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TO: Harry Staller, Acting Regional Administrator - Regional Housing
Commissioner, San Francisco Regional Office, 95

FROM: Miguel P. Barrios, Jr., Regional Inspector
General for Audit, 92A

SUBJECT: INTERNAL AUDIT - Monitoring and Enforcement of Labor Standards
Region IX

INTRODUCTION

We completed an audit of Monitoring and Enforcement of Labor Standards in Region IX. Our objectives were to determine if: monitoring and enforcement was adequate to detect unreported and underpaid wages; inspections were adequate to assure workmanship quality; management control systems were identifying repeat violators; prescribed monitoring procedures were followed; and willful violators were reported to management for appropriate sanctions.

Our review was performed from November 7, 1983 to April 15, 1984 and generally covered the period November 1, 1981 through October 31, 1983. Where necessary to explain audit period activities, the review was extended to cover prior period actions. We reviewed monitoring activities in the San Francisco, Los Angeles, Sacramento and Phoenix Offices. In addition, we made site visits to 21 insured projects and 4 program participants (Block Grant and Public Housing Agencies).

The audit was made in accordance with applicable portions of generally accepted governmental audit standards and included such auditing procedures as we considered necessary. Except as noted in the findings, our audit tests and procedures showed that Labor Relations personnel generally complied with prescribed program policies and procedures. Nothing came to our attention that caused us to believe that untested operations did not comply with applicable policies and procedures.

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SUMMARY

We found Labor Relations personnel to be enthusiastic and dedicated employees. In some respects their effectiveness was hindered and noted deficiencies aggravated by factors beyond their control. Nevertheless, management can initiate corrective measures to address our reported deficiencies in monitoring activities and workmanship quality.

The government has lost substantial tax revenues because of undisclosed labor wage payments. This occurred because of ineffective labor standards enforcement and lack of staff training. Because staff did not have quantifiable measurements of labor hours required to complete phases or types of project construction, they had no objective criteria to signal illegal wage underreportings. As a result, nearly all underpayments were disclosed only after workers complained or filed for unpaid benefits. If Labor Relations staff received training or assistance in evaluating construction labor hour requirements, they could more readily identify wage underreporting and cash payments indicative of labor law violations.

We found inadequate HUD inspections where there was a correlation between labor violations and construction deficiencies. Inadequate inspections occurred because of insufficient management oversight and a general attitude that identification of poor construction is the owner's responsibility. As a result, poor quality multifamily projects could be overinsured and excessive maintenance expenses incurred correcting defective construction. Management needs to reemphasize the importance inspections play in protecting HUD's interest and increase monitoring of inspector performance.

Because there was no system to identify repeat violators, contractors with labor violation histories continued to work on HUD projects and underpay workers. The Regional Labor Relations Office should establish a system to identify repeat violators. Then, Field Offices could more readily identify violations early in construction and take prompt action to exclude violators from HUD program participation.

Proactive labor standards monitoring and enforcement procedures were not carried out. Wage interviews were not done or done inadequately. Additionally, wage interviews and payroll discrepancies were not identified or acted on when found. Timely submission of weekly payrolls were not being enforced and, when submitted, reviews were not always timely. Finally, program participants were not obtaining evidence of apprenticeship registrations. Responsible HUD staff should be required to obtain complete, accurate and sufficient numbers of employee wage interviews to evaluate payroll submission accuracies. Payrolls should be promptly examined upon submission, compared to employee interviews and discrepancies resolved. Appropriate actions should be taken against contractors who are tardy or refuse to submit payrolls. Finally, program participants should be instructed on apprenticeship registration requirements and more closely monitored.

Willful violators were not properly reported to management and referrals inadequately monitored. This occurred because of perceptions that referrals do not result in effective actions and management's failure to develop written monitoring procedures. As a result, willful violators continued to work on HUD projects and Labor Relations staff had insufficient information concerning referral status or results. Field personnel should be reminded of the importance of referring willful violators and management should develop formal procedures to monitor referral progress.

During the audit we discussed the above conditions with Labor Relations staff. In addition, we discussed our draft findings with the Regional Labor Relations Officer on June 13, 1984 and provided a draft report to the Regional Office on August 23, 1984. Where appropriate verbal and written comments are included and addressed in the findings. The findings included in this report are the conclusions of the HUD Office of Inspector General, based on the auditor's testing of the auditee's operations. The findings are subject to review and determination by your office, as to corrective actions needed in accordance with procedures in HUD Handbook 2000.6 REV on the Audits Management System.

FOLLOW-UP ON PRIOR AUDITS

This is the initial audit of monitoring and enforcement of labor standards and the effect of non-enforcement on workmanship quality. The Office of Inspector General completed a nationwide review of administration of labor standards March 31, 1976 to determine if labor standards had been implemented. There were five findings which have been closed; however, some of the same problems continue, as discussed in findings 3 and 4 of this report.

* * * * *

Within 60 days, please provide this office, for each recommendation cited in the report, a status report on: (1) the clearance action taken; (2) the proposed clearance action and the date to be completed; or (3) why action is not considered necessary. If the initial status report does not result in closing of all recommendations, please provide us, within 30 days after the initial report, a second report of corrective action taken. Also, please furnish us copies of any correspondence or directives issued related to the audit. Findings and recommendations not cleared by 120 days after report issuance must be referred to Headquarters with explanations as to why the findings cannot be resolved in accordance with procedures contained in the Audits Management System Handbook 2000.6 REV.

BACKGROUND

The HUD Secretary has labor standards enforcement responsibility for Federal legislation administered by the Department. Reorganization Plan No. 14 of 1950 (64 Stat.1267) made the Secretary of Labor responsible for prescribing appropriate standards, regulations, and procedures to be followed by various Federal agencies in labor standards enforcement.

Title 29, Code of Federal Regulations, Parts 1, 3, and 5, applies to construction financed by Federal loans or grants and mortgages guaranteed by the Federal Government. HUD's labor standards monitoring and enforcement requirements address three labor laws:

Davis-Bacon Act

This 1931 Act was the first legislation requiring payment of minimum wages to employees working on Federal or Federally financed construction projects. Minimum wages are determined by the Department of Labor based on prevailing rates in the construction locality and are applicable to all contracts exceeding \$2,000.

Copeland Anti-Kickback Act

This Act was passed in 1934 to prevent contractors from paying workers required Government rates and taking back a portion. It also provides for weekly compliance statements and payroll submissions.

Contract Work Hours and Safety Standards Act

Stipulations of this 1962 Act require payment of not less than one and one-half times basic rates for work in excess of eight hours a day and 40 hours a week. This Act also established an appeals procedure and makes intentional violations a Federal criminal misdemeanor.

Effective labor standards violations prevention and program enforcement responsibility ultimately rests with HUD's Office of the Assistant to the Secretary for Labor Relations. HUD delegates labor standards administration of Low Rent Public Housing and Community Development Block Grant programs to local and state agencies but monitors, provides technical support, and retains overall responsibility.

During the audit period Labor Relations staffing in Region IX was:

	Federal Fiscal Year			
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
<u>Regional Office</u>				
Labor Relations Officer	1	1	1	1
<u>Field Offices</u>				
<u>San Francisco</u>				
Specialist	3	2	2	2
Wage Assistant	3	3	2	2
Clerk/Typist				1
<u>Los Angeles</u>				
Specialist	2	2	2	2
Wage Assistant	3	3	3	2
<u>Honolulu</u>				
Specialist	1			
Wage Assistant				1
Wage Clerk	1	1	1	
<u>Phoenix</u>				
Specialist	1	1		1
Wage Assistant	1	1	1	1
Wage Clerk			1	
<u>Sacramento</u>				
Specialist	1	1	1	1
Wage Assistant	1	1	1	1
<u>Indian Programs</u>				
Specialist	1	1	1	1
Wage Assistant	2	2	2	1
TOTAL	<u>21</u>	<u>19</u>	<u>18</u>	<u>17</u>

INTERNAL CONTROLS

We reviewed administrative controls over recording and monitoring of labor standards requirements and, as set forth in the report findings, found such controls nonexistent or inadequate.

Region IX vulnerability assessments had not been performed for Offices below the Regional level. Regional Office assessment risk ratings for surveyed areas are:

Labor Standards Enforcement	Moderate
Monitoring and Review of PHAs and Grantees	Low
PHA Maintenance Wage Rates	Low

In our opinion, the above assessments are inaccurate and labor standards enforcement should be rated as highly susceptible to fraud, waste, and mismanagement.

FINDINGS AND RECOMMENDATIONS

Finding 1 - Need to Identify Unreported Wages

An underground economy of cash and unreported wages for construction workers flourishes. This occurs because contractors are falsifying payroll records submitted to HUD in an effort to conceal noncompliance with prevailing wage requirements. Lack of procedures and training to analyze work hour requirements of various construction trades allows this underground economy to continue. This results in a substantial loss of Federal and State tax revenues.

U.S. Criminal Code, Section 1010, Title 18, U.S.C. "Federal Housing Administration Transactions", provides that conviction may result in not more than \$5,000 fine or imprisonment for not more than two years, or both, for making false statements on payrolls. Also, the sixteenth amendment to the United States Constitution requires citizens to pay Federal income tax. Tax rates are progressive, therefore, when income is not reported, revenue is lost and tax computed on reported income is at a lesser rate.

During our audit period, Region IX Labor Relations staff collected gross worker underpayments of about \$1,125,000. We believe this is only the "tip of the iceberg" because nearly all collections resulted from worker complaints after project completion. By accepting unrecorded or cash payments, workers become accomplices in an unlawful act and are reluctant to complain. Additional reluctance exists since future employment with the violating contractor would be jeopardized by a complaint.

Underpayments are made in a variety of ways. One is agreement to accept piece work which is unlawful under the labor standard Acts. Another is to agree to cash payments, or some other method whereby wages are misrepresented.

Numerous methods are used to falsify payroll records. Probably, the most common is to show correct total wages but decrease hours worked by dividing total wages by the prevailing wage rate. This becomes fairly obvious to reviewers because hours are sometimes shown in tenths and hundredths. Another method is direct cash or check payments to certain employees who then share the money with other workers. Some employees are then omitted from weekly payrolls. Other transactions such as payments for equipment rental, materials, or sub-tier contractors, may be used to disguise wage underpayments.

To detect fraud, reviewers must constantly be alert and use innovative methods. For example, comparison between percentage of work completion and reported labor to total contract amount may disclose variances large

enough to investigate. Also, established construction estimating techniques are available to measure the reasonableness of hours needed for specific construction work. We found only one Field Office used these estimates to test labor costs claimed but only on a limited basis. Because HUD Labor Relations has no procedures or training to estimate or compare work requirements, improper payment practices and unreported wages were not identified.

An example of work requirements analysis and the magnitude of wage underreporting was contained in a May 12, 1981 report to U.S. Representative Tom Lantos prepared by the Carpenter Trust Funds of Northern California (see Appendix 1 for report excerpts). The report presented a study of the Underground Cash Economy as it is related to selected HUD-insured projects. Primarily through analysis of work hour requirements and comparison to payrolls submitted to HUD, the Carpenters Trust Funds claimed that 15 to 75 percent of required carpentry labor hours were not reported for eight projects developed by one prime contractor.

We found no evidence that HUD's monitoring disclosed any carpentry labor violations on these same projects. Review of projects built during our audit period by the same prime contractor showed extensive use of subcontractors in many trades with repeated histories of documented labor violations. Again violations were disclosed through worker complaints and not as a result of Labor Standards monitoring or analyses.

A study of the underground economy was also done by the California Assembly Committee on Labor and Employment in late 1983 and early 1984. Testimony on the extent of the cash economy was given by various federal, state, city and labor officials responsible for monitoring and enforcing labor standards. At a November 29, 1983 hearing the Committee Chairman stated:

"After talking to hundreds of individuals throughout the state -- workers, contractors, labor representatives, and government enforcement personnel -- we are now finding out that the wage and tax law violations are routine and are occurring everywhere, on every type of construction work, both public and private.

"Special tax audit investigations by the IRS and state agencies indicate that as many as 50% of the contractors are now engaging in some form of illegal activity -- paying workers in cash without withholding federal and state income taxes, social security payments and unemployment premiums is one of the ways.

"This systematic cheating is costing the public treasury hundreds of millions of dollars, reducing workers earnings, and driving the honest contractor out of business or underground."

During our audit period, Region IX Labor Relations collected and disbursed to workers about \$1,125,000 in underpaid wages on construction of HUD-insured projects. Generally, taxes were computed and submitted to the applicable tax collecting agencies prior to worker disbursements. We estimated taxes on wages when HUD staff failed to do this. Taxes on the \$1,125,000 wage underpayment recoveries were:

Federal income tax	\$198,416
FICA	71,790
State income tax	56,683
Total	<u>\$326,889</u>

Although \$1,125,000 in collections is substantial, we believe this is only a minor portion of actual wage underpayments and does not even start to measure the extent of tax free wages paid on HUD-insured projects. For example, during an inspection of a project under construction, a subcontractor told us and a Labor Relations employee that he pays all his workers in cash. He stated the workers prefer this practice since the company's bank is out of town. He claimed to be paying Davis-Bacon rates. Subsequent to our site review, Labor Relations told us of recent worker underpayment complaints for the subcontractor on this and other HUD-insured projects. These complaints, however, had not as yet been pursued or had possible underpayments been noted by Labor Relations staff until the workers' charges were filed.

In another instance, Labor Relations referred a case to the Regional Inspector General for Investigation (RIGI) in July 1979 for a project completed in April 1979. An investigation completed in April 1981 revealed nearly every prime contractor employee was paid in cash, but none had reported this. In fact, the prime contractor violations were only disclosed during investigation of underpayment complaints by a subcontractor's workers. Despite falsified payroll submissions by the prime and one subcontractor, the Assistant U.S. Attorney declined prosecution. Reasons given for the declination were that: the Labor Relations supervisor sided with the contractors; the Supervisory Construction Analyst did not agree with prevailing wage rates and only wanted to complete the project; the referral was not timely; and, the Government did not sustain a loss. The investigation disclosed 36 employees were underpaid \$264,490. Not enough money (\$128,000) was escrowed at final endorsement to pay that amount. Not only were workers underpaid, but the Government lost taxes on approximately \$136,000. In addition, we believe it highly probable that prime contractor employees did not report or pay taxes on cash wages paid. A Temporary Denial of Participation for the prime contractor was issued March 2, 1983.

Another reason for work hour requirements analysis is the lack of payroll records when cash payments are involved. Even if a violator is identified, it is difficult for Labor Relations to determine what should have been paid. For instance, we interviewed various union Trust Fund officials and the State Deputy Labor Commissioner. They cited cases of recent cash underpayment disclosures. In some instances, HUD was unable or unwilling to pursue the cases. For example, the Trust Fund officers stated they collected \$200,000 in unpaid fringe benefits from one contractor working on HUD projects. Yet, HUD would not pursue this matter since no cash payment records existed. Likewise, a Department of Labor investigation of this contractor disclosed only \$5,000 in underpayments because payroll records and workers' names were unavailable.

Another case cited was a \$60,000 underpayment that HUD settled for \$24,000 because workers who accepted cash payments were unwilling to provide underpayment evidence.

Similarly, the State Deputy Labor Commissioner stated the investigative problem with cash payments is lack of records. To investigate, the State has to know who is working on the project from such sources as employee interviews, an informer, or "plants". For example, on one HUD project the Labor Commissioner "planted" a worker with a tape recorder after the Commission received a worker's complaint. As a result, over \$48,000 in underpayments were disclosed for one subcontractor. In this case, HUD withheld underpaid wages from construction advances and transmitted them to the State Department of Labor for worker payment. HUD staff was unaware of the underpayments until advised by the State because it had no method to determine the amount of wages the contractor should have been reporting.

HUD Labor Relations personnel told us they believe most underpayments are not identified. This occurs, in our opinion, because of:

- lack of time and training to estimate what hours should be reported by the various trades (subcontractors);
- inadequate employee wage interviews and payroll reviews (Finding 4);
- no system to identify repeat offenders (Finding 3); and
- failure to refer willful violators (Finding 5) or take other administrative sanction actions.

Recommendations

We recommend you:

1. Provide Labor Relations personnel training in estimating work hour requirements or make HUD personnel with such cost estimating expertise available for use by Labor Relations;

2. Require more thorough analysis of total subcontract cost to reported labor costs when payroll submissions are reviewed; and

3. Have staff prepare work hour requirement estimates for prime/subcontractors with prior violations or where contract and labor cost comparisons indicate possible underreporting and underpayment of wages.

Finding 2 - Need to Improve Project Inspections

We found inadequate HUD inspections in those instances where there was a correlation between labor violations and construction deficiencies. Inadequate inspections occurred, in our opinion, because of insufficient management oversight and a general attitude that identification of poor construction is the owner's responsibility. As a result, poor quality projects could be overinsured and excessive maintenance expenses incurred correcting defective construction.

Inspectors are HUD's main defense against contractors who deviate from contract requirements. Chapter 3, Section 2, of HUD Handbook 1340.3A, Labor Standards, sets forth inspection procedures and states, in part, project inspections shall be made as soon as feasible after start of construction, and labor standards surveillance of all projects shall be of a continuing nature. Paragraph 3.2g(6)(i) states inspectors shall report any discrepancies or questionable items encountered.

HUD Handbook 4460.1, Architectural Analysis and Inspection for Project Mortgage Insurance, deals with inspections. Paragraph 1-15 provides the Secretary will not insure mortgages ...unless... all laborers and mechanics employed on construction of the project have been paid not less than wages prevailing... in the locality of the project. Also, paragraph 4.1b states:

... "Inspections of multifamily housing projects are made to protect the interest of HUD. Inspections are made to evaluate the architect's performance, to obtain construction in accordance with the contract documents, and to report on conformance with the prevailing wage and other requirements."

Paragraph 4.3 designates the Chief Architect responsible for proper performance of inspection functions. Paragraph 4.5a states the HUD inspector determines that construction conforms to drawings, specifications, and sound building practices within the scope of the contract. Paragraph 4.5i requires reporting of errors, omissions, and unsatisfactory construction.

Project inspection file reviews showed inspections were regularly performed but rarely identified unsatisfactory construction. None of the reports we reviewed identified labor violations. Also, despite numerous cases of nonpayment of prevailing wages, we found no mortgage insurance denials. General contractor construction estimates include labor costs based on prevailing wages. If those wages are not paid, projects could be overinsured.

Projects may have 50 or more subcontractors on various construction trades. Competitive bidding frequently results in use of less skilled workers paid below prevailing wage rates and shortcut construction methods leading to poor quality work. Subsequent cost certifications may show understated profit margins and overstated development costs to disguise low subcontractor bids and hide labor standards violations. HUD uses these invalid certifications for project insurance purposes.

Direct correlation between labor violations and poor quality construction on 17 projects are shown in Appendix 3. On these 17 projects, we found violations and construction deficiencies in the same construction trades.

Poor workmanship quality, in our opinion, results from use of inexperienced or unskilled workers and short cut construction methods. Roofing short cuts result in leaks and costly roof and ceiling repairs. While short cuts in painting may not be as serious, it does require future maintenance expenses by requiring repainting sooner than anticipated. Electrical short cut deficiencies are not as readily detected but may lead to serious problems such as fires and shocks.

Conversely, some carpentry short cut deficiencies can be easily identified and may also result in extensive maintenance expenses. Carpentry short cut methods we observed were "short" nailing and air-pressure nailing. "Short" nailing refers to use of fewer nails spaced further apart, while air-pressure nailing refers to machine nailing with an air-pressure gun. If too much pressure is used, nail heads will go completely through siding panels. Loose panels leave buildings exposed to elements, resulting in leaks and warping. Also, if panels are used for "shear" bracing, the building will be inadequately supported if panels are not properly secured. In addition to poor quality rough carpentry work, we noted short cut deficiencies in finish carpentry. Examples of this included improperly attached door frames and kitchen cabinets.

Poor quality work leads to excessive maintenance costs and increased risk of defaults and foreclosures. If overinsured, HUD may be unable to dispose of poor quality projects for insured amounts. As shown in Appendix 5 and discussed below, HUD could be vulnerable for 388,914,300 in insured mortgages.

a. Prime Contractor No. 4 (page 26)

There was a correlation between poor construction and labor violations on projects built in the jurisdiction of three Field Offices by Prime Contractor No. 4. Inspection reports did not disclose either the poor construction or labor violations. The only indication that management reviewed inspection activities was initials by the supervisor on some inspection reports.

Sacramento Office

Wage underpayments were being reviewed on five subcontractors on several Prime Contractor No. 4 projects. Various methods were used by subcontractors to avoid payroll deductions and payment of lawful wages. For example, to avoid paying fringe benefits, the carpentry subcontractor claimed workers were sub-tier contractors while the electrical subcontractor listed all workers as general partners. Labor Relations site visits found concrete subcontractor employees working after dark by truck headlights and on weekends. No payrolls had been submitted by the concrete subcontractor. We found poor quality work performed by all three subcontractors on two projects:

- (1) Project No. 136-35652, FHA Insurance (upon completion)
\$5,532,300

We found a correlation between construction defects and labor violations in framing, finish carpentry, electrical and concrete work.

(a). Framing Subcontractor. This project was under construction during our inspection. The on-site construction superintendent confirmed siding was used for "shear" bracing. We saw nail heads completely through siding panels from too much air gun pressure. This carpentry subcontractor (E Appendix 3) was under labor standards investigation for work done on three other Prime Contractor No. 4 projects built during our audit period. Also, prior to our audit period, wage restitutions to underpaid Subcontractor E carpenters on two other projects were \$139,238. Inspection reports for these six projects did not report any labor violations or construction deficiencies.

(b). Finished Carpentry Subcontractor. We found problems with door frames and kitchen cabinets. The County Labor Standards Compliance Officer, (former carpentry contractor) accompanying us on our inspection, stated exterior door frames should be shimmed (re-enforced) behind each of three hinges and should have at least six nails on hinge sides and three on door knob sides. We found missing shims, three nails on hinge sides, and no nails on knob sides or many nails on knob sides. The latter condition, according to the County Compliance Officer, was an attempt to force a frame to fit an opening of improper size. We found no consistency in door frame nailing. Also, many kitchen cabinets were attached improperly and wood had split. It was the County Compliance Officer's opinion, that door frames and cabinets were not installed by skilled carpenters and may cause future maintenance problems. Eight underpayment complaints had been filed against this subcontractor on this project.

(c). Concrete Subcontractor. Recently poured concrete walkways were only about two inches thick throughout the project. HUD Minimum Property Standards for Multifamily Housing Handbook 4910.1 paragraph 3.3 states walkways should be at least three inches. Our inspection revealed many cracks in concrete floors and one unit had a large hole (about 6" by 14") in the bedroom floor extending under the wall into the living room.

(d). Other. There were also exposed electrical wires in several dining areas.

Interviews by the Labor Relations Specialist, who also accompanied us on our inspection, disclosed: (1) an electrician apprentice, working without supervision, stated he was paid by piecework; (2) another worker who refused to give employer or wage information; and (3) a landscaping subcontractor who admitted paying all employees in cash.

HUD inspection reports did not disclose the above deficiencies.

(2) Project No. 136-35651, FHA Insured (upon completion)
\$4,164,700

This 128 unit project was in rent-up process but had not been finally endorsed. Most of the subcontractors on this project were the same as used on Project No. 136-35652 above. We found a correlation between construction defects and labor violations.

(a). Framing, Finished Carpentry, and Electrical Subcontractors. As in Project No. 136-35652, nail heads were driven completely through siding panels. One panel was secured with only one nail and another with only two. Inspection of vacant units revealed bent door hinges and split wood in kitchen cabinets. Two kitchens had missing baseboards. As with Project No. 136-35652, some dining areas had exposed wiring and one chandelier was hanging by exposed electrical wires.

(b). Concrete Subcontractor. During our inspection, workers were on site replacing several sections of concrete. Discarded concrete chunks piled nearby were of irregular and uneven thickness ranging from less than one inch to approximately four inches, and contained too great an amount of pebbles and rocks. A great amount of sand and mud was with the discarded concrete. The resident manager said the mud resulted when the subcontractor pumped fill material under some sunken concrete areas attempting to repair them, but

the concrete still broke. Inspection of other concrete areas revealed "pocked" sections, patches of replaced concrete, and one area where concrete could be torn away with the bare hand. We believe the concrete will cause future maintenance problems. Page 1 of Appendix 4 shows discarded concrete sample photographs.

HUD inspection reports did not disclose the above deficiencies.

Los Angeles Office

The Los Angeles Office was alerted to labor violations and poor quality work by a worker complaint on Prime Contractor No. 4's project discussed below. Subsequent review by the Regional Office Landscape Architect and the Civil Engineer confirmed worker allegations against a landscape subcontractor. During our review over \$100,000 in underpaid wages had been identified. Other project subcontractors are currently under investigation for labor violations. Based on Labor Relations reviews of other Prime Contractor No. 4 projects, we anticipate labor violations and poor quality work will be found in other construction trades.

(3) Project No. 129-35077, FHA Insurance \$18,300,000

Construction started on this 500 unit project on February 22, 1983. Construction deficiencies from labor violations in landscaping were found.

Regional Office review disclosed deficiencies leaving the project with present and future problems. Inspection reports disclosed deficiencies in almost every aspect of landscaping work. For example, there was inadequate trenching, faulty sprinkler plumbing and electrical systems, poor soil and improper planting.

The Regional Landscape Architect concluded:

"an extremely poor installation and inspection job has taken place on this project in regards to fine grading, irrigation, hardscape, and landscaping. For whatever reason, timely and knowledgeable installations and inspections as required by contract documents did not take place. . . .

"If allowed to remain as is, the landscaping and irrigation systems will present future risk to the Department in the form of increased water usage, excessive landscape and irrigation maintenance and repair costs."

Both reports recommended the landscaping and sprinkler system be removed and redone to comply with HUD and local code requirements.

San Francisco Office

We inspected two Prime Contractor No. 4 Projects. Physical appearance was good but maintenance expenses excessive, leading us to believe construction defects were being corrected by on-site maintenance crews. Correlations between labor violations and construction deficiencies noted were:

(4) Project No. 125-35107, FHA Insurance \$7,260,900

Flickering electrical lights may be the result of improper installation by the same subcontractor as on Project No. 125-35095 discussed below.

(5) Project No. 125-35095, FHA Insurance \$6,560,900

(a). Carpentry and Landscaping Subcontractors. We found dried out, cracked, and crooked wood trim throughout the project. Also, nails had gone through siding as on above projects. Some trees had died and had to be replaced.

(b). Electrical Subcontractor. We found circuit breakers tripping, power surges, flickering lights, and improperly installed light sensors and smoke alarms.

Labor Relations staff found the electrical subcontractor reported labor costs at only 21 percent of the total subcontract amount. Also, there were unlicensed electricians and inconsistent ratio of laborers to journeymen. Workers alleged they were paid by piecework and that blueprint items were changed. For example, under sized wires were used and ten or twelve receptacles were installed on a circuit instead of the maximum eight.

This subcontractor has done electrical work on five Prime Contractor No. 4 projects in three Field Offices. We believe these projects may also have electrical problems. Labor violations were found on three of the projects and probable violations are being pursued on the fourth. Although no violations for this subcontractor were disclosed by Field Office staff on the fifth, submitted payrolls were consistent with the other four to indicate violations may have occurred.

Prime Contractor No. 4 deposited \$29,975 pending labor violation investigations on the above three subcontractors. HUD Inspection reports did not disclose the above deficiencies.

b. Prime Contractor No. 7

We inspected three projects constructed by this contractor-owner. Inspection results disclosed problems with two projects:

(1) Project No. 136-35600, FHA Insurance \$4,078,100

This project consists of 12 commercial and 92 residential units completed on October 5, 1982. Review disclosed construction defects correlating with labor violations in asphalt paving, landscaping, carpentry, concrete decking, and roofing.

Asphalt paving and landscaping were poor throughout the project. Some sprinklers were inoperable while others shot water ten to twelve feet into the air. Various individuals told us of poor quality carpentry work. We could not verify this by our inspection, however, because it was mostly covered by masonry. Our inspection did disclose a loose door frame (caused by improper nailing) as shown on page 2 of Appendix 4.

Leaks from cracked concrete decking above commercial units resulted in a 50 percent vacancy rate as water damage made areas unusable. (See page 2 of Appendix 4)

The project was finally inspected on October 5, 1982, but the tile roof was still not completed February 1, 1984, as shown on page 3 of Appendix 4. Some tiles, weighing approximately 15 pounds, had fallen to the ground because of inadequate nailing. In many cases, only one nail held tiles, rather than the required three nails. (See page 3 of Appendix 4) Flashing was improperly installed and did not cover nail holes and tile tops. This caused interior water damage. (See page 5 of Appendix 4) Also, improper roof drainage caused water pools from rain and air conditioning condensation. This, in turn, caused deterioration of the roof pipe entry flanges.

Three HUD inspectors made 40 site inspections and 31 worker interviews during construction. The only indication of improper construction was noted by an inspector who reported a minor roof problem on July 28, 1982. No inspection reports disclosed labor violations.

The project was sold in August 1983. Shortly after transfer, commercial tenants complained to the new management agent of water damage from ceiling leaks. When leaks were first reported to the new owner the project was still under guarantee and should have been fixed by the original owner (prime contractor) or the appropriate subcontractor. Instead, the former owner's construction company submitted a \$22,968 bid to the new owner to repair concrete decking leaks.

The former owner-developer was aware of leaks prior to project sale. A July 12, 1983 guarantee inspection report showed deck and roof leaks. A September 22, 1983 inspection reported no leaks. Another January 18, 1984 guarantee inspection, however, reported evidence of leaks, unnailed tiles, exposed tile holes, and cracked and missing tiles.

The new owner's maintenance crew corrected sprinkler problems and are working on landscaping deficiencies. Asphalt repair bids are averaging \$7,000 and repairs were to take place shortly. Deck and roof leak repairs had not been done because of the exorbitant expense involved.

We believe better monitoring by HUD inspectors during construction could have prevented or corrected the above deficiencies. Poor construction has led to excessive maintenance expenses and may result in mortgage default.

(2) Project No. 136-35601. FHA Insurance \$5,867,200

This 150 unit elderly and disabled project was completed on February 16, 1983. Three inspectors made 39 field inspections but found no construction deficiencies. Our audit disclosed deficiencies in carpentry, asphalt paving, roofing and iron work correlating to labor standards noncompliance.

- Wood window trim was warped and twisted due to improper installation, allowing rain seepage between stucco and trim.
- Asphalt paving was in poor condition with some parking areas sunken about six inches.
- Roof leaks resulted in drywall damage in two units. In a third vacant unit, a water damaged ceiling collapsed.
- Rough edges on ornamental wrought iron frames caused awning damage.

Because of reviews after worker complaints, Labor Relations staff found incorrect rate, hour, and overtime payments; uncertified apprentices; improper ratios of apprentices to journeymen; and unidentified payroll deductions for carpentry, asphalt, roofing and iron work subcontractor workers. After construction completion, \$70,357 was disbursed to workers for underpaid wages.

The management agent was unable to tell us what it cost to have maintenance crews repair construction defects. Based on bids for Project No. 136-35600 above, however, we estimate costs will be between \$5,000 and \$7,000 for only asphalt repairs.

c. Prime Contractor No. 11

Because of major problems obtaining payrolls, San Francisco Labor Relations staff suggested we inspect this prime contractor's project.

Project No. 125-35096, FHA Insurance \$2,455,400

This 62 unit project with 20 percent Section 8 was finally endorsed May 7, 1984. Final endorsement was delayed because payrolls requested August 1982 did not arrive at HUD until May 3, 1984. A \$100,000 deposit was required due to insufficient wage reporting and possible violations on payrolls not reviewed previous to the May 7, 1984 final endorsement.

We found 37 reviews performed by a fee inspector from April 13, 1982 to May 31, 1983, which did not adequately identify poor construction. Only a ~~May 12, 1982~~ inspection was made by HUD architectural staff. The June 17, 1983, final inspection report listed seven incomplete items totaling \$6,900. These included missing tile eave caps, still missing when we did our April 5, 1984 inspection. Other poor construction defects, correlating to labor violations were roofing, landscaping, carpentry, plumbing, concrete work, and air conditioning.

None of these deficiencies were noted by inspectors until after we brought the defects to the attention of the Architectural and Engineering Chief.

As noted above and shown on page 6 of Appendix 4, tile eave caps were never installed on six sections of the roof. According to the resident manager, seven or eight units developed leaks because of missing eave caps and ceilings had to be repaired. In addition to missing eave caps, there were numerous roof sections with missing, loose, or cracked tiles. (Appendix 4, pages 6, 7)

Lack of soil amendments and incomplete landscaping caused plants to die prior to on-site management. Because the soil did not absorb moisture, replanted shrubs, ground cover, and grass were in poor condition. (Appendix 4, page 8)

Wooden trellises over upper walkways were improperly fitted and nailed. (Appendix 4, page 9) There were also cracked, uneven fascia boards. Improperly assembled plumbing pipes continuously separated and flooded various areas damaging ceilings and floor tiles.

Concrete walkways were cracked and one corner never completed. (Appendix 4, page 10) We also noted improper drainage from a concrete drainage ditch and a cracked brick walkway support.

In our opinion, installation of 20 year old 1963 model air conditioners, was one of the most serious problems. Three air conditioner brands were installed by two subcontractors. In 13 units, 1963 models were installed. Also, some were improperly installed. For example, one was installed backward with the cool air vent facing outside while another cooled only the kitchen. The management agent corrected the first, but ceilings may have to be opened to correct the second.

In addition, a third air conditioner supplier sued one of the installation subcontractors for nonpayment. This resulted in additional maintenance problems because the supplier would not furnish repair parts for the 1963 air conditioners but the installer was honoring a labor warranty. Consequently, a fourth company sometimes was called to perform repairs.

Labor Relations staff received no payroll records from one air conditioning subcontractor and were unaware of its involvement until we informed them. We do not know if other subcontractors worked on the project and did not submit payrolls because only three employee interviews were performed. Interview information obtained did not agree with submitted payrolls.

We discussed the above deficiencies with the Chief, Architectural and Engineering Branch, who subsequently made a ninth month guarantee inspection. His report addressed trellis work deficiencies, cracked walkways, and minor latent defects. The report also noted landscaping problems but determined they were maintenance related. Roof tile eave caps were considered an item of delayed completion and \$4,000 was to be escrowed for this purpose. The report did not mention air conditioner or plumbing problems. The Chief said these deficiencies were the owner's responsibility; therefore, he did not verify the information concerning plumbing and air conditioners. He also said it is not HUD's problem if subcontractors are not paid.

We do not agree with the architectural and Engineering Chief. We expect excessive maintenance expenses to continue due to poor construction and use of 20 year old air conditioning models. The management agent said he had never had problems of this magnitude on other managed projects. He blamed excessive maintenance problems on construction deficiencies. The project was in default prior to occupancy and excessive maintenance expenses may cause default again with subsequent foreclosure. In its present condition, it is our opinion HUD may be unable to recover its costs if foreclosure occurs.

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Correlation between labor violations and poor construction was not confined to HUD projects. We also found the relationship on HUD monitored projects. For example, Sacramento Housing and Redevelopment Agency inspection reports for Turnkey Project No. CA-30-PCO-700 identified numerous construction deficiencies and required corrections. On the other hand, HUD's inspection reports of the same project revealed little. The Acting Chief of Architecture and Engineering said the Housing Agency inspector was "picky" but agreed the HUD inspector should have reported the construction problems. He was of the opinion that they probably were not reported because HUD has no control over the agency. We do not agree. Since HUD funds Turnkey Projects it should assure proper construction occurs.

Recommendations

We recommend you:

1. Direct inspection personnel to more thoroughly examine workmanship quality;
2. Require management monitoring of inspector's performance and document such monitoring;
3. Advise inspection personnel to record noted construction deficiencies on inspection reports for corrective follow-up action;
4. Instruct inspectors to perform an adequate number of employee interviews and report known or suspected piecework payment practices to Labor Relations staff; and,
5. Emphasize the importance of inspections to protect HUD's interest by assuring construction in accordance with contract documents and quality workmanship standards.

Finding 3 - System Needed to Identify Recurrent Labor Standards Violators

Current procedures were not effective in identifying contractors with labor violation histories. Because no system existed to identify repeat violators at the Regional Office level, contractors with labor violation histories continued to work on HUD projects.

Paragraph 4.1a of HUD Handbook 1340.3A, Labor Standards, states in part:

A well-administered labor standards enforcement program depends upon the accuracy of recorded information and the smooth flow of such information from field agency to the Region to the Central Office. The accuracy and flow of information is not only necessary for good administration, it is required for legal prosecutive efforts, prompt restitution to underpaid workers, fair treatment of contractors, and the data requirements of the Department of Labor.

The above criteria were not adhered to. We found existing reporting requirements inadequate to identify repeat violators at the Regional Office level. Also, at the Field Offices we reviewed, we found poor or inconsistent record keeping practices. For example, the Sacramento Office kept numerous logs and records but most were incomplete or inconsistent. Whereas, the Phoenix Office only maintained a complaint log and check ledger.

The San Francisco Office had a check ledger and voucher log but most other records had been destroyed. Yet, none of the records were designed or used to identify contractors repeatedly violating labor standards.

The problem was magnified at the Regional Office level since it was not apprised of who violators are. Therefore, habitual offenders under one or more Field Office jurisdictions were not identified.

The Regional Labor Relations Officer is apprised of labor violations at the Field Office level by two statistical reports. The first is a monthly statistical workload report which summarized Field Office work unit activities. This report, however, does not provide useful control data to identify repeat violators. The report does not indicate the number of violations found or names of applicable prime or subcontractors. It also does not indicate the nature of the violation, if it was confirmed, or the amount. Reports were submitted sporadically prior to our audit, but currently were up to date.

The second means used by the Regional Labor Relations Officer to track Field Office activities is a semiannual Labor Standards Enforcement Report. This report shows such information as: number of prime contract awards on HUD-assisted projects subject to labor laws; number of prime/subcontractors against whom complaints were received; number of labor standard investigations initiated by Labor Relations staff; number of

labor standard investigations completed by Labor Relations staff; and, number of prime/subcontractors found in violation as result of investigations. Again, however, the report does not identify the nature of the violation, if it was confirmed or names of violators. Therefore, neither the Regional Labor Relations Officer or Field Office personnel could readily identify repeat labor violators. Information should be available so that reviewers are aware of previous contractor violations requiring increased monitoring effort.

In addition to the above two statistical reports, Title 29, Part 5.7 and Chapter 5 of Handbook 1340.3A require submission of a Final Enforcement Report for a project/program participant if violations are in excess of \$500 or willful. The report is suppose to be routed from Field Offices through the Region and Headquarters to the Department of Labor. The report is also suppose to identify: project; prime contractor and violation, if any; subcontractor(s) in violation; and names of underpaid workers and restitution amounts. In our opinion, these 5.7 Enforcement Reports would be an excellent source of data for establishing a system to identify repeat violators. The reports, however, were not being prepared by Field Office staffs.

Because there was no control system at the Regional Office level, willful repeat violators in Region IX were not always identified. For example, using available Sacramento Office records, we identified six subcontractors who violated labor laws more than once on 15 HUD projects and two HUD-monitored program participant projects. As detailed in Appendix 2 and summarized below, nine different prime contractors and six construction trades were involved in contracts totaling over \$47 million:

<u>Project Type</u>	<u>Number of Projects</u>	<u>Number of Subcontracts</u>	<u>Subcontract Amount</u>
HUD Multifamily California Housing Finance Agency	15	30	\$46,764,862
Sacramento Housing and Redevelopment Agency	<u>1</u>	<u>1</u>	176,602
	<u>1</u>	<u>3</u>	<u>294,950</u>
Total	<u>17</u>	<u>34</u>	<u>\$47,236,414</u>

We analyzed subcontract and underpayment amounts for two of the six subcontractors (B and C in Appendix 2) as shown below:

Con- struction Started	Project No.	Subcontractor B			Subcontractor C		
		Sub- Contract Amount	Under- payment Amount	Per- Cent- age	Sub- Contract Amount	Under- payment Amount	Per- Cent- age
12/79	136-35573				\$ 185,000	\$ 14,257	7.70%
7/80	136-35579	\$ 242,200	\$ 2,832	1.16%	169,000	12,776	7.55
9/80	136-35580				246,476	22,090	8.96
3/81	136-35628				75,867	8,530	11.24
6/81	136-35630				307,546	39,935	12.99
3/82	136-35600	185,000	31,066	16.79			
3/82	136-35601	375,000	62,592	16.69			
5/82	136-35631	220,000	18,183	8.25	148,102	23,491	15.36
Total		<u>\$1,022,200</u>	<u>\$114,673</u>		<u>\$1,131,991</u>	<u>\$121,079</u>	

Ratio of total underpayments
to contract amount:

11.2%

10.7%

As shown, total wage underpayments were \$114,673 and \$121,079, or 11.2 and 10.7 percent of total subcontract amounts. In addition, underpayment ratios tended to increase on more recently completed projects.

Not only were identified violations material in relation to contract amounts, but both subcontractors continued performing work on other HUD, or HUD monitored, projects. In addition to the above violations on Sacramento insured projects, subcontractor B completed a \$231,000 contract on San Francisco Project No. 121-35705 in August 1981 with labor violations. Also both subcontractors performed work on three Sacramento Housing and Redevelopment Agency turnkey projects under a different prime contractor and continued labor violation practices. The Regional Office issued temporary denials of participation on May 3, 1983 for subcontractor C and on September 15, 1983 for subcontractor B. We found, however, employees and an owner of B were currently employed on another HUD project under a different company name.

All six identified subcontractors shown in Appendix 2 had repeated labor violations but there was no system to determine if they had performed work on other HUD projects not included in our review. Subcontractors D and F have changed company names, but we could not determine if they were currently performing other HUD construction.

To determine the magnitude of subcontractors with identified labor violations in Region IX who were repeat violators, we analyzed \$140,835 in underpayments for ten additional subcontractors who had worked for two or more prime contractors:

<u>Subcontractor</u>	<u>No. of Prime Contractors</u>	<u>No. of Projects With Identified Violations</u>	<u>Amount of Worker UnderPayments</u>
1	4	4	\$ 12,744
2	2	2	633
3	2	3	18,045
4	2	3	2,069
5	2	2	6,717
6	2	3	7,395
7	2	5	71,199
8	3	3	16,214
9	2	2	2,024
10	2	3	3,795
	<u>23</u>	<u>30</u>	<u>\$140,835</u>

As shown, \$140,835 in violations occurred on 30 HUD projects under 23 various prime contractors. As of April 1, 1984, disciplinary action had been taken against only one of the ten subcontractors.

We performed similar tests on prime contractors for the four Field Offices reviewed and had similar results. For the 10 prime contractors tested, with identified labor law violations, we found eight had violations on other HUD projects:

<u>Prime Contractor No.</u>	<u>No. of Sub-Contractors In Violation</u>	<u>No. of Projects</u>	<u>Amount of Under Payments</u>
1	4	1	\$ 48,118
2	6	3	13,416
3	8	3	16,221
4	11	7	93,331
5	Unknown	2	57,412
6	3	1	112,704
7	13	3	97,580
8	6	5	15,795
9	4	2	53,319
10	14	5	62,114
	over <u>69</u>	<u>32</u>	<u>\$570,010</u>

The problem with repeat violators that remain unidentified at the Regional Labor Relations Office level was compounded by the fact that some contractors perform work in different Field Office jurisdictions. For example, Prime Contractor No. 4, above, was constructing seven projects in three Field Office jurisdictions as follows:

<u>Field Office</u>	<u>No. of Projects</u>	<u>Project No.</u>	<u>No. of Units</u>	<u>Loan Amount</u>
Sacramento	2	136-35652	168	\$ 5,029,400
		136-35651	128	4,164,700
San Francisco	2	121-35772	248	11,800,000
		121-35778	185	9,316,000
Los Angeles	3	122-35570	75	3,358,800
		122-35466	184	5,500,000
		129-35077	500	18,300,000
Total	<u>7</u>		<u>1,488</u>	<u>\$57,468,900</u>

Labor violations had been detected on four of the above projects to date. We found poor quality work on three of the four, as discussed in Finding No. 2. Some repeat offenders identified from prior projects built in one or more Field Office jurisdiction had not been found in violation by Labor Relations staffs on the above projects. Yet, submitted payrolls indicated a continuing violation pattern. If a system existed to identify prime and subcontractors with violation histories, Labor Relations staffs would be able to concentrate enforcement efforts early in construction thereby limiting subsequent violations and more readily cumulate violation documentation for investigative and debarment referral actions.

Recommendations

We recommend you:

1. Advise monitoring personnel to prepare and submit required Final Enforcement Reports;
2. Develop a system to identify and list each contractor and subcontractor that violates Labor Standards in Region IX;
3. Provide violator listings to Field Office staffs for monitoring purposes; and,
4. Instruct Labor Relations personnel to take prompt referral action in cases where repeat violators are found.

Finding 4 - Need to Improve Proactive Monitoring Procedures

Existing proactive monitoring practices to detect labor law violations need improvement. Because of the low priority given proactive monitoring, the lack of clear duty delineations, and inadequate training, detections had been generally ineffective and HUD resources used on after-the-fact wage restitution cases. Emphasis should be placed on adherence to worker interview requirements, payroll record reviews, and apprenticeship controls.

Labor standards monitoring is done to determine if labor laws are complied with on HUD-funded and insured projects. Monitoring is primarily the function of the HUD Labor Relations Office through its Regional Labor Relations Officer and Area Office Labor Relations Specialists. Regional Offices coordinate monitoring of all programs except the Community Development Block Grants (CDBG) and Public Housing Authorities (PHA). For these, monitoring is delegated to recipients but Labor Relations has oversight responsibilities.

Effective monitoring requires knowledge and day-to-day application of various control techniques and procedures identified in Handbook 1340.3A. Proactive procedures include verifying contractor eligibility prior to construction start and holding preconstruction conferences with emphasis on labor standards and requiring evidence of apprentice registrations before work starts. After start of construction, monitoring consists of payroll record reviews, employee interviews, and on-site inspections.

Paragraph 4 of Handbook 6500.3 applicable to CDBG programs and paragraph 12-13 of Handbook 7417.1 REV-1 applicable to PHA programs set forth policies and procedures for local contracting agencies to properly administer and enforce labor laws. To ensure adequate enforcement, HUD is responsible for providing technical training and assistance and performing monitoring reviews.

Paragraph 4-5c(1) of Handbook 4460.1 describes the major duties of an inspector while visiting a job site during construction. As part of the duties, it is a requirement to conduct employee wage interviews.

As detailed below, we found that responsible Labor Relations personnel, designated support employees, and HUD program recipients generally were not in compliance with applicable interview procedures, payroll reviews, and apprenticeship registration requirements. As a result, scarce HUD resources were devoted to developing post-construction wage restitution cases.

- a. On-site interviews were deficient and analysis inadequate to identify violations timely

Paragraphs 3.1a and 3.2b of Handbook 1340.3A address the need for periodic on-site job inspections, employee interviews and project surveillance. Surveillance should begin as soon as feasible

after construction starts allowing sufficient time for most trades to begin work and at least one pay check to have been issued. Paragraph 3.2g emphasizes the importance of sufficient employee interviews to establish payroll records accuracy and the nature and extent of any violations. Interviews are to be representative of all classifications of project employees.

Record examination procedures are prescribed in Section 2.9. The completeness and accuracy of payrolls should be checked as to names, addresses, job classifications, hourly wage rates, daily and weekly hours worked during the period, gross weekly wages earned, deductions, and wages paid.

Paragraph 4.1a emphasizes the need for accuracy and a smooth flow of recorded information. Such is not only necessary for good administration, but also for prosecutive efforts, prompt wage restitutions, fair treatment of contractors, and Department of Labor data requirements.

As detailed below, we found instances where interviews: (1) were not performed timely; (2) insufficient in number and coverage; (3) disclosed discrepancies that were not detected or pursued; and (4) were improperly documented.

1. Insufficient and untimely interviews

To determine if on-site worker interview procedures were properly followed, we reviewed activities on 22 projects with documented wage restitution cases where the violation was found after construction. We found that for 17 projects (cases) or 77 percent, worker interviews were either not done, insufficient in number, or untimely. The following summarizes the 17 cases:

CDBG and PHA Funded Project/Contract No.	Construction Period	On-site Worker Interviews		
		No. of Workers	Dates	Total
Sacramento CDBG-No. 1476	8/3/81 - 8/26/81	1	8/15/81	2
		1	8/26/81	
Sacramento CDBG-No. 1639	3/27/83 - 8/15/83	-0-	-0-	-0-
Sacramento Housing & Rede- velopment Agency-Phase VIII	8/1/82 - 12/31/83	3	6/27/83	4
		1	7/29/83	
Sacramento Housing Rede- velopment Agency-No. 8182	11/17/81 - 12/24/81	-0-	-0-	-0-
Richmond PHA-CAL 10-11	4/17/83 (Still under construction)	18	1/	18
Richmond PHA-CAL 10-2	8/8/81 - 5/28/83	1	8/24/81	5
		3	8/30/82	
		1	8/31/82	
Richmond PHA-CAL 10-3	12/10/81 - 6/17/82	-0-	-0-	-0-
Oakland CDBG-No. 72210	3/27/81 - 5/26/81	1	4/29/81	1
Oakland CDBG-No. 76870	9/5/83 - 10/19/83	-0-	-0-	-0-

1/ Interviewed employees of only 4 of 10 subcontractors on site.

Contractor Trade with violation- HUD Insured Projects	Construction Period	On-site Worker Interviews		Total
		No. of Workers	Dates	
Carpentry-125-43008	2/2/83 - 3/7/83	-0-	-0-	-0-
Drywall-125-43008	2/19/83 - 5/17/83	-0-	-0-	-0-
Plastering-121-35736	9/7/82 - 10/12/82	-0-	-0-	-0-
Drywall-121-35714	6/25/81 - 8/4/81	-0-	-0-	-0-
Tile Installing-121-EH059	5/26/83 - 11/9/83	-0-	-0-	-0-
Nursery-121-35702	5/4/81 - 6/16/81	-0-	-0-	-0-
Drywall-125-35698	1/26/81 - 4/28/81	1	1/29/81	1
Flooring-121-43094	12/21/82 - 1/28/83	2	1/20/83	2

As evidenced above, violations occurred in 17 projects where worker interviews were not done, were insufficient in scope, or done intermittently during or near construction completion. Ten underpayments were disclosed by worker complaints after completion. Most of the remaining were found in payroll reviews after contract completion or because no payrolls were submitted.

2. Number of interviews and coverage not adequate

Workers interviewed did not represent all trades on HUD-funded and insured projects. We found inadequate coverage for all 22 projects we reviewed. The following examples illustrate the type of deficiencies found:

Project	No. of Subcontractors	
	Employed	Interviewed
626-630 I Street	3	2
Phase VIII Proposal 1&2	15	3
Sacramento CDBG-No. 1693	4	1
Oakland CDBG-No. 72210	14	5
Richmond PHA-CAL 10-11	10	4

In another case (CDBG Contract No. 1476), although 6 subcontractors were used only a laborer and apprentice grade checker were interviewed near the end of construction. This contract was reviewed by the Field Office during a monitoring visit but the ensuing report failed to address this deficiency.

In another case (Project No. 121-35714), only 2 employee interviews were conducted of one of 30 subcontractors working on the project.

3. Discrepancies from interviews not detected timely or pursued

Employee interview documentation differed from submitted payrolls. Yet, responsible monitoring personnel either did not detect these discrepancies or, when detected, did not pursue them.

Of the 22 projects with labor violations reviewed, there were 7 or 32 percent where interview results contradicted submitted payroll information. In all 7 instances, the discrepancy was not pursued. Subsequent investigations were made, and violations detected as a result of employee complaints or, in one instance, because of State labor agency inquiries.

<u>Project</u>	<u>Discrepancy</u>
CAL 10-2	3 employees interviewed on-site were not on submitted payrolls
121-35698	Interviewed employee was not on payroll report
121-35736	Hours reported by 2 workers during interviews differed from the payroll report.
121-35713	Worker piecework complaints during interview not pursued.
121-35683	Interviewed employee not on payroll report.
121-43094	Interviewed employee not on payroll report.
121-35663	Interviewed employee not on payroll report.

Examples of discrepancies follow:

CAL 10-2

Three flooring subcontractor employees were interviewed on August 30 and 31, 1982. The subcontractor's certified payroll, however, reported no work during these days. This contract was reviewed on September 9, 1982 by responsible HUD Labor Relations personnel during a monitoring visit. A December 3, 1982 report to the PHA did not address this discrepancy.

In April 1983 four flooring subcontractor employees complained to the PHA of improper wages paid. A State labor investigator concluded: submitted payrolls were falsified; \$22,368 was due the four employees; and \$10,300 in penalties should be assessed against the subcontractor.

121-35698

A subcontractor employee was interviewed by a HUD inspector on January 29, 1981. During the interview, the employee stated he worked 8 hours on January 28, 1981. Submitted payroll records reported no work by the employee on either of these days. Although the Payroll Examiner annotated the discrepancy, no action was taken. A complaint was received by another employee of the same firm on September 13, 1981 and restitution of \$1,253 made on May 3, 1982. We could find no record of restitution made to the interviewed employee even though hours and rate of pay were the same as the complaining employee's.

121-35736

Two interviews of a subcontractor's employees were found. One interview reported an employee worked 8 hours on September 7, 1982. Payroll records, however, reported the employee worked only 4 hours. The Payroll Examiner annotated the interview acceptable with an "OK" but did not date the form to show the review date. The other interview of August 10, 1982, reported another subcontractor employee working. Payroll records, however, reported no employees working on August 10, 1982.

After construction and before final endorsement, \$8,000 had to be escrowed because all payroll reports had not been received. Subsequent review disclosed the subcontractor had not paid sufficient wages for 6 workers.

4. Improper documentation of interviews

We found on-site interview reports were generally not properly documented. Of 169 separate interview reports reviewed, we found 440 instances of improper documentation:

<u>Questions not documented</u>	<u>Number of instances not documented</u>
Last date worked before today	4
Number of hours last date worked	42
Hourly pay rate	2
Is worker an apprentice?	14
Duties performed?	7
Tools or equipment used?	2
Paid 1 1/2 times for overtime	6
Ever threatened	7

Control remarks not documented

Duties observed by interviewer	10
Remarks by interviewer	125
Signature of interviewer and date	1
Payroll examiner remarks	111
Examiner signature and date of payroll review	109
	<u>440</u>

We spoke with responsible HUD Architectural and Engineering personnel required to conduct interviews. They informed us they were unwilling to conduct interviews, because it was not part of their "normal" duties and considered it their lowest priority. We also spoke with responsible interviewers at program recipient offices and found varied practices as to frequency of interviews done. Responses were mixed, ranging from "when they can", "if they see a new employee", "at least once a week", or "once a month."

At one program recipient agency, we inquired as to what training was provided in conducting employee interviews. We were informed the only one-time training ever conducted consisted of a 15-minute briefing just prior to when the interviewers (construction inspectors) were leaving to go on site.

b. Untimely payroll submissions and reviews

Paragraph 2.9a of Handbook 1340.3A requires each contractor and subcontractor to submit a completed payroll for each week from the time work starts until completion. From submitted documents, responsible monitoring officials are to compare wage and job classifications to payroll records. Payroll records are to be examined promptly to correct labor standards problems before they worsen and while workmen are still available. The Handbook emphasizes special attention be given payroll reviews during early construction stages.

We found required payrolls were not submitted timely. As a result, this monitoring procedure had been generally ineffective in identifying violations. For the 22 wage restitution cases we reviewed, the following 12 had continuous late payroll submissions by the violating prime or subcontractor:

<u>Project or Contract Number</u>	<u>Prime/Subcontractor Submitting Late Payrolls</u>
125-43008	Carpentry
125-43008	Drywall
121-35683	Drywall

121-35736	Drywall
121-43094	Drywall
121-43094	Flooring
121-35663	Masonry
121-35702	Nursery
121-35702	Carpentry
CDBG-1476	Prime
CDBG-8182	Rehabilitation
CAL 10-11	Prime

Of the remaining 10(22-12) cases, we were unable to determine if payrolls were submitted timely because of poorly documented files.

The following 4 examples show the need for enforcing timely payroll submissions and on-site inspections during construction:

Project No. 125-43008

A carpentry subcontractor submitted weekly payrolls covering the five weeks ended March 7, 1983 on June 8, 1983. On this same date, a drywall subcontractor working from February 14 through May 27, 1983 submitted 15 weekly payrolls for all work.

Violations disclosed from June 1983 payroll reviews included 17 separate underpayment cases for carpenters and 16 separate cases of improper piecework payment practices for drywall workers. Total recoveries for the 17 carpenters was \$1,095. At the end of our field work the 16 drywall piecework cases were still in dispute with \$35,000 withheld pending resolution.

No employee interviews were performed on this project.

Project No. 121-35683

Review of 20 weekly payrolls of the drywall subcontractor who worked from September 15, 1980 to February 18, 1981 disclosed improper bunching, late submission, and poor documentation:

<u>Period Worked</u>	<u>Number of Weekly Payrolls Submitted</u>	<u>Date Submitted</u>
September 19 to November 19, 1980	8	January 30, 1981
November 20, 1980 to January 28, 1981	10	February 4, 1981
January 29 to February 4, 1981	1	No date reported
February 12 to February 18, 1981	1	No date reported
	<u>20</u>	

Only one employee interview of this subcontractor was made. This interview, dated October 9, 1980, was received in Labor Relations on October 15, 1980, but not analyzed until February 7, 1981.

Because payrolls were not submitted timely, adequate reviews could not be performed. This necessitated withholding \$9,084 at final endorsement. Subsequent review disclosed the subcontractor underpaid workers and did not pay proper fringe benefits. Restitutions of \$4,347 were made for four workers in April and September 1982.

Project No. 121-35702

The nursery subcontractor submitted all eight weekly payrolls for the period May 4 through June 26, 1981 on July 13, 1981. The subcontractor called HUD labor monitoring personnel on June 25, 1981 advising of his inability to pay prevailing wages. On September 28, 1981, a subcontractor worker complained to HUD that unpaid wages were due him and two other workers. Based on the complaint, the Field Office sent and received six subcontractor worker questionnaires. Responses disclosed serious labor violations including unreported labor, wage underpayments, weekend work, coercing employees to remain silent, and failure to post wage requirements on site.

No employee interviews were performed during construction. Restitutions to five employees of \$3,747 were made in March and April 1982.

Contract No. 8182

The original contractor subcontracted its rehabilitation responsibilities to another firm. The responsible labor compliance officer was unaware of the contractor change until payrolls for the 6 weeks ending December 25, 1981 were received on February 19, 1982, after construction completion. Payroll review disclosed all five subcontractor employees were misclassified and underpaid. The case was settled on April 27, 1982 and the employees paid an additional \$7,374.

No employee interviews were done on this project. Subsequent to project completion, the Field Office performed a monitoring review and issued a May 10, 1982 report. The report did not address the above deficiencies.

c. Failure to verify apprenticeship registrations

Paragraph 3.2d and e of Handbook 1340.3A required contractors to obtain and furnish written evidence that all apprentices were registered before permitting employees to work. We found this was not done at 3 of the 4 HUD funded program recipient offices reviewed because Field Offices were not providing necessary training and guidance:

CDBG Contract No. 1476

An employee had to be paid an additional \$2,037 for this one month job because the contractor did not obtain evidence of apprenticeship registration. The violation was found after construction when the union questioned fringe benefits designated for an apprentice it had no record of.

The only evidence of recipient monitoring by Labor Relations personnel was after the project was completed. The monitoring report did not address the apprenticeship issue.

CDBG Contract No. 1693

Review of the labor compliance files disclosed apprenticeship registrations for three employees were not obtained. We discussed this deficiency with the responsible grantee labor officer who acknowledged the identical oversight as in Contract No. 1476.

PHA Contract No. CAL 10-11

Apprenticeship registrations were not obtained for 12 employees under this contract. The deficiency was disclosed because of employee complaints. We were told by labor monitoring officials at the PHA that at least \$6,194 in wage restitution may be due unless the contractor submits evidence of registrations. At the time of our review, this project was still under construction.

In each of the above cases program participant personnel informed us HUD did not provide labor standards training or assistance despite numerous requests.

By strengthening existing proactive monitoring requirements detailed in this finding, scarce HUD resources could be used to prevent or mitigate many of the labor law violations found.

In our opinion, continued effort on after-the-fact wage restitution cases does little to prevent or discourage violators and is an ineffective control mechanism.

Recommendations

We recommend you take actions to strengthen proactive monitoring practices by:

1. Instructing responsible HUD Architectural and Engineering personnel of the need to conduct sufficient and adequately documented employee interviews in accordance with Handbook requirements;
2. Advising responsible Labor Relations personnel of the need to promptly obtain and adequately examine payrolls;

3. Instructing program recipients that contractors must obtain apprenticeship registrations before allowing such employees to work; and

4. Ensuring program recipients are adequately enforcing labor standards by providing technical assistance as well as performing compliance monitoring.

Finding 5 - Ineffective Referral Reporting and Monitoring of Willful Labor Law Violators

Willful labor law violators were not properly reported to management because referral actions were perceived as ineffective by Field Office personnel. As a result, willful/repeat violators continued to work on HUD projects. Additionally, when referrals were made, they were not adequately monitored because no tracking procedures had been developed. Consequently, referrals were not always effective because they were lost, documentation destroyed, or timely action not taken.

Field Office Labor Relations referral requirements are specified in Handbook 1340.3A 1/, Labor Standards (All Programs). Paragraph 3.2j states:

POSSIBLE CRIMINAL VIOLATIONS. Whenever the responsible program labor standards compliance official finds that alleged noncompliances appear to be willful and in possible violation of a criminal statute, he shall prepare a report of his findings for the signature of the Office Director requesting a full scale investigation of the matter. Filing of falsified payrolls or other willful acts in violation of the requirements as to employment or payment to workers may violate criminal statutes and, therefore, require full scale investigation. The responsible program labor standards compliance official shall not attempt to obtain signed statements from employees or to pursue inquiry further into the matter of the alleged criminal violations which are to be investigated. (Emphasis added)

Paragraph 4.1a states, in part:

A well-administered labor standards enforcement program depends upon the accuracy of recorded information and the smooth flow of such information from the field agency to the Region to the Central Office. The adequacy and flow of information is not only necessary to good administration, it is also necessary for legal prosecutive efforts, prompt restitution to underpaid laborers and mechanics, fair treatment of contractors, and the data requirements of the Department of Labor.

Paragraph 4.2d states, in part:

". . . .where underpayments total \$500.00 1/ or more, or are willful, the RLRO (Regional Labor Relations Officer) shall furnish to Central Office a detailed Enforcement Report."

The Enforcement Report summarizes all data on the amount of restitution due, the number of workers involved, liquidated damages assessed, corrective measures taken, and information necessary to review recommendations for an appropriate adjustment in liquidated damages.

1/ Handbook 1344.1 dated December 12, 1983 increased amount to \$1,000.

Paragraph 4-42 of Handbook SF 2000.4, Regional Compliance and Recovery System, states that labor violations are referred by the Regional Labor Relations Officer to the Regional Inspector General for Investigation (RIGI) in the following instances:

- a. Evidence of falsification or other willful violations including all possible criminal violations.
- b. If, in the opinion of the Field Office Director, the violation involves serious or complex compliance questions requiring services of a trained investigative staff.

In addition, Title 29, Subtitle A, Section 5.5(a)(3) of the Code of Federal Regulations specifies that a breach of contract (which includes Labor Standards requirements) may be grounds for contract termination and debarment. Section 5.6(b)(1) and (2) gives debarment procedures to follow when prime and subcontractors willfully violate labor standards procedures. The Agency Head shall furnish to the Secretary of Labor for transmittal to the Comptroller General the names of persons or firms who have been found to have disregarded their obligations to employees. The Comptroller General will distribute a list to all Departments of the Government giving names of ineligible persons or firms.

The above requirements were not adhered to.

a. Willful violators not referred

A great deal of time and effort was expended by Labor Relations staffs developing sufficient evidence to document that violations occurred, and obtain and distribute underpaid wages to workers. Instead of sanctions when caught, contractors were generally only required to make restitution to workers for what they should have been paid in the first place and they continued to perform HUD construction. Violations generally were not referred by Field Office personnel because referrals were perceived as ineffective.

To measure the extent of the problem, we reviewed 21 projects that had 33 contractors with violations identified by Labor Relations staff at two Field Offices. Identified violations resulted in substantial (\$272,638) wage restitutions to underpaid workers and taxing bodies. Our review showed:

- that 21 violations were willful;
- None of the 21 willful cases were reported to management on the Final Wage Enforcement Reports, as required;

- Only 2 of the 21 willful violations were referred to the RIGI. The referrals, however, were made directly by the Office Manager instead of going through the Regional Labor Relations Officer;
- We did not consider six violations to be willful; and
- No determination as to the violators intent was possible for the remaining six cases because of inadequate Field Office documentation.

The following summarizes 4 of the 21 cases of willful violations in which proper referral actions were not taken.

Project Nos. 129-EH073/EH077

On Project No. 129-EH077 Labor Relations staff found a subcontractor violated requirements and underpaid 12 workers \$3,352 by paying \$5.00 per hour rather than the required \$16.86. The Field Office was successful in obtaining full restitution.

Because of the above examination, the Field Office reviewed the subcontractor's work on Project No. 129-EH073. Similar violations were found. Specifically, 4 employees were paid \$5.00 rather than the required \$14.60 per hour. Restitution of \$3,423 was recovered from the subcontractor.

No further actions were taken on these cases and neither was reported or referred to the Regional Labor Relations Officer. We were told by responsible Field Office personnel that no further actions were taken because restitution was considered sufficient results. We were also told no referrals were made because such actions are too time consuming and generally ineffective in obtaining legal actions or sanctions against violators.

Project No. 122-35462

A subcontractor certified weekly that fringe benefits were paid in cash and included in the \$15.60 hourly rate paid to nine workers. Labor Relations staff found the workers were paid only \$11.50 per hour because no fringe benefits were paid. The subcontractor admitted the violation and subsequently paid \$4,254 in wage restitutions.

This case was not referred or reported to the Regional Labor Relations Officer. Responsible Field Office personnel told us that such referrals are generally not effective in obtaining sanctions against violators.

Project No. 143-35058

The prime contractor on the project reported that a subcontractor was violating labor laws by paying its workers piecework rates rather than a required hourly wage. Labor Relations review resulted in wage restitutions of \$4,299 paid to 33 workers.

This case was not reported or referred to the Regional Labor Relations Officer. Again, responsible Field Office personnel stated no referral action was taken because of the anticipated time involved and they did not believe any prosecutive action or sanctions would result.

Project No. 122-35543

Field Office Labor Relations staff referred a subcontractor to Area Office Counsel on April 19, 1983 for issuance of a Temporary Denial of Participation. Counsel, in turn, advised the Office Manager to refer the case first to the RIGI. This was done on May 5, 1983. At the time of referral, the Field office determined that 61 employees had been underpaid \$134,265. Referral was made because of alleged falsification of documents, failure to pay overtime, and a possible \$100,000 kickback to the developer. In a June 28, 1983 memorandum, the Regional Labor Relations Officer advised the Office Manager the May 5, 1983 referral had been returned by RIGI for additional work and information. The Regional Labor Relations Officer advised the Field Office to prepare "a 5.7 Enforcement Report and provide that as a key document in the resubmittal of the (referral) request. . . . as the RIGI has expressed interest in presenting the case to the U.S. Attorney for . . . criminal prosecution." The Field Office failed to prepare the report or resubmit the referral because it was perceived that such action would not be effective. Because of other allegations and information developed by RIGI staff, the Office Manager was advised on July 1, 1983 that an investigation concerning the subcontractor's \$100,000 kickback to the developer would be initiated. No investigation of the alleged willful labor standards violations had been initiated because the Field Office had not responded to the June 28, 1983 request for additional information.

As the above examples show, required reporting and referral actions on willful violators were not made primarily because Field Office personnel did not consider such actions effective. As previously reported, only 2 of the 21 willful violation cases included in our test were referred to the RIGI. One referral was returned for additional information. The other case (Project Nos. 122-35053/35054) was referred to the RIGI on March 19, 1982 since the Field Office found that 35 workers had been substantially underpaid. As a result of RIGI and FBI efforts, the subcontractor was ordered to pay \$26,585 in wage restitutions, \$2,125 in kickbacks received from workers, and was temporarily suspended pending debarment actions.

In our opinion, labor standards enforcement was ineffective since contractors were only required to do as they agreed to do (pay prevailing wages) if caught. They know that no sanctions or penalties would be assessed. Therefore, they continued to bid and work on HUD projects violating the law with impunity.

b. No procedures to track referrals

The absence of formal procedures for monitoring and documenting the status of referrals further weakens effective controls, and the possibility of obtaining sanctions against willful violators.

At Field Offices reviewed, we found only informal practices to monitor and document ongoing referrals. We also found that progress of referred cases to the Regional Labor Relations Officer and under RIGI and Department of Labor review were generally not tracked. For example, we test sampled 25 labor violation cases in various referral stages to determine the current investigation/sanction status. In each case, we found there was no reliable practices in place to obtain accurate status information. Records at both the Field and Regional Office level were either nonexistent or in such poor condition that they were unreliable.

Only the Sacramento Office had established "Request for Investigation" control logs documenting approximately 30 referrals to the Regional Labor Relations Officer during our audit period. After referral submissions, however, these logs were not updated. The Field staff was able to give us verbal status, but it was not always correct and unclear how organizations such as Department of Labor, Federal Bureau of Investigation, State Labor Commissioner, and the State Employment Development Department became involved.

The absence of adequate control procedures weakens HUD's ability to assure all referrals are pursued, acted on timely, and required documents safeguarded. We were unable to determine the disposition or number of referrals in Region IX because the Regional Labor Relations Officer had no log or tracking system. For example, the only referral made by the Phoenix Office was, apparently, lost at the Regional Labor Relations Office level, and never investigated. In another case, inadequate follow-up resulted in destruction of supporting records prior to the requested hearing appeal. As a result, the case was dropped. Similarly, a case under RIGI review for one Field Office resulted from a direct worker referral to the RIGI. Although aware of the investigation, responsible Labor Relations staff had not adequately documented the issues involved or determined if possible similar violations occurred on other HUD projects involving the referred subcontractor.

In all these cases, adequate monitoring practices would have, in our opinion, had a positive influence on the outcome of the referrals.

We discussed the lack of referrals and adequate control records with the Regional Labor Relations Officer. In defense of present practices, the Regional Labor Relations Officer referred us to a December 27, 1981 Headquarters memorandum which stated complaints should be handled locally. The memorandum stated that if violations could not be handled locally, the matter was to be channeled through the Region to Headquarters as "a prerequisite to resort to the HUD Office of Inspector General or the Department of Labor." Because of the perception that Headquarters was not taking effective actions, Field Offices attempted to resolve violations locally, referring few to the Regional Labor Relations Officer for investigation.

We do not consider the December 27, 1981 Headquarters memorandum justification for not referring willful violators or for the absence of proper control practices. The memorandum only states

Recommendations

We recommend you:

1. Remind Field Office personnel of the importance of promptly referring willful labor law violators;
2. Direct Field Office personnel to properly report labor law violations to appropriate management levels, as required; and
3. Advise the Regional Labor Relations Officer to develop formal procedures to control labor violation cases under review and to track the progress of referred cases.

MONITORING AND ENFORCEMENT OF LABOR STANDARDS
REGION IX

Excerpts from Report on the Underground Economy

The following is an excerpt of the report titled Underground Cash Economy in the Northern California Construction Industry prepared by the Carpenter Trust Funds of Northern California.

The Carpenter Trust Funds report presented a study of HUD insured projects and stated in part:

"The size of the cash or underground economy in the United States is already far larger than the gross national products of many countries in the industrialized world. In the United States alone, the income generated by this parallel economy has been estimated to equal as much as one third of the nation's gross national product.^(1/) The construction industry is . . . particularly vulnerable to this underground economy because of its shifting job sites, fluid funding and high employee turnover. . . .

"The Carpenter Trust Funds have monitored numerous federally funded or insured construction sites in Northern California and found the unreported payments of cash to employees to be a common practice. The Funds have used four basic tools in uncovering these unreported cash payments:

- 1) the fringe benefit reports received by the Funds. . . .
- 2) copies of the certified payrolls submitted
to the Department of Housing and Urban Development (hereinafter HUD), as required by federal law;
- 3) union steward reports of the number of employees on the jobsite;
- 4) standard construction industry estimating techniques.

"By comparing the reports submitted to the Trust Funds with the union reports, the certified payrolls and the estimate of hours for the projects, the Trust Funds are able to determine the true number of carpenter hours worked on a jobsite versus the hours actually reported. These comparisons have shown that certain contractors frequently fail to report carpentry hours worked on federal projects, thereby avoiding their obligation to pay federal and state taxes and

^{1/} IRS estimates of the underground economy for calendar year 1981 were \$66.1 billion.

employee fringe benefits. The nonreported hours are paid in cash or off the books.(2/) After determining the overall extent of the cash payment problem on a job site, the Trust Funds investigate the day-to-day functionings of the cash transactions in order to develop a complete picture of the movement of the cash. Through its investigation, the Trust Funds have discovered carpenters who are willing to swear to the activities which took place during construction.

"One carpenter foreman informed the Funds that it was his job to convert the actual hours worked by the carpenters on the site into the reduced number of hours reported to the Trust Funds and HUD and to hand out envelopes of cash each week as payment for services to the carpenters. A second foreman, on a different Federal project, similarly explained that it was his job to supervise different carpentry work on the project, some of which was reported and paid for through a legitimate payroll while the rest went unreported and was paid for in cash. He stated that pay envelopes were handed out containing a payroll check for the reported hours and cash for the unreported.

"Another carpenter gave written statements under penalty of perjury that he and five co-workers were paid under the name of a masonry subcontractor despite the fact that neither he nor any of the five co-workers ever performed any masonry work whatsoever. Other carpenters have explained that they received personal checks, cash, or in some cases pay envelopes containing a payroll check for three out of five days labor and cash for the rest.

"All of the payment methods described above allow the contractor to avoid reporting work hours of carpenters and to avoid paying payroll taxes and fringe benefits. All of the cash paying methods are consistent with the Trust Funds' overall finding that a sizable percentage of the carpentry work is in many cases, going unreported to the Trust Funds and the Federal government. The percentage of non-reported carpentry work has reached as high as 85% on some construction sites. . . .

"Contractors falsify their records and disguise payments for carpentry services because payments to alleged subcontractors, material suppliers

2/ The Trust Funds support their determination of the total number of carpenters working on the site by using established estimating methods as found in the Marshall Valuation Service. An evaluation of the cost of the construction project is obtained, either by recognized appraising techniques or by auditing the contractor and using his own figures. The Trust Funds can determine from that evaluation the amount of carpentry work needed to complete the project.

and to carpenters by personal check do not carry with them the need to deduct social security, and other payroll taxes; nor is it necessary to carry workers compensation insurance or pay fringe benefits. These costs constitute 25-35% of the contractors total labor costs - costs that are built into a legitimate contractor's expenses and bids. The cash paying contractor can, by reducing these costs, undercut the legitimate contractor. . . .

"The effect of the cash payments to carpenters and the non-payment of associated payroll and other taxes upon state and federal agencies and wage earners is easy to see. Simply stated, every tax dollar not paid on or by a worker on job site A, is a dollar that must be made up through increased taxes by the workers on job sites B and C. Thus the tax system as a whole must increase the tax burden on B and C in order to make up for the loss of revenue from A. . . .

"The basic thrust of the Trust Funds proposals is four-fold:

- 1) increased monitoring of certified payroll reports and analysis of these reports in light of standard industry estimating techniques in order to project minimum labor requirements. Only by increasing the level and effectiveness of federal monitoring techniques can the problem begin to be addressed;
- 2) withholding funds from employers who fail to report and pay workers pursuant to federal labor laws;
- 3) debarment or suspension of offending contractors from participating in federally funded or guaranteed projects;
- 4) subjecting offending employers to criminal liability for serious and willful violations of federal labor laws.

"It is important to note that federal regulations currently in effect, governing HUD and the Department of Labor, provide the machinery for fully implementing the Trust Fund proposals. In fact, the regulations make it mandatory for HUD and the Department of Labor to enforce federal labor laws. The primary purpose of these laws is to insure protection of the public in general and wage earners in particular; the truth of the matter, however, is that proper enforcement of these labor laws would simultaneously result in a significant offensive against the cash economy, consequently benefiting every U.S. taxpayer and every legitimate contractor seeking to work on federal projects.

"The Carpenter Trust Funds have been meeting with representatives of HUD and the Department of Labor for over a year, in an attempt to determine why the federal regulations governing these agencies are seemingly not being enforced. . . .

"The underground cash economy is universally recognized to exist and its pervasiveness, while subject to dispute as to actual extent, is also conceded; no one, however, has devised a means by which to

actively address the problem. Until the issue is squarely faced and some attempts are made to counteract its mushrooming proportions, the underground economy will continue to erode the U.S. tax base at an ever-increasing rate."

The report concluded with a summary of underpayments for eight of the HUD insured projects reviewed showing unreported wages of from 15 to 75 percent:

Project Location	Number of carpentry hours		Unreported Hours	Percent Of Hours Reported To Total Hours Required
	On HUD Certified Payroll	Actually Required for Construction ^{1/}		
San Jose, CA	12,375	17,378	5,003	71.2%
Fremont, CA	9,011	12,041	3,030	74.8%
Union City, CA	7,145	19,420	12,275	36.3%
Larkspur, CA	7,018	22,618	15,600	31.0%
Sunnyvale, CA	1,017	3,872	2,855	26.3%
Sacramento, CA	1,800	12,320	10,520	14.6%
Sacramento, CA	3,365	17,733	14,368	19.0%
Las Vegas, NEV	6,115	17,054	10,939	35.9%

^{1/} Computed by the Carpenters Trust Funds of Northern California by using Marshall Valuation Service estimating methods and/or review of contractor bid estimates.

MONITORING AND ENFORCEMENT OF LABOR STANDARDS
SECTION IX

Schedule of Contractors with Labor Violation Histories Continuing to Perform HUD Construction

Prime Contractor No.	Project No.	Construction Start	Period Completed	Subcontractor and Amount of Contract						Total
				A Painting	B Electrical	C Concrete	D Finish Carpentry	E Carpentry	F Concrete/ Carpentry	
1	136-35573	12/18/79	3/10/81	\$						\$ 215,600
0	CA 30-11113-002	4/15/80	7/19/81							176,602
1	136-35579	7/25/80	1/14/81	33,000	242,200	169,000	30,500	\$ 242,200		717,700
0	136-ELI002	9/30/80	11/13/81							100,245
1	136-35580	9/18/80	6/11/81	64,250 1/2		246,476	45,912		430,000	786,638
9	136-35616	11/3/80	7/31/81							32,985
6	136-35628	3/31/81	10/6/81	18,400 1/2		75,867				91,267
3	121-39702	9/30/80	11/3/81	33,100 1/2						33,100
5	136-35529	5/13/81	10/9/81	20,500						20,500
1	136-35630	6/26/81	4/27/82	63,604		307,546	68,900	431,306		871,356
4	136-35646	8/6/81	1/12/82	7,800 1/2						7,800
2	136-35601	3/23/82	2/1/83		375,000					375,000
2	136-35600	3/25/82	10/5/82		185,000					185,000
3	136-35615	5/14/82	10/19/82	27,100						27,100
1	136-35631	5/24/82	9/22/82	34,000						34,000
2	136-35619	8/9/82	6/15/83	45,750	220,000	148,102		194,719		596,821
7	CA 30-P00700									45,750
	(3 projects)	1982	(Various)							
			1983							
				\$348,304	105,000	72,070	\$175,912	\$1,290,225	117,080	\$471,236,414
				\$1,127,200						294,950

1/ No labor standards violation discovered on this contract.

MONITORING AND ENFORCEMENT OF LABOR STANDARDS
REGIONS IX

APPENDIX 3

Schedule of Correlation Between Labor Violations and Construction Deficiencies

Project No.	Labor Violation and Construction Deficiency									
	Handyman/ Stucco	Carpentry	Landscaping	Painting	Electrical	Fence	Floor Covering	Asphalt/ Paving	Roof	Concrete
136-35600		2/	2/							
136-35601		2/						1/2/3/	1/2/3/	1/
136-35619								3/	3/	
136-35652		2/	2/							2/
136-35651		2/								2/
136-35635		2/								
121-35702		2/		2/					2/	
121-35714		2/								
121-35650	1/2/	3/			2/					2/
125-35091	2/							1/2/		1/2/
125-35076		2/								
125-35096		2/	2/							
125-35107										
125-35095		2/								
122-EH090			2/		2/					
122-EH022			2/		2/					
129-35077		2/	2/	2/		2/				2/

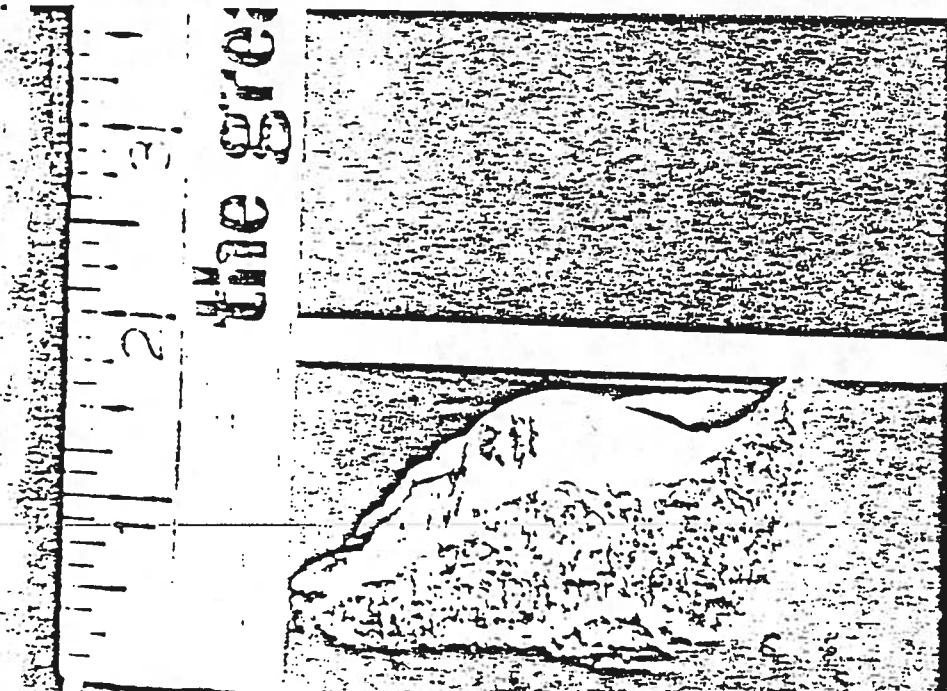
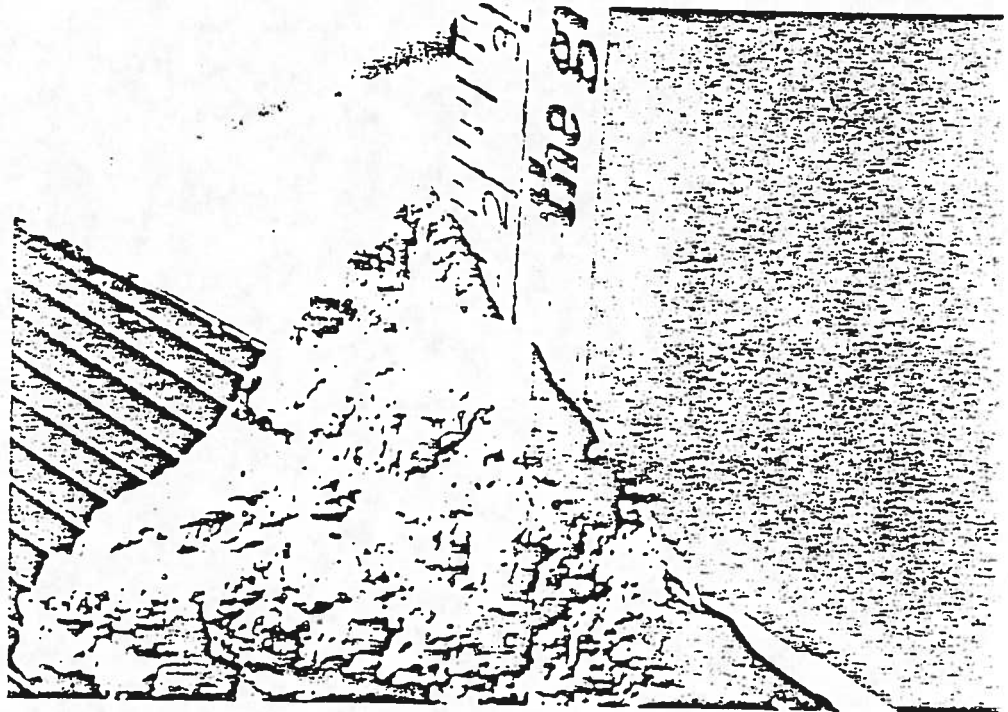
Footnotes:

- 1/ Noncompliance on payroll reports:
 - missing, untimely, or not submitted,
 - more than one payroll period dated same date, or
 - clerical errors, such as missing information (hours, dates, etc.).
- 2/ Underpayments/Falsified payrolls:
 - misclassified worker (ex: laborer performing electrical work),
 - underreported hours,
 - incorrect hourly wage rate,
 - piecework rates (rather than hourly),
 - nonpayment of over-time rate,
 - improper deductions, or
 - nonpayment of wages.
- 3/ Apprentices:
 - not true apprentice (not registered), or
 - ratio improper.

MONITORING AND ENFORCEMENT OF LABOR STANDARDS
REGION IX

Photographs of Poor Construction
Project No. 136-35651

During our inspection
the project was in
rent-up process, but
already sidewalks were
being replaced because
of poor quality work.
Concrete contained
numerous pebbles and
rocks.



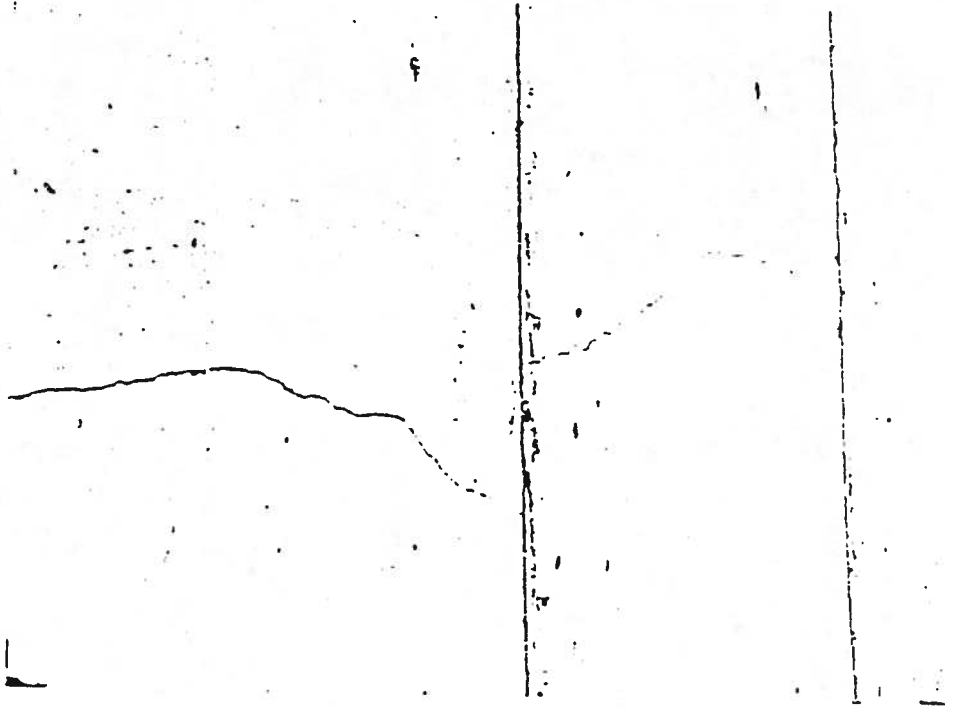
Concrete depth was
irregular, ranging from
less than one inch to
four inches.

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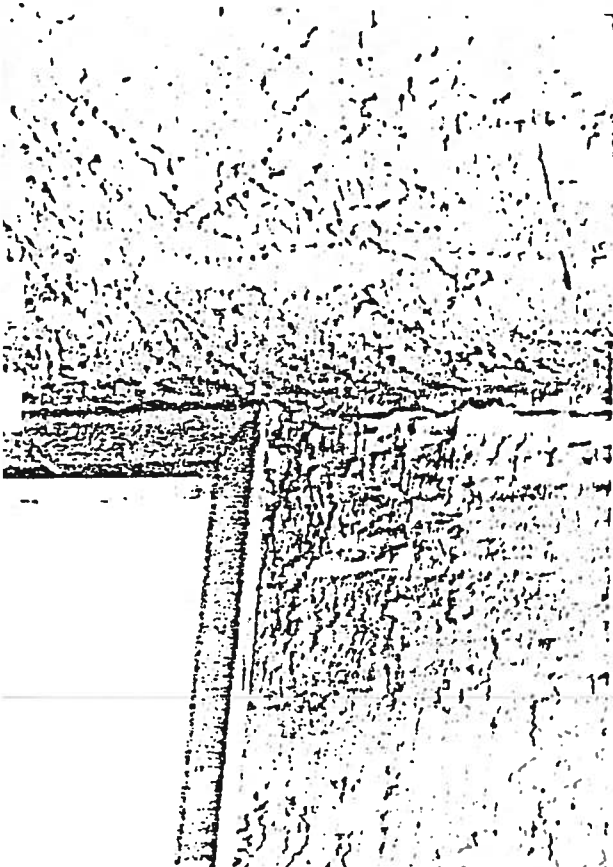
MONITORING AND ENFORCEMENT OF LABOR STANDARDS
REGION IX

Photographs of Poor Construction
Project No. 136-35600

Concrete decking had
numerous cracks,
causing leakage into
commercial units.



Doorframe was loose.

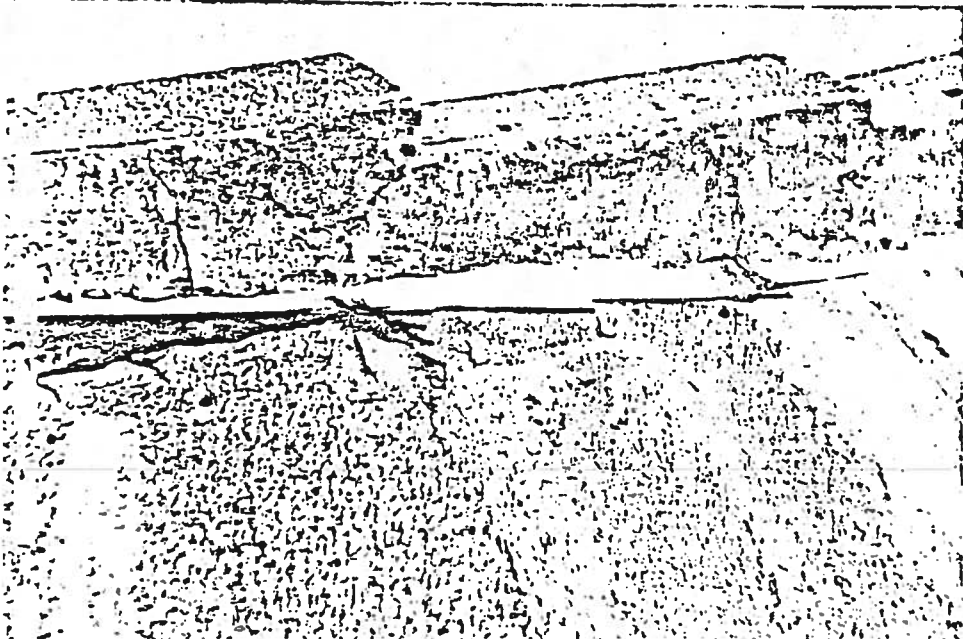
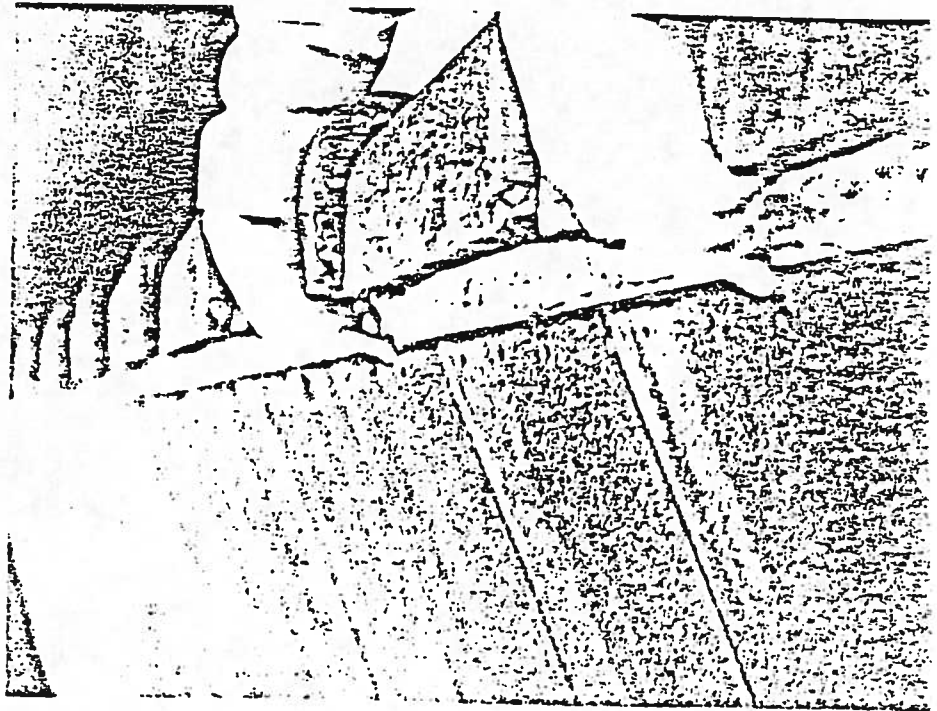


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MONITORING AND ENFORCEMENT OF LABOR STANDARDS
REGION I

Photographs of Poor Construction
Project No. 136-35600

Tiles weighing about 15
pounds with three nail holes
were often secured with only
one nail. Some had fallen
to ground two stories
below.



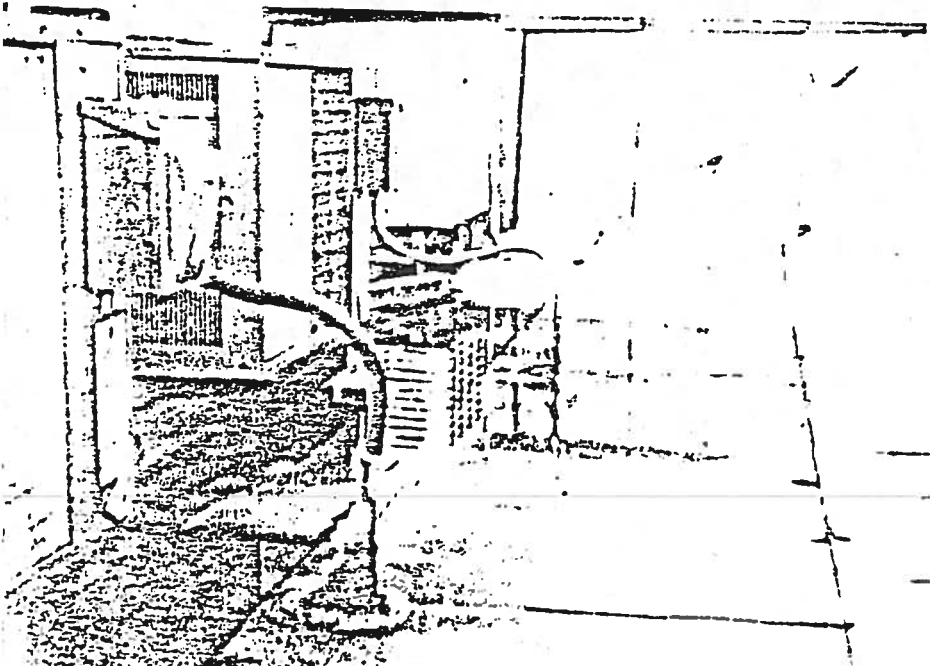
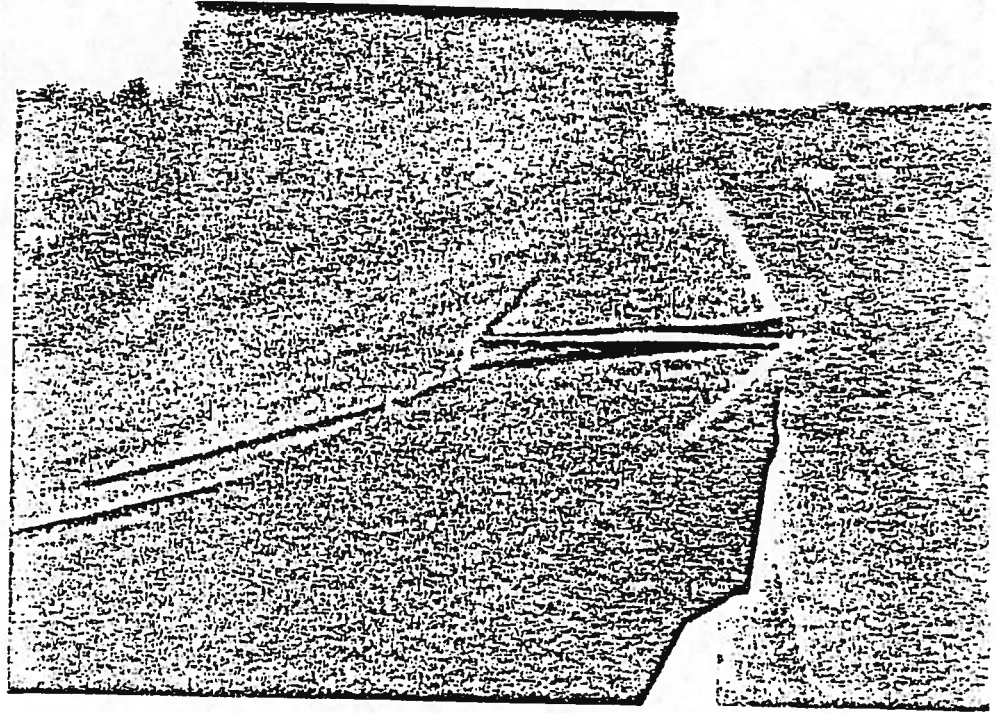
Flashing did not cover
tiles and holes.

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MONITORING AND ENFORCEMENT OF LARVA STANDARDS
PLANTION 14

Photographs of larva construction
Project No. 14-19600

Photograph of larva construction
Project No. 14-19600



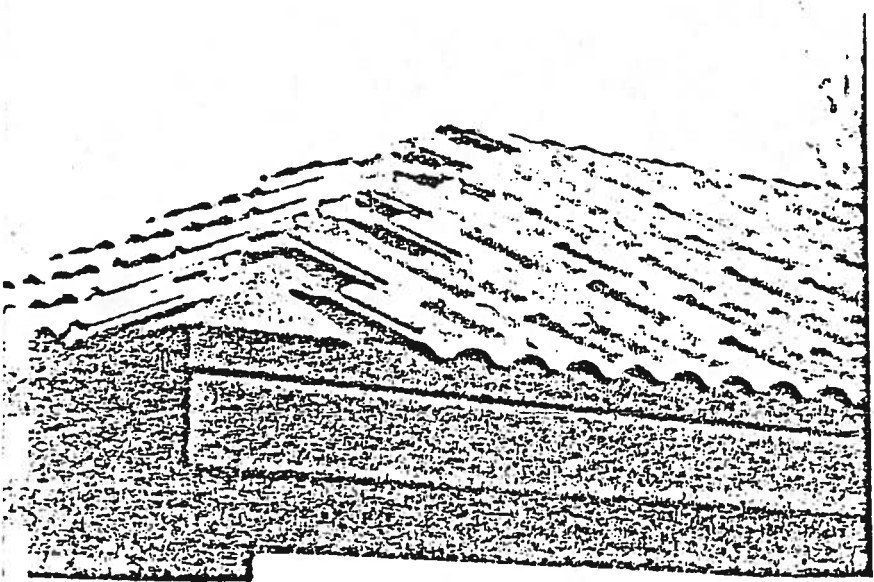
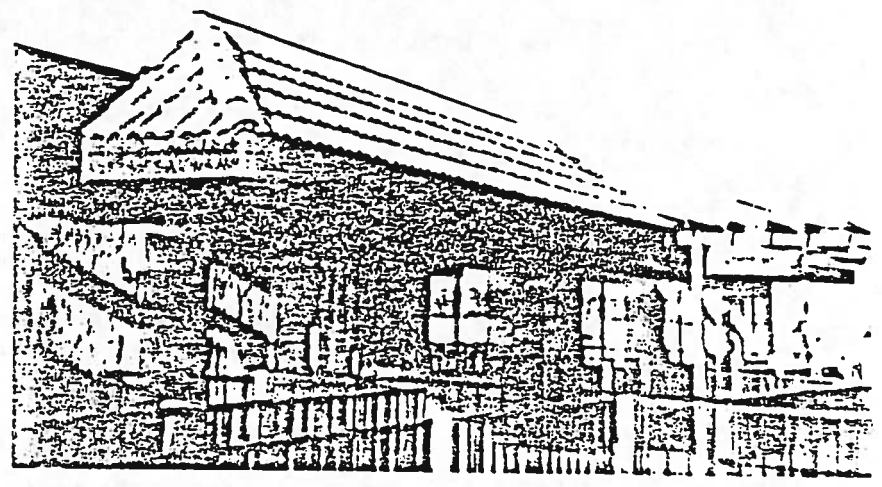
Condensation and water pooled on and
around of inadequate
drainage.

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City of Chicago Office of the Inspector General
REGISTRATION

Photographs of Work Installation
Project No. 145-39096

Photographs after final
inspection by City
Inspector on 11/12/81
Work and equipment installed
as shown on drawings.



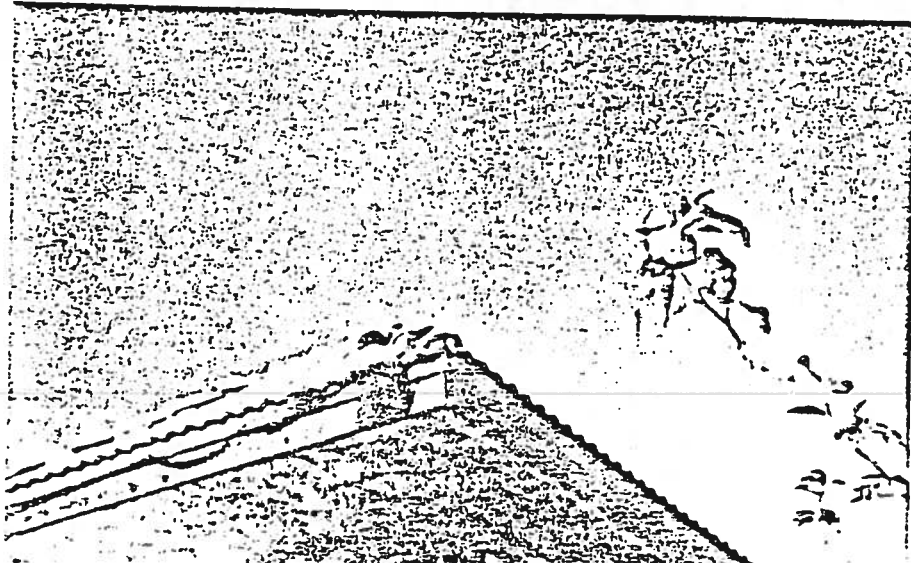
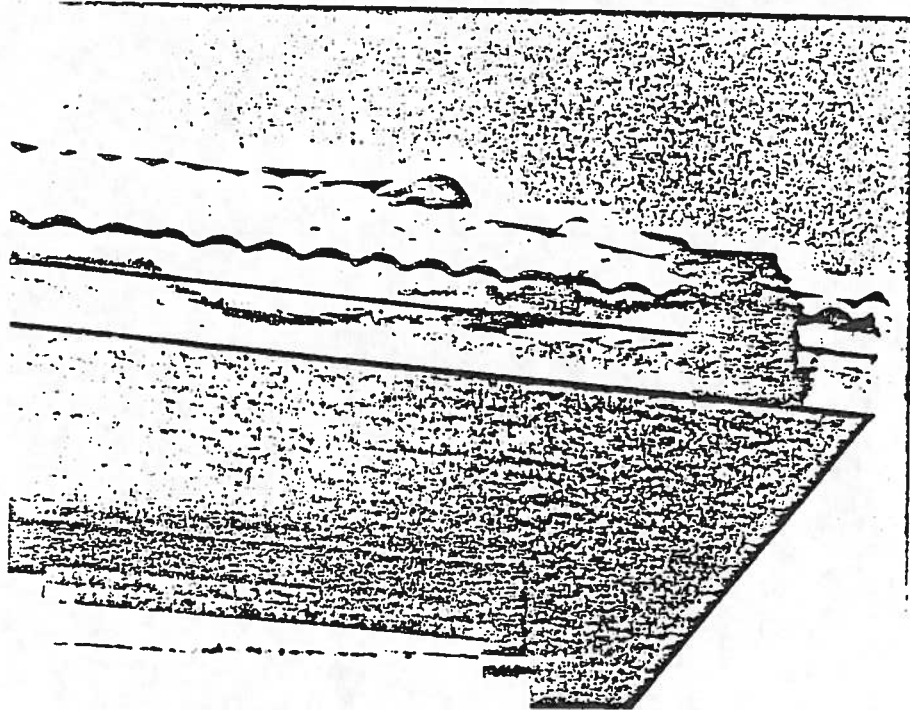
on April 6, 1981
Inspection also showed
numerous other conditions
with this work listed.

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MONITORING AND ENFORCEMENT OF EARLY STAIRWAY
REGION 1:

Photographs of Roof Construction
Project No. 115-34196

Many roof sections had loose or crooked tiles:

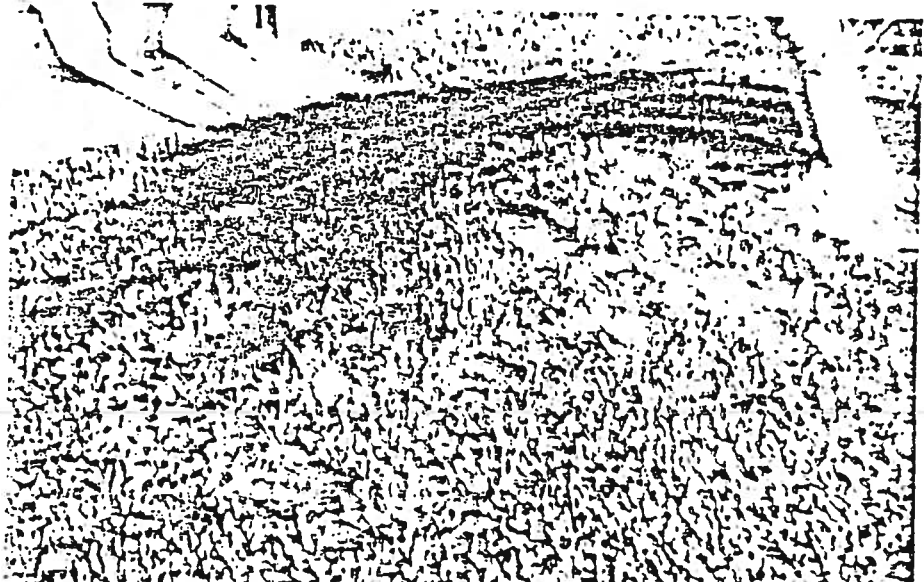


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MONITORING AND ENFORCEMENT OF LABOR STANDARDS
REGION IX

Photographs of Poor Construction
Project No. 125-35096

The road was in poor condition due to lack of top soil and poor drainage. Because the ground would not absorb moisture, grass and ground cover was sparse.

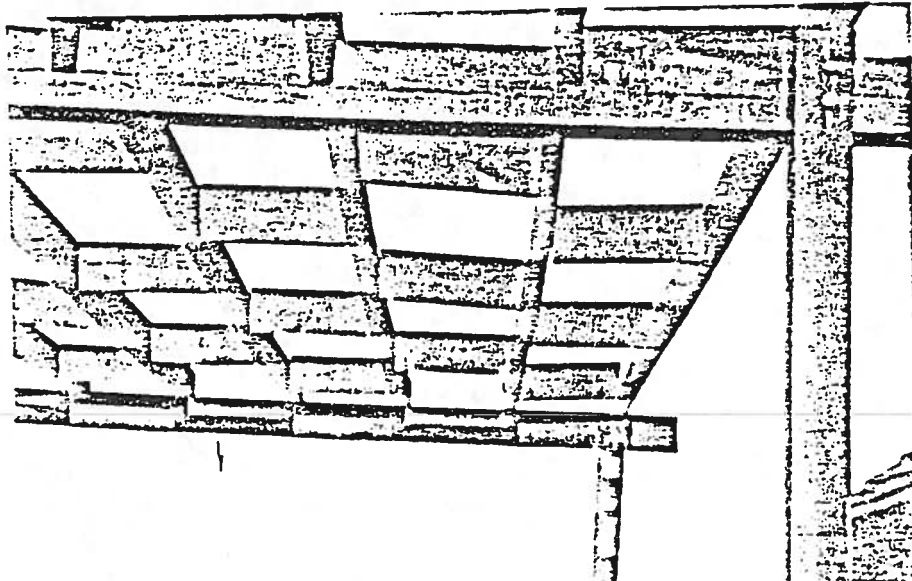
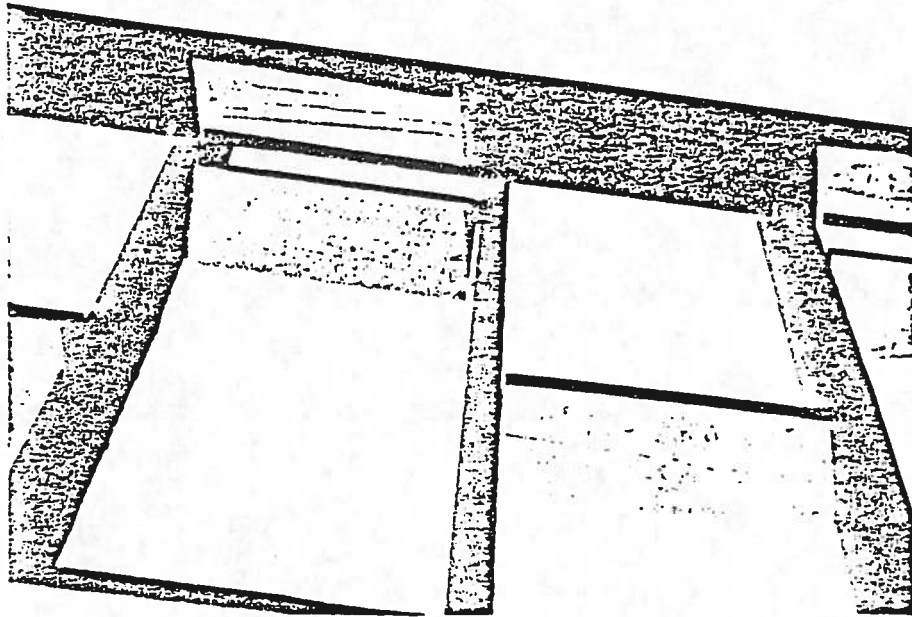


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MONITORING AND ENFORCEMENT OF LABOR STANDARDS
REGION IV

Photographs of Poor Construction
Project No. 125-35096

wooden trusses were improperly fitted and nailed.

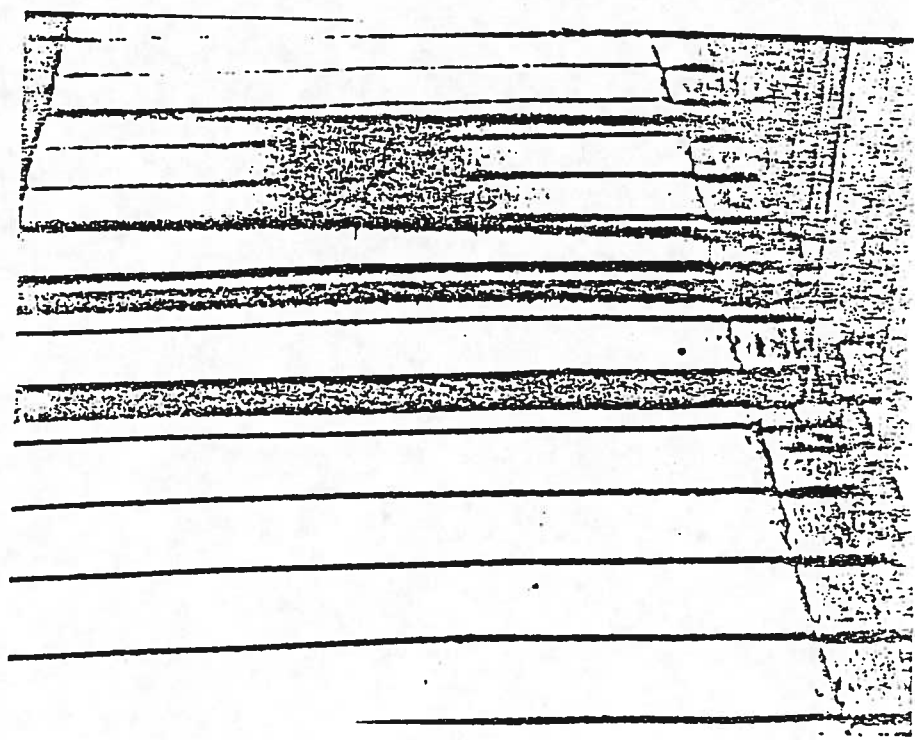


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MONITORING AND ENFORCEMENT OF LAWFUL STANDARDS
REGION 14

Photographs of Poor Construction
Project No. 125-35096

Cracks were checked in
interior areas of walkways.



A corner of walkway was
never completed.

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MONITORING AND ENFORCEMENT OF LABOR STANDARDS
REGION IX

Schedule of Mortgage Insurance Data on Project
with Construction Deficiencies

<u>Project</u>	<u>Date of Final Endorsement</u>	<u>Number of Units</u>	<u>Mortgage Insurance Amount</u>
121-35550	6/81	43	\$ 1,303,400
121-35702	10/81	112	3,250,300
121-35714	3/82	140	4,301,200
122-EH022	5/82	152	6,022,400
122-EH098	4/83	125	6,100,300
125-35076	11/81	56	1,545,000
125-35091	3/83	133	4,969,900
125-35095	11/82	256	6,580,900
125-35096	5/84	62	2,455,400
125-35107	1/82	224	7,250,300
129-35077	*	500	13,300,000
136-35600	3/82	92	4,078,100
136-35601	2/83	150	5,367,200
136-35619	9/83	112	3,431,900
136-35651	*	123	4,164,700
136-35652	*	168	5,532,300
136-35655	1/84	86	2,989,500
TOTAL		<u>2,544</u>	<u>\$88,914,300</u>

* Not finally endorsed.

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