct reporting of ERISA violations to DOL.
- Strengthen criminal penalties in Title 18 of the United States Code.

Provide Authority to Ensure the Integrity of the H-1B Program - If DOL is to have a meaningful role in the H-1B specialty-occupations foreign labor certification process, it must have the statutory authority to ensure the integrity of that process, including the ability to verify the accuracy of information provided on labor condition applications. Currently, the Department is statutorily required to certify such applications, unless it determines them to be “incomplete or obviously inaccurate.” Our concern with the Department’s limited ability to ensure the integrity of the certification process is heightened by the results of OIG analyses and investigations showing that the program is susceptible to significant fraud and abuse, particularly by employers and attorneys.

A full list of OIG legislative recommendations may be found at the following link:

[OIG Legislative Recommendations](https://www.oig.dol.gov/public/semiannuals/75.pdf) <https://www.oig.dol.gov/public/semiannuals/75.pdf>

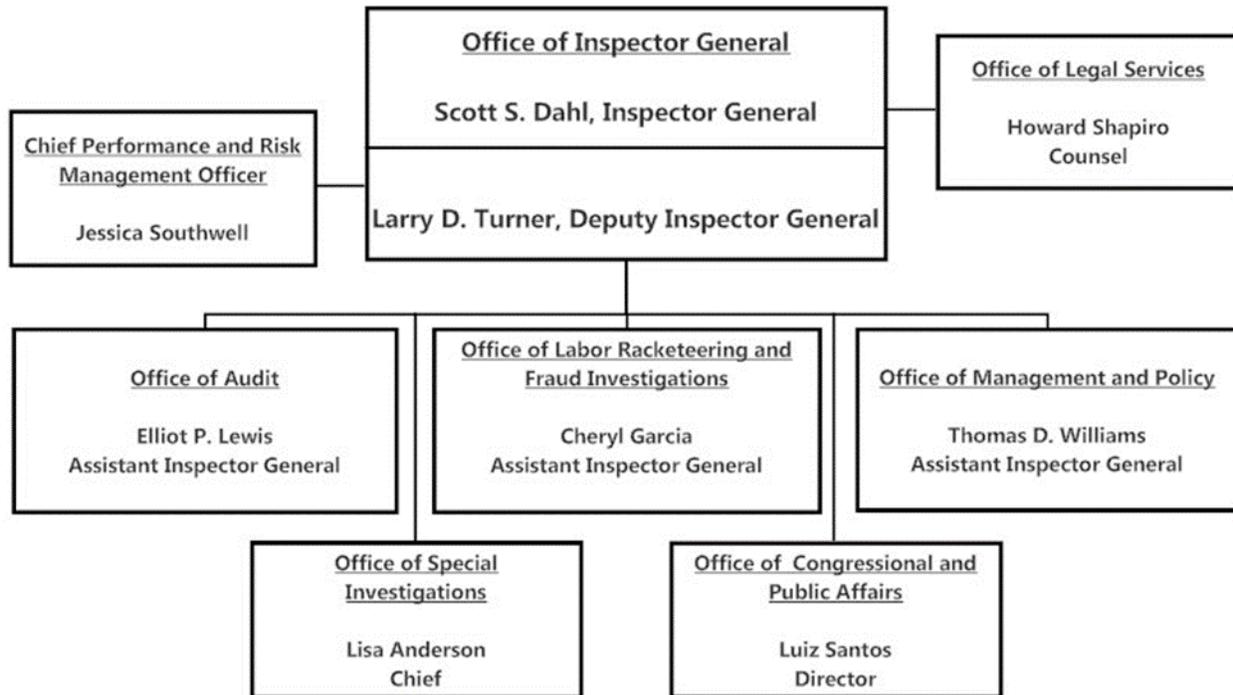
TAB 2: OIG ORGANIZATION

Authorizing Legislation

The Inspector General Act of 1978 (IG Act) established OIGs at various Cabinet level agencies, including the DOL. Congress believed that by establishing independent Inspectors General within each major Federal agency taxpayers' funds could be more prudently used and accurately accounted for; the government would be better equipped to prevent and detect fraud, waste, and abuse; and the public's confidence in their government would be enhanced.

Pursuant to the IG Act, the Secretary cannot interfere with OIG audits or investigations, the OIG has independent personnel and procurement authority, as well as independent legal counsel, and the OIG has complete and unfettered access to all DOL records and data.

Organizational Structure



The OIG is headquartered in Washington D.C. and employs approximately 360 staff, including 34 field offices located throughout the country. Following is a brief description of OIG offices:

Office of Audit (OA) is responsible for conducting and supervising audits relating to the Department's programs and operations; recommending policies for activities designed to promote economy, efficiency, and effectiveness in the administration of the Department's programs and operations preventing and detecting fraud, waste, abuse, and mismanagement in these programs and operations.

Office of Labor Racketeering and Fraud Investigations (OLRFI) is responsible for conducting criminal, civil, and administrative investigations relating to violations of Federal laws, rules, or regulations as they pertain to DOL programs, grants, contracts, and operations, as well as allegations of criminal activity and serious misconduct on the part of DOL employees. In addition, OLRFI has the responsibility to investigate labor racketeering and organized crime influence involving unions, employee benefit plans, and labor-management relations.

Office of Management and Policy (OMAP) provides for overall direction, planning, management, and administration necessary to carry out the nationwide responsibilities of the Office of Inspector General. This includes human resources, information technology, budget, procurement, and Equal Employment Opportunity.

Office of Legal Services (OLS) provides legal services and guidance to the Inspector General and to all other OIG employees, and represents the OIG and its employees in litigation and related matters. The Office is also responsible for the OIG disclosure (FOIA and Privacy Act) function, as well as the OIG Complaints Analysis (Hotline) function.

Office of Special Investigations (OSI) conducts employee integrity investigations involving allegations of fraud and wrongdoing by OIG employees and Departmental employees.

Office of Congressional and Public Relations (OCPR) carries out liaison functions with respect to Congress, the media, other governmental agencies, the public, and internally within the OIG; prepares statutorily mandated reports such as the Semiannual Report to Congress; and coordinates all legislative review activities.

Key Leaders

Scott S. Dahl, Inspector General

Larry D. Turner, Deputy Inspector General

Howard Shapiro, Counsel to the Inspector General

Jessica Southwell, Chief Performance and Risk Management Officer

Elliot P. Lewis, Assistant Inspector General for Audit

Debra Pettitt, Deputy Assistant Inspector General for Audit

Cheryl Garcia, Assistant Inspector General for Labor Racketeering and Fraud Investigations

Vacant, Deputy Assistant Inspector General for Labor Racketeering and Fraud Investigations

Thomas D. Williams, Assistant Inspector General for Management and Policy

Charles Sabatos, Deputy Assistant Inspector General for Management and Policy

TAB 3: OIG ACTIVITIES

OIG Investigations

The OIG's Office of Investigations conducts criminal, civil, and administrative investigations relating to fraudulent activity, including the following areas:

Unemployment Insurance (UI) Program: The OIG's UI investigations focus on well-organized street gangs who steal identities and fraudulently apply for UI benefits. The OIG also focuses investigative resources on fictitious employer schemes that involve the creation of companies that exist only on paper with no actual employees, business operations, or normal business expenses.

Foreign Labor Certification (FLC) Programs: The OIG's foreign labor certification investigations focus on the submission of falsified labor related Visa applications, which may deny U.S. citizens and law-abiding immigrants opportunities for employment, or threaten the security of the U.S. and its citizens.

Office of Workers' Compensation (OWCP) Medical Provider Fraud: Our investigations focus on healthcare providers (doctors, clinics, pharmacists, physical therapists, etc.) who fraudulently bill DOL for services, fraud associated with medical treatments, and unauthorized payments or kickbacks made to employers, providers, or claimants.

Labor Racketeering: The OIG's labor racketeering investigations focus on complex financial schemes used to defraud union and benefit fund assets, resulting in millions of dollars in losses to labor unions and plan participants. The schemes include embezzlement by sophisticated methods, such as fraudulent loans or excessive fees paid to corrupt union and benefit plan service providers. We work closely with DOL's Employee Benefits Security Administration (EBSA) and Office of Labor Management Standards (OLMS) on labor racketeering matters that involve programs administered by EBSA and OLMS.

For highlights of OIG work in this area, please see the [OIG Investigations Newsletters](https://www.oig.dol.gov/oineewsletter.htm) (<https://www.oig.dol.gov/oineewsletter.htm>)

OIG Investigative Process:

- OIG investigations begin when we receive a complaint or referral regarding DOL programs, employees, contractors, grantees, or labor racketeering issues.
- Early in the process, we present criminal allegations to the U.S. Department of Justice (DOJ) for prosecutorial consideration. If DOJ accepts a matter for prosecution, we work closely with them to determine the appropriate investigative steps.
- During the investigation, we may issue subpoenas, execute search warrants, analyze documents, and interview witnesses. Investigative techniques may also include consensual monitoring and

undercover operations. Often times we work jointly with other federal, state, and local law enforcement agencies.

- We also support criminal and civil trials as needed. When an investigation results in any judicial actions, we advise the DOL agency of the outcome for their consideration of potential administrative action, suspension, or debarment.
- For non-criminal matters, an administrative investigation may be initiated. Upon completion of our investigation, we will refer the matter to the DOL agency for any appropriate corrective or disciplinary action.

OIG Audits

The OIG's Office of Audit (OA) conducts and supervises mandatory and discretionary audits relating to DOL's programs and operations. These audits are conducted in order to determine whether:

- Programs and operations comply with the applicable laws and regulations;
- DOL resources are being used efficiently and economically; and
- DOL programs are achieving their intended results.

OA also assists the Inspector General in keeping the Secretary and the Congress fully informed and up-to-date about problems and deficiencies relating to DOL, as well as the need for, and progress of, corrective action.

OIG Audit Process:

- OIG audits begin with a notification letter to the auditee explaining the purpose of the audit and requesting an entrance conference to discuss objectives, methodology, and timeframes for conducting the work.
- During the audit, we may examine documents, interview officials, inspect facilities, or analyze available data.
- After all evidence has been collected and analyzed, the audit team meets with the auditee to discuss the results. The audit team considers the auditee's comments and makes any needed adjustments to the report before issuing a formal draft report.
- After receiving a response from the auditee, the OIG issues the final report to the agency. Except for infrequent reports containing sensitive information, all audit reports are posted to the OIG website and shared with Congress.
- After issuing the final report, we monitor agency progress in implementing recommendations for corrective actions.

Audit Work Plan:

The OIG develops its strategic work plan through consultations with its customers, stakeholders and others including DOL program management, Congressional committees, U.S. Attorneys, the Government Accountability Office, and other government entities. In addition, the Secretary and the Congress may request the OIG to perform an audit, evaluation, or investigation.

For its audits, the OIG prioritizes the potential areas, and – based on a risk assessment that considers program dollar size, vulnerability to abuse, potential impact on the public, and prior audit and investigative history – develops a comprehensive, coordinated strategy to address those high-priority areas. After consideration of the availability of OIG staff resources and any planned initiatives of other government entities, the OIG develops its annual work plan of initiatives, and then shares it with DOL management.

OIG Audit Reports:

[2016 Audit Reports](https://www.oig.dol.gov/cgi-bin/oa_rpts-v4.cgi?s=&y=2016&a=all) (https://www.oig.dol.gov/cgi-bin/oa_rpts-v4.cgi?s=&y=2016&a=all)

OIG Audit Reports by Agency:

Audit reports by agency are located at the following link: <https://www.oig.dol.gov/auditreports.htm>

Other Significant OIG Reports

Mandatory Audit of the Federal Information Security Management: OIG determines if DOL management ensured the security and privacy of DOL information contained in agency computer systems and if required security controls were operating effectively.

Mandatory Consolidated Financial Statements Audit: OIG determines if DOL consolidated financial statements present fairly, in all material respects, the financial position of DOL as of September 30. We consider DOL internal controls over financial reporting and test compliance with applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements.

Review of DOL Improper Payment Reporting in the Annual Financial Report: OIG determines if DOL complied with the Improper Payments Information Act, as amended, which requires DOL to: 1) conduct a program-specific risk assessment for each required program or activity; 2) publish and meet annual reduction targets for each program assessed to be at risk for improper payments; and 3) report information on its efforts to recapture improper payments.

Senators Ron Johnson and Charles Grassley have requested on a semiannual base the OIG provide information on high-priority recommendations, non-public Investigations, and access issues.

Representatives Jason Chaffetz and Elijah Cummings have requested on a semiannual base the OIG provide information on high-priority recommendations, non-public Investigations, and access issues.

TAB 4: OIG BUDGET

BUDGET AUTHORITY AND FTE SUMMARY

(Dollars in millions)

	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Budget Authority	\$79.6	\$80.6	\$81.9	\$86.6	\$94.9
FTE	398	379	367	358	378

At-A-Glance

- OIG is funded by General Funds, the Unemployment Trust Fund (UTF), and the Black Lung Disability Trust Fund (BLDTF). In FY2016, OIG was appropriated \$80.7 million in general funds, \$5.6 million from the UTF, and \$0.3 million from the BLDTF. As a mandatory appropriation, BLDTF is currently subject to sequestration. The FY2016 sequestration percentage was 6.8 percent.

Budget and FTE Trends

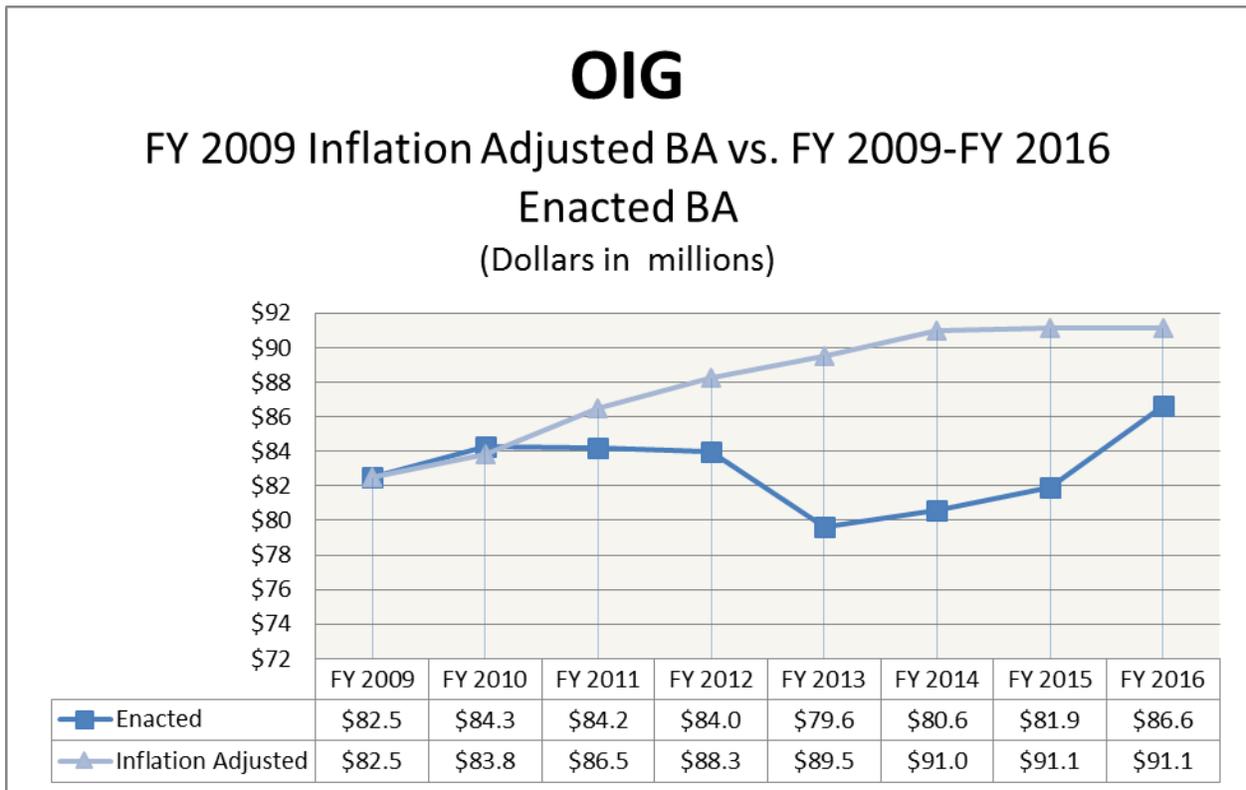
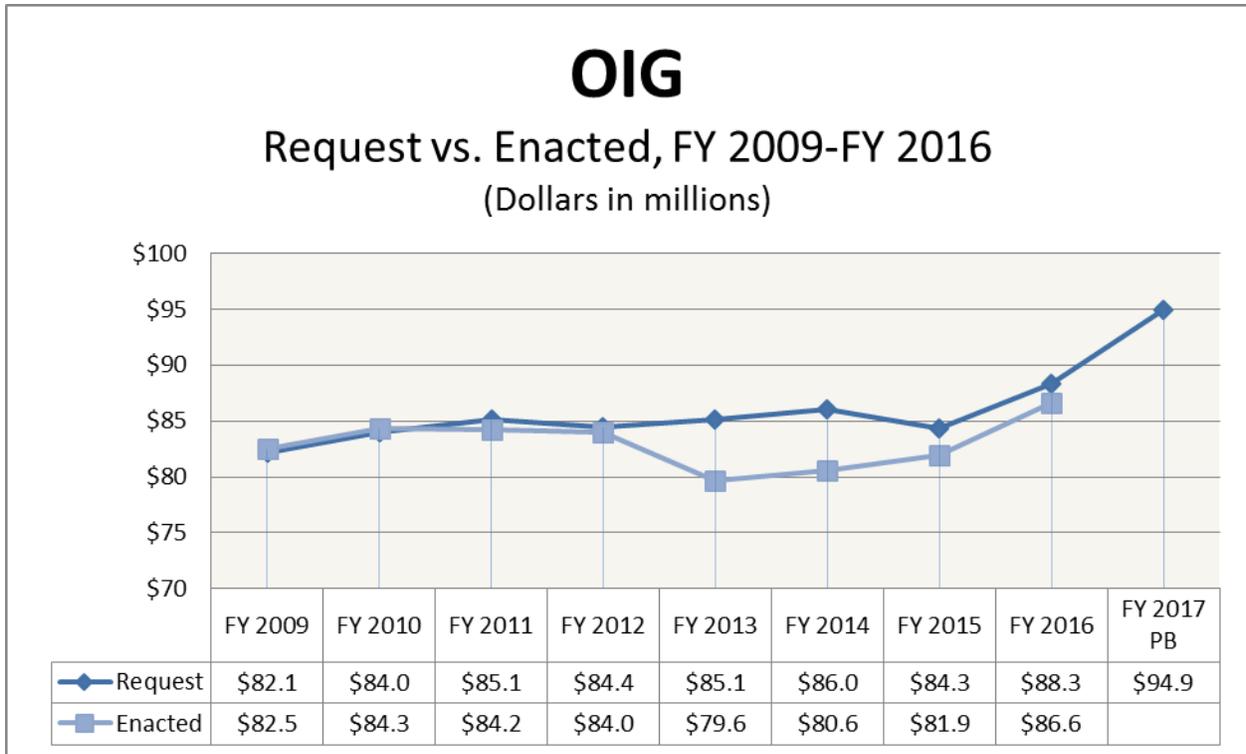
- Enacted base funding levels from all sources for OIG remained relatively flat from FY2009 through FY2012.
- In FY2013, sequestration reduced OIG budget authority by \$4.4 million. OIG addressed the reduction by curtailing hiring and reducing contracts, equipment, travel, and performance bonuses. The agency did not furlough its employees.
- OIG did not return to pre-sequestration funding levels until FY2016.
- In FY2010, OIG FTE usage was 420 FTE. After FY2010, FTE usage began a steady decline.

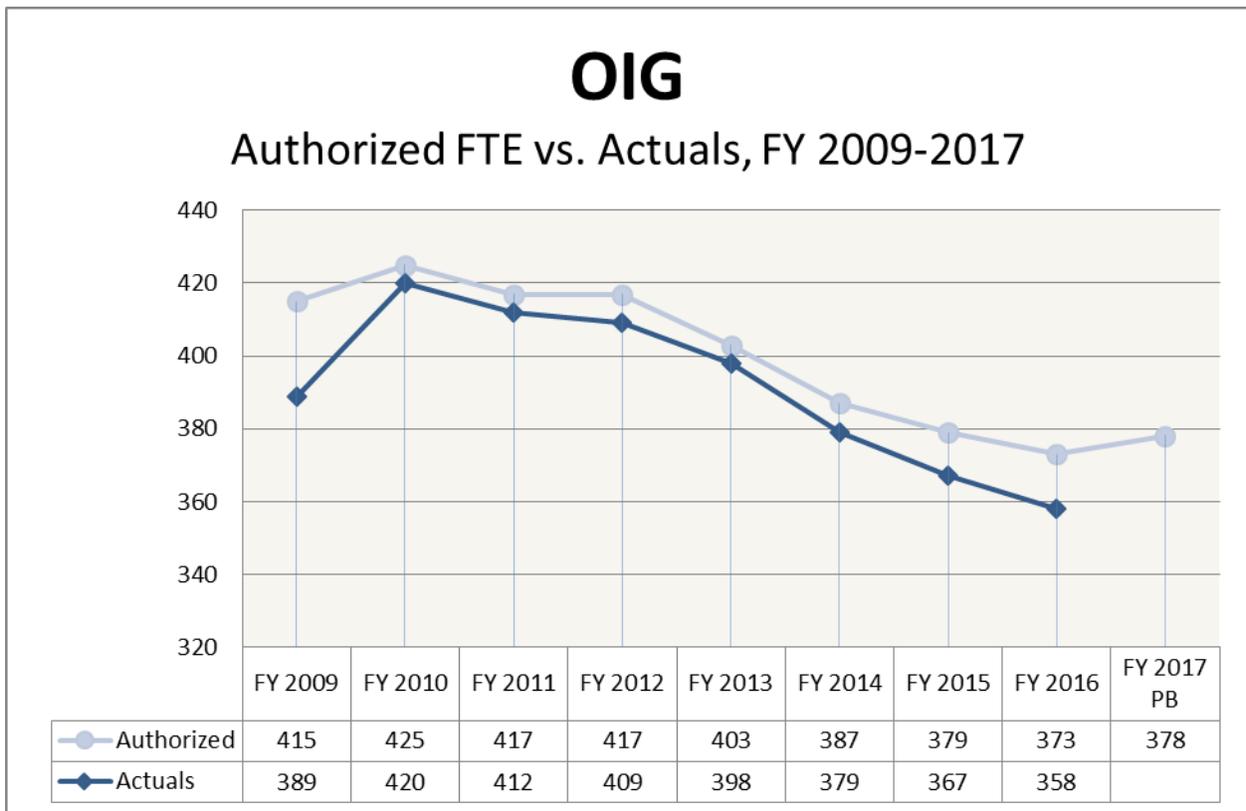
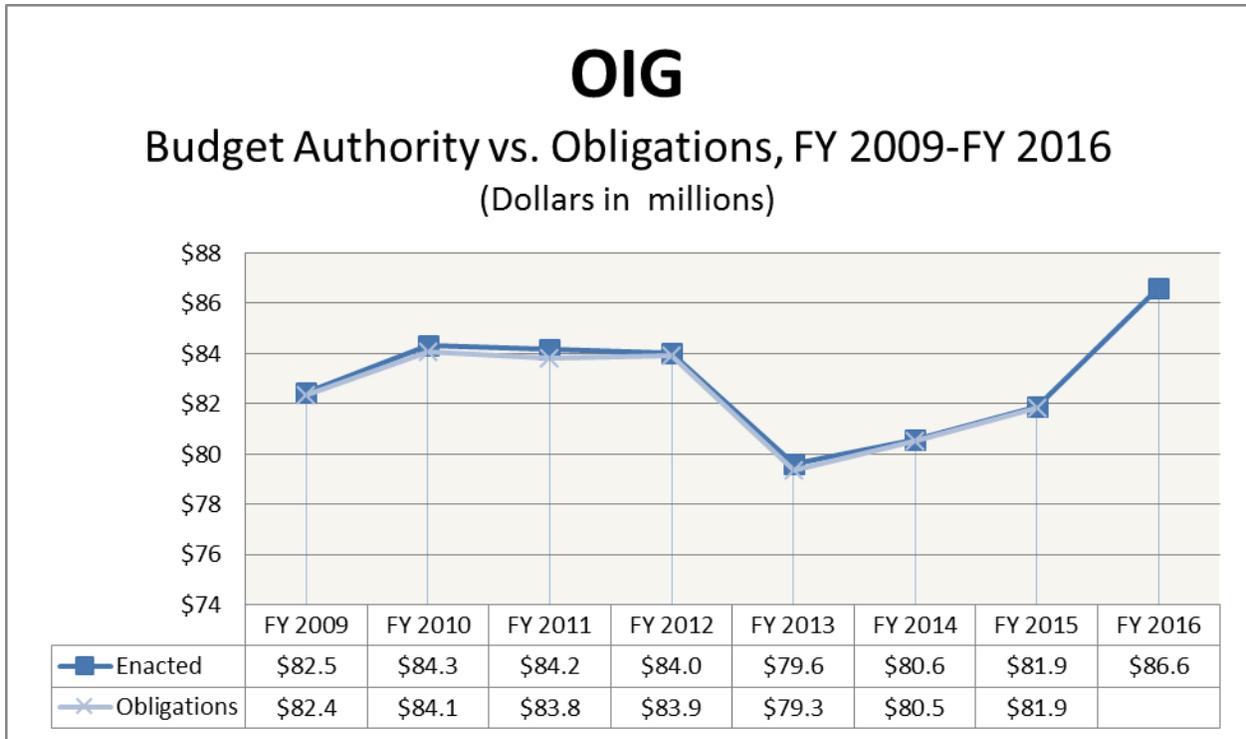
Upcoming Issues

- OIG has notified the Departmental Budget Center that it requires an additional \$3.4 million in UTF resources to provide audit and investigative oversight designed to address improper payments in the Unemployment Insurance program.

Staff Contacts

Thomas D. Williams, Assistant Inspector General for Management and Policy
 Office of Inspector General
 Email: williams.thomas@oig.dol.gov
 (202) 693-5224





TAB 5: OIG PERFORMANCE

The OIG contributes significantly towards the achievement of the Department's mission and goals through improved integrity of DOL programs and operations, reduced vulnerabilities, and efficiencies and cost savings realized. The OIG strives to be a performance-based, people-focused organization committed to manage towards specific, measurable goals derived from our critical mission, using performance data to continually improve operations. The OIG is dedicated to results-driven management focused on continuously improving its strategic and performance management efforts by identifying lessons learned and adopting best practices.

This [FY2015 OIG Annual Performance Report](https://www.oig.dol.gov/public/reports/FY%202015%20Performance%20Report.pdf) outlines the achievement of OIG strategic goals along with performance results and examples of OIG work accomplished in FY2015.
<https://www.oig.dol.gov/public/reports/FY%202015%20Performance%20Report.pdf>