Description of document:	Department of Labor's (DOL) Office of the Inspector General (OIG) records concerning the impact of sequestration on DOL, 2013
Requested date:	20-April-2013
Released date:	09-September-2013
Posted date:	16-September-2013
Source of document:	Disclosure Officer Office of Inspector General U.S. Department of Labor 200 Constitution Ave., NW, Room S-5506 Washington, DC 20210 Fax: (202) 693-7020

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

September 9, 2013

This is in final response to your April 20, 2013 Freedom of Information Act (FOIA) request addressed to the U.S. Department of Labor's Acting Inspector General, Mr. Daniel Petrole. Your request was for reasonably retrievable memos, reports, papers, or emails concerning the impact of sequestration on this agency. Your request was received on April, 29, 2013 and assigned FOIA case number 213043.

Enclosed are records responsive to your request. However, portions of deliberative information contained on two pages were redacted. Exemption (b)(5) authorizes the withholding of opinions and recommendations contained in intra-agency and inter-agency documents which are deliberative, developed prior to the issuance of a final agency determination, protected by the attorney-client privilege or are otherwise privileged. The purpose of this exemption is to facilitate the frank exchange of ideas and recommendations within the Federal Government, which is necessary in making informed agency decisions. In this case, the redacted information included deliberations that were considered in the OIG's formulation of the agency sequestration plan which did not result in final adoption.

You have the right to appeal my decision to (partially) deny your request within 90 days from the date of this letter. Should you decide to do this, your appeal must state, in writing, the grounds for appeal, together with any statement or arguments. Such an appeal should be addressed and directed to the Solicitor of Labor, citing OIG/FOIA No.213041 Room N-2428, 200 Constitution Avenue, N.W., Washington, D.C. 20210. Please refer to the Department of Labor regulations at 29 C.F.R. 70.22 for further details on your appeal rights.

Finally, fees were not charged for this request. If you have any questions, please contact this office at (202) 693-5116. We hope you find this information helpful.

Sincerely,

K. Pacheco

Kimberly Pacheco
Disclosure Officer

Enclosures:
23 pages

Santos, Luiz - OIG

From: Petrole, Daniel - OIG
Sent: Thursday, February 21, 2013 12:15 PM
To: All HQ; All Regions
Subject: Sequestration

To all,

We have just been authorized by OMB to provide employees with details of our agency plan should a sequester order be issued by the President on March 1. Planning for this event has been a priority of ours for the last several months and as a result, we have spent countless hours re-looking at our business and operating practices to identify the most cost-efficient manner in which to continue to carry out the very important mission of the Office of Inspector General. I can assure you that in considering all scenarios, we have never lost sight of the fact that it is each of you who makes that happen.

Under sequestration, the OIG's budget would immediately be reduced by $4,227,000 in FY 2013, which represents a cut of 5 percent. We would have 7 months in which to reduce our expenditures by that amount. To that end, our sequestration plan calls for cutting our FY 2013 cost for audit contracts and IT spending by some 40 percent, training by 30 percent, travel by 25 percent, and working capital fund by 5 percent. In addition, all GS and SES performance bonuses would be eliminated and we would continue with a modified hiring freeze for most positions through the end of the fiscal year. Because of the timing of sequestration and the significant cut imposed, the plan we submitted to OMB included the possibility of a furlough ranging from 1-9 days for all OIG employees, including supervisors and SES, myself included. However, barring any unforeseen circumstances, we expect and are very confident that the cost saving measures we have already implemented, combined with those we would immediately implement, should result in no OIG employee being furloughed this fiscal year as a result of sequestration.

This is not the case for the entire Department and you will hear of colleagues in other DOL agencies being advised that they face a furlough.

Should circumstances radically change that would force us to consider the implementation of any furlough action, we would provide you with no less than 30 days' notice. However, I want to reiterate that we do not foresee any need for furloughs of OIG employees based on the sequestration budget facts as we know them today. Should you have any questions regarding sequestration-related personnel matters, please contact Kimberly Lacey (202-693-5160). Any questions regarding your office operations should be directed to your supervisor.

As we move forward, we understand that it will be challenging to operate under the tighter budget restrictions of the sequester scenario, especially in light of the fact that our Continuing Resolution expires on March 27. Please keep in mind that each of us can contribute to cost reductions and savings. I invite you to continue to look for ways to reduce our operating costs and of course, we hope that our operational capabilities will be restored next year. Finally, I am confident that you will continue the good work that supports our very important mission.

Daniel R. Petrole
Deputy Inspector General

Pacheco, Kimberly - OIG

From: Petrole, Daniel - OIG
Sent: Tuesday, April 16, 2013 3:53 PM
To: All HQ; All Regions
Subject: Sequestration Message

To all,

Reference is made to the Acting Secretary's message today on the FY 2013 Continuing Resolution passed by Congress that funds the department for the remainder of the year. As he indicated, the final budget for the Department contained additional cuts that DOL agencies will have to absorb in FY 2013.

As I have previously communicated, planning for Sequestration has been an ongoing priority for the OIG for many months. We continue to evaluate the most cost-efficient way for us to carry out our mission. To this end, we have implemented a number of cost savings measures, such as reductions in overall personnel costs, contracting expenditures, travel, and training. As a result, despite the additional cuts included in the FY 2013 CR, we continue to expect that no OIG employee will be furloughed this year.

While our revised Sequestration plan continues to include the "option" of a furlough should circumstances change and it becomes necessary to do so, because of the savings we have achieved since my last communication, we have been able to reduce the number of possible furlough days to less than 6 days. However, I want to reiterate that we do not expect the need to furlough OIG employees based on the budget we have been provided as of today.

As we prepare the Semiannual Report to Congress and see the tremendous accomplishments we have already achieved this year, I want to thank each of you for your commitment and service during these challenging times and I am confident that your work will continue to have great impact on the mission of the Department. Indeed, I cannot think of a time when the work of the OIG has been more important to those served by DOL programs.

Dan

Daniel R. Petrole
Deputy Inspector General
U.S. Department of Labor

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

JUN 14 2013

The Honorable Tom Harkin
United States Senate
731 Hart Senate Office Building
Washington, DC 20510

Dear Senator Harkin:

I am writing in response to your May 31, 2013, letter to the Department of Labor (DOL), Office of Inspector General (OIG). Specifically you asked that the OIG provide information on the following areas:

- the greatest threats and vulnerabilities to programs and activities of DOL;
- the status of recommendations from the OIG's work for each of the past 4 years and whether there are any recurring issues within DOL that need to be addressed by the Department; and
- the impact of sequestration on the OIG's staffing and work in the current fiscal year.

I have enclosed our response to your questions so that they can be included in the record of your June 6, 2013, hearing. Please contact me at (202) 693-5100 if you have any questions. Alternatively, your staff may contact Christopher Seagle, Acting Director, Division of Congressional Liaison and Communications at (202) 693-5231.

Sincerely,

Daniel R. Petrole

Daniel R. Petrole
Deputy Inspector General

Enclosure

Working for America's Workforce

Daniel R. Petrole, Deputy Inspector General
U.S. Department of Labor
Responses to Questions for the Record
Subcommittee on Labor, Health and Human Services, Education, and Related Agencies
Committee on Appropriations
United States Senate
June 14, 2013

1. WHAT IS YOUR VIEW OF THE GREATEST THREATS AND VULNERABILITIES TO PROGRAMS AND ACTIVITIES OF THE U.S. DEPARTMENT OF LABOR (DOL)?

The Office of Inspector General (OIG) has identified management and program areas that, if left unaddressed, have the potential to create vulnerabilities for the Department. Alternatively, if properly addressed by DOL, these would result in increased monetary efficiencies and savings or increased program effectiveness. For FY 2012, DOL top management challenges are:

- Protecting the Safety and Health of Workers
- Protecting the Safety and Health of Miners
- Improving Performance Accountability of Workforce Investment Act Grants
- Ensuring the Effectiveness of the Job Corps Program
- Reducing Improper Payments
- Maintaining the Integrity of Foreign Labor Certification Programs
- Ensuring the Security of Employee Benefit Plan Assets
- Securing Information Technology Systems and Protecting Related Information Assets
- Ensuring the Effectiveness of Veterans' Employment and Training Service Programs
- Improving Procurement Integrity

These issues form the OIG's annual Top Management Challenges report, which can be found in its entirety at www.oig.dol.gov/topchallenges.htm.

Per the committee's request, highlighted below are those challenges with the most potential for achieving monetary efficiencies and savings.

– ***Improving Performance and Accountability of Workforce Investment Act Grants***

The Department is challenged in ensuring that Workforce Investment Act (WIA) employment and training grant programs are successful in training and placing workers in suitable employment to reduce chronic unemployment, underemployment, and reliance on social payments by the population it serves. In FY 2012, WIA programs were funded at $3.2 billion. Our audit work over several decades has documented the difficulties encountered by the Department in obtaining quality employment and training providers; ensuring that performance expectations are clear to grantees and sub-grantees; obtaining accurate and reliable data by which to measure and assess the success of grantees and states in meeting the program's goals; providing active oversight of the grant making and grant execution process; disseminating proven strategies and programs for replication; and, most critically, ensuring that training provided by grantees leads to placement in training-related jobs paying a living wage.

Department's progress and what remains to be done
To this end, the Employment and Training Administration (ETA) recently awarded 26 Workforce Innovation Fund grants with the goal of evaluating strategies for delivering services more efficiently, achieving better outcomes, and facilitating cooperation across programs and funding streams. ETA has indicated that it will capture promising practices and lessons learned and share them with the broader workforce system. In addition to this type of program evaluation, ETA should continue to closely monitor the WIA grants and address the disconnections between the training provided and the realities of the job market. ETA has also made design changes to the WIA Gold Standard Evaluation of the Adult and Dislocated Worker programs and intends to measure the net impact of specific interventions, such as the incremental effects of the intensive and training services provided to adults and dislocated workers. ETA and the Department have also identified the reauthorization of WIA as a legislative priority and have specified several goals that the Department believes should be a focus of the reauthorization process. Among those goals is improving accountability by updating the performance measures used by WIA programs.

- ***Ensuring the Effectiveness of the Job Corps Program***
The Department is challenged in providing a safe, residential and nonresidential education and training program which results in outcomes that truly assist at-risk, disadvantaged youth in turning their lives around including: placement in training-related employment, entrance into advanced vocational/apprenticeship training, entrance into higher education, or enlistment in the military. Most recently, the $1.7 billion Job Corps program has also been experiencing budget overruns that have adversely affected program operations. An OIG audit that examined these issues determined that the overruns were caused by a number of programmatic, budgetary and managerial factors, including weaknesses involving internal controls, procurement and communication of financial and program risks.

Our audits have also demonstrated the challenge faced by the Department in obtaining and documenting desired program outcomes. Most centers are operated by contractors through performance-based contracts with incentive fees and bonuses that are tied directly to contractor performance. Absent strict oversight, there is a risk that contractors will overstate performance results and maintain disruptive students on site. We have also documented problems with ETA's reporting of job training matches. A 2011 audit found that 3,226 of the 17,787 placements reported for the periods reviewed either did not relate, or poorly related, to the vocational training received (e.g., students trained in office administration placed in fast food restaurants) and another 1,569 students were placed in jobs that required little or no previous skills or experience, such as parking lot attendants, janitors, and dishwashers.

The OIG has also documented significant problems with centers being unable to ensure that funds are only being expended on serving participants who qualify for the program, and centers being unable to ensure that major procurements include proper competition and ensure best value to the program.

With respect to the quality of residential life, a critical component of the Job Corps intensive intervention experience, our audits have disclosed safety and health hazards and physical maintenance needs at various centers as well as, in some instances, a lack of enforcement of disciplinary policies. For instance, a recent audit found that Job Corps centers had allowed $32.9 million in maintenance funds to expire or approach expiration. These funds should have been spent to perform intended repairs or used to repair other maintenance deficiencies, especially given the budget overruns the program has recently been experiencing.

Department's progress and what remains to be done
The Department conducted on-site safety and health evaluations at 123 centers; trained center safety officers and staff; and published several information notices and policy changes. To improve its reported performance data, Job Corps is updating its Job Training Match Crosswalk to align with the revised DOL O*NET-Standard Occupational Classification database, which characterizes all jobs in the U.S. labor market. The OIG continues to recommend that Job Corps provide rigorous oversight of center operators to: ensure they provide a safe environment that is conducive to learning; ensure that only those who qualify for the program are served; improve the transparency and reliability of performance metrics and outcomes; and ensure that center operators and other service providers comply with applicable procurement requirements.

In addition, to avoid future funding shortfalls, Job Corps should establish necessary criteria and thresholds for detecting potential financial and program risks to be routinely documented and communicated, and identify the appropriate personnel within DOL to receive this periodic information.

– ***Reducing Improper Payments***
The Department's ability to identify and reduce the rate of improper payments in the multi-billion dollar Unemployment Insurance (UI), Federal Employees' Compensation Act (FECA) and WIA programs continues to be a concern for the OIG.

Improper Payments in the UI program
Identifying and reducing the rate of improper payments in the UI program continues to be a challenge for the Department. The Department estimates that about $58 billion in improper UI payments occurred over the past five years. For FY 2012, the Department reported UI improper payments totaling $10.3 billion, the fifth largest amount for any Federal program according to OMB. This represents an improper payment rate of 11.4 percent, which remains well above the target rate established by OMB of 9.7 percent.

Our audits have found that the Department has lacked effective controls over the detection of improper payments for both the UI State and Federal programs, and that the Department's estimate of recoverable payments may be understated. In addition, OIG investigations continue to uncover fraud committed by individual UI recipients who do not report or underreport earnings, as well as fraud related to fictitious employer schemes.

Improper Payments in the FECA program
The Department also remains challenged in identifying the full extent of improper payments in the FECA program. As highlighted in past OIG audits, the estimation method used for the

FECA program does not appear to provide a reasonable estimate of improper payments. Without this information, the Department cannot implement the appropriate corrective actions that will reasonably assure taxpayers' funds are adequately safeguarded. In addition, OIG investigations continue to identify high amounts of FECA compensation and medical fraud, which have often greatly surpassed the Department's improper payments estimates.

Improper Payments in the WIA program
For the WIA program, the OIG has noted that data is not readily available to allow the Department to directly sample grant payments to develop a statistically valid estimate of improper payments.

Department's progress and what remains to be done
The Department continues to work with states to implement a number of strategies to improve prevention, detection and recovery of UI improper payments. Among numerous other initiatives, the Department has launched a website that clearly identifies each state's estimated UI improper payment rate and payments over a 3-year period, and has undertaken the "Improper Payment High Priority States" initiative to reduce the UI improper payment rate in those states with unacceptably high levels over a prolonged period. However, the Department needs to employ cost benefit and return on investment analyses to evaluate the impact of those improper payment reduction strategies. The Department can further improve oversight of the states' detection and prevention of UI overpayments by increasing the frequency of on-site reviews at State Workforce Agencies. In addition, the Department needs to continue pursuing legislation to allow States to use a percentage of recovered UI overpayments to detect and deter benefit overpayments.

With respect to improper payments in the FECA program, the Department stated that it is in the process of designing a methodology for estimating the FECA improper payment rate. In the WIA program, the Department has attempted to identify the full extent of improper payments by including estimates from other sources, but it should continue to consider other sampling methods in order to provide a more complete estimate of improper payments. Further, the Department needs to provide full disclosure in the Agency Financial Report regarding the limitations of the data used to estimate WIA overpayments.

To assist the Department and the OIG in identifying and reducing improper payments, the OIG also recommends statutory authority for DOL and OIG to access the National Directory of New Hires data, Social Security Administration wage records, and state UI wage records.

– ***Improving Procurement Integrity***
Ensuring integrity in procurement activities is a continuing challenge for the Department. In FY 2012, DOL awarded new contracts totaling about $360 million, and issued modifications to existing contracts totaling approximately $1.6 billion.

Our most recent audits and investigations have identified the need for better control and monitoring of procurement activities delegated to program agencies. OIG audits have also found that DOL could not produce documentation that it awarded some contracts based on the best value to the government. Moreover, for some contract modifications reviewed, DOL could not produce documentation that it issued contract modifications within the scope of work and terms of the initial contracts. The lack of standard and updated operating procedures is also an issue, which leaves the consistency and quality of DOL's procurement functions heavily dependent on the various program agencies with delegated procurement authority.

The issues described highlight the need for DOL to appoint a Chief Acquisition Officer (CAO) whose primary duty is acquisition management. DOL continues to be out of compliance with the Service Acquisition Reform Act of 2003 requirement that executive agencies appoint a CAO whose primary duty is acquisition management. The Assistant Secretary for Administration and Management presently serves as DOL's CAO, while retaining other significant non-acquisition responsibilities. Until procurement and programmatic responsibilities are properly separated and effective controls are put into place, DOL will continue to be at risk for wasteful and abusive procurement practices.

Department's progress and what remains to be done

The Department has stepped up its efforts to ensure procurement staff receives appropriate training. In addition, the Department has issued guidance requiring contractors to inform the contracting officer of suspected procurement violations, and requiring agencies and Contracting Officer's Representatives to certify that task orders are properly within the scope of the contract and that there is no conflict of interest. The Department has also issued guidance addressing procurement conflicts of interest and has provided training to DOL senior executive staff focusing on ethics and procurement integrity, and lessons learned.

The Department needs to continue its development of standard and consistent internal controls, and compliance frameworks for component agencies with procurement authority in order to ensure the consistency and quality of DOL's procurement functions. Furthermore, DOL needs to complete procurement reviews of all of its acquisition offices, update internal policies and procedures in order to clarify the processes related to acquisition planning and administration of procurements, and ensure all contracting officers and contracting officer representatives obtain necessary certifications. While DOL is taking positive actions to improve procurement integrity, it has yet to appoint a CAO whose primary duty is acquisition management.

2. WHAT IS THE STATUS OF RECOMMENDATIONS MADE FROM THE OIG'S WORK FOR EACH OF THE PAST FOUR YEARS?

Provided below is a chart that outlines the status of recommendations from the OIG's work for each of the last four years. Of the 1,126 recommendations made since 2010, 525 have not been fully implemented by the Department. It is important to note that for most of these 525 recommendations, corrective action plans are in place, and the Department is in the process of implementing them.

FY	Total Number of Recommendations Made	Total Number of Open Recommendations
2010	455	144
2011	319	115
2012	213	129
2013*	139	137
TOTAL	**1126**	**525**

** Through June 6, 2013*

Of the OIG recommendations that remain open, we have identified below those that involve cost savings or efficiencies that we consider to be of highest priority for the Department to address, and which are consistent with those areas that we identified as challenges and vulnerabilities.

- ETA should develop and utilize lessons learned from the Recovery Act Green Jobs Training Program to improve future discretionary grant programs by:
  - ensuring that training, placement, and retention goals contained in grant agreements are sufficiently comparable among grantees to fully contribute to the overall success and cost efficiency of the program;
  - evaluating the criteria for ETA-approved "credentials" to ensure that they add value to the participants' career development and job prospects; and,
  - evaluating the benefit of short (1-5 days) and long-term (6+ months) training toward improving the job prospects of incumbent and unemployed workers.

  (http://www.oig.dol.gov/public/reports/oa/2013/18-13-001-03-390.pdf)

- DOL should pursue legislative authority in Workforce Investment Act (WIA) reauthorization to develop performance measures for training outcomes. Currently, WIA does not allow ETA to establish any new performance measures apart from the core employment indicators required under the law, thus limiting information on the results of training services included in the WIA performance accountability system. *(http://www.oig.dol.gov/public/reports/oa/2011/03-11-003-03-390.pdf)*

- ETA should develop and implement a valid and reliable method for estimating the rate of detectable overpayments in the Unemployment Insurance (UI) programs, including temporary and episodic federal programs. *(http://www.oig.dol.gov/public/reports/oa/2012/18-12-001-03-315.pdf)*

- The Department should require detailed spending plans from the States for the $500 million of UI administrative funds, and provide assistance, as appropriate, to help ensure these funds are spent as intended.
  (http://www.oig.dol.gov/public/reports/oa/2010/18-10-012-03-315.pdf)

- To avoid future funding overruns, such as those that occurred in the Job Corps program in FYs 2011 and 2012, ETA should establish necessary criteria and thresholds for detecting potential financial and program risks to be routinely documented and communicated, and identify the appropriate personnel within DOL to receive this periodic information.
  (http://www.oig.dol.gov/public/reports/oa/2013/22-13-015-03-370.pdf)

- Job Corps should develop processes and controls to ensure Job Corps documents and reviews all oversight activities conducted so that internal and external stakeholders can make informed decisions regarding the effectiveness of the program.
  (http://www.oig.dol.gov/public/reports/oa/2012/26-12-006-03-370.pdf)

- Job Corps should review and improve its performance metrics to provide decision makers with useful and reliable information to make informed decisions regarding the program's performance and costs. This includes ensuring metrics are complete and accurate, comply with WIA, and have reported results and established targets.
  (http://www.oig.dol.gov/public/reports/oa/2011/26-11-004-03-370.pdf)

- The Chief Financial Officer should work with other DOL agencies to provide training to address supervisory review of obligations of goods and services prior to entry in the general ledger, monitoring of obligation balances for validity, and documentation requirements needed to support recorded transactions.
  (http://www.oig.dol.gov/public/reports/oa/2013/22-13-006-13-001.pdf)

- The Department should update its procurement regulations and guidance and develop detailed and standardized procurement procedures using the "Standards for Internal Control in the Federal Government" and input from component agency officials.
  (http://www.oig.dol.gov/public/reports/oa/2012/17-12-002-07-001.pdf)

3. **PLEASE SHARE SPECIFIC INFORMATION ABOUT THE IMPACT OF SEQUESTRATION ON THE OIG'S STAFFING AND WORK IN THE CURRENT FISCAL YEAR.**

As the committee is aware, the OIG provides oversight of DOL programs that are essential to American workers and retirees, including the multi-billion dollar Unemployment Insurance program, worker safety and health programs, and worker and retiree benefit programs. As highlighted by the challenges and recommendations discussed in this document, our work continues to identify opportunities to improve the economy, efficiency and effectiveness of DOL programs. During the past five years, we issued over 370 audit reports that questioned approximately $140 million in costs, and recommended that more than $4.6 billion be put to better use[1]. In addition, our labor racketeering and program fraud investigations resulted in a total of 2,437 indictments, 2,106 convictions, and more than $1 billion in monetary accomplishments, including court-ordered fines, penalties, restitutions, and asset forfeitures; as well as administrative cost avoidances.

Given that over 90 percent of the OIG's budget is largely allocated for mandatory expenses, including personnel costs, rent, working capital fund, and statutorily-mandated audits, our options to absorb a 5 percent sequestration cut were limited and likely to include furloughing our staff for several days. Accordingly, once the sequestration order was issued on March 1, 2013, we implemented a number of cost-saving measures to enable us to continue to carry out our mission at the reduced funding level. For example, we instituted a modified hiring freeze covering most positions in the OIG except for certain expert-level, highly-specialized positions that if left vacant would compromise agency operations. We also modified several contracts and eliminated all bonuses and monetary performance awards. In addition, we reduced IT expenditures by approximately 30 percent, travel and transportation costs by 22 percent, and training by over 12 percent.

The sequestration cuts have had a significant impact in the OIG's overall operational capacity. For instance, reductions in our travel and transportation budget impact our ability to provide adequate audit and investigative coverage in key areas, forcing us to consider whether to open investigations based on geographic location rather than investigative merit. We are also projecting that by the end of FY 2013, the OIG will experience one of its lowest staffing levels in more than 10 years, from a high of 439 FTE in FY 2005 to a projected 399 FTE at the end of FY 2013. This 9 percent reduction in staff diminishes the scope of the OIG's capability to provide audit and investigative oversight of DOL programs. As a result, we have been forced to eliminate, delay the timing, and/or reduce the scope of several audits. We have also reduced the coverage we provide in certain program areas, and limited other investigative efforts, including those involving multi-agency law enforcement task forces.

We estimate that, based on reduced levels of operational capacity, in FY 2013 the OIG will experience a 43,200 hour (13 percent) reduction in audit capacity, which will result in 7 fewer audits, and a 46,800 hour (10 percent) reduction in investigative capacity, resulting in 42 fewer investigations. Moreover, while our cost-saving measures have enabled the OIG to

---

[1] These are funds identified by the OIG that the program could put to better use through program efficiencies to serve more participants, or if not needed or expired be returned to the U.S. Treasury to be used for other purposes.

carry out its mission while avoiding furloughs, we maintained the option of implementing a furlough of up to 5 days for FY 2013 in the event that we find we are not achieving the necessary savings in other areas of our budget. If it were to become necessary to furlough staff, that would result in an additional 6,400 hour reduction in audit capacity and 9,000 hour reduction in investigative capacity, bringing the totals to 49,600 and 55,800 hour reductions, which would result in a total of 9 fewer audits and 50 fewer investigations completed in FY 2013.

The OIG continues to refocus its efforts to emphasize high priority, high impact audits and investigations, and maximize its oversight of DOL programs and operations. However, we are very concerned with the impact of reduced levels of funding on our operations if those levels are carried over in FY 2014 and beyond. Unless the OIG's funding is restored to pre-sequestration levels, audit and investigative capability will continue to erode, and that will greatly impact our ability to identify the types of savings and efficiencies in DOL programs that we have highlighted in this document.

FY 2013

SEQUESTRATION BUDGET

OFFICE OF INSPECTOR GENERAL

OFFICE OF INSPECTOR GENERAL

TABLE OF CONTENTS

OFFICE OF INSPECTOR GENERAL

SUMMARY BUDGET AUTHORITY AND FTE BY ACTIVITY (Dollars in Thousands)								
	FY 2013 Full Year C.R. w. ATB Decrease		FY 2013 Sequestration		FY 2013 Reprogram		Diff. FY 13 Reprogram / FY13 C.R. w. ATB Decrease	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
OIG Program Activity	**407**	**83,847**	**403**	**79,620**	**403**	**79,620**	**-4**	**-4,227**
General Funds	370	77,634	368	73,721	368	73,721	-2	-3,913
Unemployment Trust Funds	36	5,886	34	5,589	34	5,589	-2	-297
Black Lung Disability Trust Funds	1	327	1	310	1	310	0	-17
Total	**407**	**83,847**	**403**	**79,620**	**403**	**79,620**	**-4**	**-4,227**
General Funds	**370**	**77,634**	**368**	**73,721**	**368**	**73,721**	**-2**	**-3,913**
Unemployment Trust Funds	**36**	**5,886**	**34**	**5,589**	**34**	**5,589**	**-2**	**-297**
Black Lung Disability Trust Funds	**1**	**327**	**1**	**310**	**1**	**310**	**0**	**-17**

OFFICE OF INSPECTOR GENERAL

BUDGET AUTHORITY BY OBJECT CLASS (Dollars in Thousands)					
		FY 2013 Full Year C.R. w. ATB Decrease	**FY 2013 Sequestration**	**FY 2013 Reprogram**	**Diff. FY 13 Reprogram / FY13 C.R. w. ATB Decrease**
11.1	Full-time permanent	40,968	39,577	39,577	-1,391
11.3	Other than full-time permanent	208	208	208	0
11.5	Other personnel compensation	3,634	3,084	3,084	-550
11.8	Special personal services payments	0	0	0	0
11.9	**Total personnel compensation**	**44,810**	**42,869**	**42,869**	**-1,941**
12.1	Civilian personnel benefits	16,052	15,537	15,537	-515
21.0	Travel and transportation of persons	3,166	2,474	2,474	-692
22.0	Transportation of things	0	0	0	0
23.1	Rental payments to GSA	4,850	4,850	4,850	0
23.2	Rental payments to others	133	142	142	9
23.3	Communications, utilities, and miscellaneous charges	610	539	539	-71
24.0	Printing and reproduction	9	5	5	-4
25.1	Advisory and assistance services	5,224	5,224	5,224	0
25.2	Other services from non-Federal sources	536	472	472	-64
25.3	Other goods and services from Federal sources 1/	6,193	6,008	6,008	-185
25.4	Operation and maintenance of facilities	9	0	0	-9
25.7	Operation and maintenance of equipment	1,145	886	886	-259
26.0	Supplies and materials	348	286	286	-62
31.0	Equipment	712	327	327	-385
41.0	Grants, subsidies, and contributions	0	0	0	0
42.0	Insurance claims and indemnities	50	1	1	-49
	Total	**83,847**	**79,620**	**79,620**	**-4,227**
1/Other goods and services from Federal sources					
	CIGIE	455	468	468	13
	Working Capital Fund	5,019	4,840	4,840	-179
	DHS Services	400	400	400	0
	Services by Other Government Departments	319	300	300	-19

OFFICE OF INSPECTOR GENERAL PROGRAM ACTIVITY

BUDGET AUTHORITY BEFORE THE COMMITTEE (Dollars in Thousands)				
	FY 2013 Full Year C.R. w. ATB Decrease	**FY 2013 Sequestration**	**FY 2013 Reprogram**	**Diff. FY 13 Reprogram / FY13 C.R. w. ATB Decrease**
Activity Appropriation	**83,847**	79,620	79,620	**-4,227**
FTE	407	403	403	-4

Introduction

With the sequestration order included in H.R. 933, the "Consolidated and Further Continuing Appropriations Act of 2013," the Office of Inspector General will need to absorb $4,227,000 in cuts in FY 2013, which represents a reduction of approximately 5% from our FY 2012 CR level.

Given the fact that approximately 92% of the OIG's budget is allocated for mandatory expenses, including salaries, benefits, statutorily-mandated audits, working capital fund, and rent, options are extremely limited for the OIG to absorb such a large cut in funding. This is particularly true since the remaining 8% of the OIG's budget is allocated for other necessary operational expenses, such as information technology, travel and mandatory or required continuing professional development training for our auditors and investigators. In order to achieve a $4,227,000 reduction, the OIG will have to make all of the following cuts effective immediately:

- **-$1,906,000: Reduce personnel and contractor services costs, or furlough all OIG staff for up to 5 days.**

  The OIG will need to reduce personnel and contractor services costs by a total of $1,906,000 or face furloughing all OIG staff for up to 5 days. As a result of the sequestration order, the OIG negotiated modifications to its Consolidated Financial Statement and FISMA audit contracts that generated savings for FY 2013. This has enabled the OIG to reduce the potential number of furlough days to 5 days from the original estimate of 9 days. To further reduce contracting costs, the OIG is also exploring the feasibility of [redacted] b5

  In addition to achieving savings through contract modifications, and in order to further mitigate the potential for furloughs, the OIG is attempting to reduce personnel costs through attrition and a full-year modified hiring freeze. The OIG has and will continue to impose a full-year modified hiring freeze covering most positions in the OIG except for certain expert-level, highly-specialized positions that if left vacant would compromise agency operations. Given the size of our workforce and the number of functions the OIG performs independently from the Department, positions such as these cannot be assumed by staff without the requisite specialized experience or credentials. In addition, the OIG will need to eliminate all recruitment and retention incentives, including the repayment of student loans, which will exacerbate our challenges in retaining a highly skilled workforce. This will further hinder our ability to effectively review DOL programs and operations since the OIG relies heavily on hard-to-fill criminal investigative and audit positions that require specialized skills, experience and education.

In considering other options to reduce costs, we also looked at [redacted]

b5

Impact of a 5-day Furlough: Unless we can achieve these savings through personnel and contracting cost reductions, the OIG would need to furlough all OIG staff for 1-5 days. Given the limitations of the OIG's budget, a furlough would need to apply to all OIG staff without exceptions since cutting the number of furlough days for one program/priority area will require more furlough days in other areas of equal priority. A 5-day furlough would be highly disruptive, have a detrimental effect on the OIG's ability to carry out our mission, and cause significant losses in productivity and employee morale. The OIG's mission is to conduct audits and investigations that improve the effectiveness and the integrity of Departmental programs and operations in areas such as employment and training, worker and retiree benefits, and worker and miner safety and health; in addition to combating labor racketeering in the workplace. During the past five years, we issued over 380 audit reports that questioned approximately $275 million in costs, and recommended that more than $4.4 billion be put to better use. In addition, our labor racketeering and program fraud investigations resulted in a total of 2,550 indictments, 2,097 convictions, and $896 million in monetary accomplishments. With a 5-day furlough, we would experience an estimated 9,000 hour reduction in investigative capability and 6,400 hour reduction in our audit capacity. A reduction in operational capacity would result in commensurate cuts in the number of audits and investigations completed, and in the amount of questioned costs, funds put to better use, indictments, convictions and investigative monetary results.

It is also important to note that these reductions in operational capacity will not only impact the OIG's ability to carry out its mission, but also the work of other law enforcement agencies because of the OIG's participation on task forces such as the Immigration and Customs Enforcement Document and Benefit Fraud Task Force, the FBI's Organized Crime Task Force, and the FBI's Healthcare Fraud Task Force. Further, the OIG's overall audit coverage, as well as its ability to respond to important audit-related requests from the Department and the Congress, would be severely diminished.

OFFICE OF INSPECTOR GENERAL PROGRAM ACTIVITY

- **-$2,321,000: Reductions in IT, travel, working capital fund, training and performance awards:**
  In addition, in order to achieve the remaining $2,321,000 in savings, the OIG will be forced to execute all of the following actions:

  - **-$830,000: Reduce Information Technology Contracts, Equipment, and Supplies by 29%**
    In order to absorb an $830,000 cut in IT spending – which is a significant percentage of our annual IT budget – the OIG will have to cancel several essential major IT contracts. This will negatively impact the work of our criminal investigators and auditors since they rely heavily on our IT infrastructure to carry out their responsibilities.

    The majority of the OIG's annually recurring IT expenses are allocated to maintaining technical support for the replacement, repair, or upgrade of software and hardware that are essential to the daily operation of the OIG network. As such, funds for the lifecycle replacement of servers, notebooks, and network storage will also have to be completely cut in order for the OIG to absorb this cut. In addition, Microsoft and Oracle licensing - two of the OIG's most expensive and important software agreements - are generally considered to be non-severable in that their annual renewal is required for continuity of operations. However, under this scenario, renewal of these essential services will also be in jeopardy.

    The focus of the OIG under this scenario will be to try to maintain the minimal IT investment required to maintain operations at this level of funding. However, our ability to accomplish this will depend on savings achieved through attrition of staff throughout the year.

  - **-$692,000: Reduce OIG travel and transportation by 22%**
    Travel is an inherent tool toward the accomplishment of our mission as OIG criminal investigators must travel to interview witnesses and defendants, as well as conduct surveillances and undercover operations. OIG auditors must be able to travel for on-site review of the records of auditees around the country. We must also provide oversight coverage of Departmental programs nationwide, which requires us to travel to areas where we do not have an office. Moreover, while we maximize the use of alternative communication methods, such as videoconferencing, teleconferencing or Web Ex meetings, given the nature of our mission, we cannot always rely on alternative communication and meeting for these types of core mission activities. This type of reduction will impact our ability to provide adequate audit and investigative coverage in key areas, forcing us for example to have to open investigations based on geographic location rather than investigative merit, and in some cases to forgo participating in investigations requested by the U.S. Attorney's office.

OFFICE OF INSPECTOR GENERAL PROGRAM ACTIVITY

- **-$185,000: Reduce the OIG's Working Capital Fund Assessment and Other Government Services**
  The impact of adjustments to the working capital fund on DOL operations can be best discussed by OASAM and the OCFO.

- **-$64,000: Reduce Funding for Training by 12%**
  While training is a critical aspect of OIG operations, a $64,000 reduction will force the OIG to eliminate important training for our auditors and criminal investigators. For instance, the OIG may not be able to fund all of the continuing education training requirements under Government Accounting Standards promulgated by GAO. In addition, the OIG will need to reduce essential law enforcement and safety training for our criminal investigators.

- **-$550,000: Reduce performance awards by 100%:**
  With the elimination of all performance awards, the OIG will be unable to provide incentives to, and recognition of employees for their performance, and acknowledge their contributions to the agency's mission. This will compound employee morale losses resulted from the pay freezes over the past two years and which will continue in the foreseeable future.

OFFICE OF INSPECTOR GENERAL PROGRAM ACTIVITY

DETAILED WORKLOAD AND PERFORMANCE	FY 2013 Operating Plan	FY 2013 Sequestration	FY 2013 Reprogram
	Target	Target	Target
OIG Program Activity			
Strategic Goal ALL - All Strategic Goals			
Outcome Goal ALL.1 - All Outcome Goals			
Audits			
OIG Audits	58	51	--
ARRA Audits	0	--	--
Total	**58**	**51**	**0**
Number of Investigations Completed	431	389	--

Legend: (r) Revised (e) Estimate (base) Baseline -- Not Applicable TBD - To Be Determined [p] - Projection

OFFICE OF INSPECTOR GENERAL PROGRAM ACTIVITY

Workload Summary

We estimate that, based on reduced levels of funding, the OIG would be forced to cut audits by 13% or 7 fewer audits completed in FY2013, and investigations by 10% or 42 fewer cases completed.

OFFICE OF INSPECTOR GENERAL PROGRAM ACTIVITY

BUDGET ACTIVITY BY OBJECT CLASS (Dollars in Thousands)					
		FY 2013 Full Year C.R. w. ATB Decrease	FY 2013 Sequestration	FY 2013 Reprogram	Diff. FY 13 Reprogram / FY13 C.R. w. ATB Decrease
11.1	Full-time permanent	40,968	39,577	39,577	-1,391
11.3	Other than full-time permanent	208	208	208	0
11.5	Other personnel compensation	3,634	3,084	3,084	-550
11.8	Special personal services payments	0	0	0	0
11.9	Total personnel compensation	44,810	42,869	42,869	-1,941
12.1	Civilian personnel benefits	16,052	15,537	15,537	-515
21.0	Travel and transportation of persons	3,166	2,474	2,474	-692
22.0	Transportation of things	0	0	0	0
23.1	Rental payments to GSA	4,850	4,850	4,850	0
23.2	Rental payments to others	133	142	142	9
23.3	Communications, utilities, and miscellaneous charges	610	539	539	-71
24.0	Printing and reproduction	9	5	5	-4
25.1	Advisory and assistance services	5,224	5,224	5,224	0
25.2	Other services from non-Federal sources	536	472	472	-64
25.3	Other goods and services from Federal sources 1/	6,193	6,008	6,008	-185
25.4	Operation and maintenance of facilities	9	0	0	-9
25.7	Operation and maintenance of equipment	1,145	886	886	-259
26.0	Supplies and materials	348	286	286	-62
31.0	Equipment	712	327	327	-385
41.0	Grants, subsidies, and contributions	0	0	0	0
42.0	Insurance claims and indemnities	50	1	1	-49
	Total	**83,847**	**79,620**	**79,620**	**-4,227**
1/Other goods and services from Federal sources					
	CIGIE	455	468	468	13
	Working Capital Fund	5,019	4,840	4,840	-179
	DHS Services	400	400	400	0
	Services by Other Government Departments	319	300	300	-19