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Health, Education, and
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March 16, 1999

The Honorable Arlen Specter
Chairman
The Honorable Tom Harkin
Ranking Minority Member
Subcommittee on Labor, Health and Human
Services, and Education
Committee on Appropriations
United States Senate

The Honorable John Edward Porter
Chairman
The Honorable David R. Obey
Ranking Minority Member
Subcommittee on Labor, Health and Human
Services, Education and Related Agencies
Committee on Appropriations
House of Representatives

Subject: Labor-Management Reporting and Disclosure: Status of Labor's
Efforts to Develop Electronic Reporting and a Publicly Accessible Database

The Labor-Management Reporting and Disclosure Act (LMRDA) of 1959 was enacted to eliminate and prevent improper practices by labor organizations and employers, after the Congress found a number of instances of breach of trust, corruption, and disregard of the rights of individual employees in the labor and management fields. The reporting and disclosure requirements of the act foster these goals; they make parties accountable for their actions by requiring that financial data and information about the administrative practices of labor unions and their officers and employees, employers, labor relations consultants, and surety companies be reported and made available to the public. The Secretary of Labor, through the Employment Standards Administration's Office of Labor-Management Standards (OLMS) and its field offices, enforces the reporting and disclosure requirements of the LMRDA.

The growing use of and reliance on computer technology has raised congressional concern about the public's ability to gain electronic access to LMRDA reports.

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Labor's reporting system under LMRDA currently requires that unions and others submit paper copies of reports that may be reviewed in the OLMS headquarters or its 25 field offices. The Congress appropriated funds for fiscal years 1998 and 1999 for Labor to develop and implement electronic filing of the reports required under the LMRDA. For each filing, Labor is expected to develop a computer database of the report information that is indexed, easily searchable, and accessible by the public through the Internet. In the House report accompanying Labor's fiscal year 1998 appropriations, the House Committee on Appropriations directed Labor to submit a complete plan of implementation to the Committee by April 1, 1998. The Committee also directed that we review Labor's implementation plan and activities to determine whether Labor's efforts will achieve the goal of improving the timeliness, accuracy, and availability to the public of the information reported. The Committee directed that we report our findings to the Senate and House Appropriations Committees. Labor submitted its plan to the Congress in May 1998 but has not implemented it to any substantial degree. Accordingly, the data are not yet available to determine whether Labor's efforts will improve timeliness, accuracy, and availability of information reported. Therefore, in this correspondence, we describe Labor's plan for developing its electronic reporting system under LMRDA and discuss Labor's progress in implementing its plan.

To respond to the Committee's request, we interviewed Labor officials and reviewed the implementation plan that Labor submitted to the Congress for an electronic reporting system and Labor's internal operating plan. We also obtained various documents relating to Labor's budget, expenditures, and contract data that showed the progress it has made in implementing the plan. Our work was conducted between November 1998 and February 1999 in accordance with generally accepted government auditing standards.

In summary, Labor's implementation plan provides a general overview of the steps Labor will take to implement electronic filing of LMRDA reports, create an electronic database, and make report data electronically accessible to the public through the Internet. Labor officials cite labor organizations as the predominant filers of LMRDA reports; therefore, Labor is basing its development of its electronic reporting system on labor organizations' reporting requirements and will consider the feasibility of adding other filers after it has gained experience from the labor organizations' reporting. According to Labor officials, they consulted with various agencies, vendors, and knowledgeable personnel about Labor's approach and the best practices for implementing this project. Labor officials relied on contractors' help to develop the general plan and the timeline for the project's implementation. Labor has also developed an internal operating plan to track the evolution of the project's progress, milestones, and costs for the current fiscal year.

Labor had made limited progress implementing its plan as of February 1999, but according to Labor officials the project is generally progressing on schedule. Labor officials estimate that they had accomplished about 10 percent of the plan as of

February 1999. Labor plans to take 3 years to implement the project, expecting full implementation by the end of fiscal year 2001. Labor will operate two systems—the paper one currently in effect and the electronic one—until it has developed filing experience under the electronic system and the demand for historical reports that cannot be converted to fit the new system has been reduced. The total project cost is estimated to be about \$4.2 million. As of February 1999, \$1.5 million was available to fund the project.

BACKGROUND

The LMRDA requires private sector labor organizations to file reports with Labor, including annual financial reports and periodic administrative practices reports, and requires that these reports be made available for public disclosure. Similar reporting requirements apply to federal sector labor organizations subject to the Civil Service Reform Act of 1978, the Foreign Service Act of 1980, and the Congressional Accountability Act of 1995. Although LMRDA requires reports from union officers and employees, employers, labor relations consultants, and surety companies when certain specified activities occur, it requires regular periodic reporting only of labor organizations. Labor unions are required to file information reports, annual financial reports, and trusteeship reports. Labor organizations account for most LMRDA reporting and public disclosure activity; about 95 percent of all LMRDA reports in fiscal year 1998 were filed by these organizations.

In the current manual reporting process under LMRDA, Labor mails out forms and preprinted labels to labor organizations, which must file an original report along with a copy. They file all reports with the national office in Washington, D.C., where the original remains while a copy is sent to the appropriate Labor field office to provide public disclosure services. In a May 1998 report, Labor estimated that about 34,000 labor organizations file reports annually. Labor responded to 7,195 public disclosure requests in fiscal year 1998, and in doing so, duplicated 25,570 reports totaling 316,938 pages.

In the House report accompanying Labor's fiscal year 1998 appropriation, the House Appropriations Committee directed Labor to develop a system for electronic reporting and an improved computer database that would allow the public to obtain LMRDA information through the Internet.¹ The Committee directed Labor to submit a complete plan of implementation to it by April 1, 1998. In the House report accompanying Labor's fiscal year 1999 appropriation, the House Appropriations Committee directed Labor to continue the development and implementation of this

¹H.R. Rep. No. 105-205, at 20-21 (1997).

electronic reporting system.² The Committee also directed Labor to include funding for the project in future budget requests.

LABOR'S PLAN DESCRIBES COMPONENTS
FOR ITS ELECTRONIC REPORTING SYSTEM

In response to the Committee's first directive, Labor submitted a plan to the Congress to implement an electronic reporting system under LMRDA in May 1998. The plan addressed three key components—the electronic filing of labor organization reports, the design and implementation of an electronic database, and public access of labor organization reports through the Internet.

With respect to the first component, Labor plans to implement electronic filing by developing an Internet Web-based application. One official stated that after Labor completes its efforts for labor organization reporting, it will consider the feasibility of including other filers in the electronic system. Labor expects many labor organizations to continue to file reports manually because, according to officials, electronic filing will not be mandatory.³ Both manual and electronic filing of required reports will be supported initially. Labor will develop the capacity to convert manually filed information to an electronic format so that all information reported in the future will eventually be available electronically. However, some historical data will remain on paper because it will not be feasible to convert the data. Labor reported that it will incorporate security precautions and reports processing issues into its Web-based electronic submission procedure.

Concerning the second component, Labor has concluded that a completely new electronic database is required. The new electronic public disclosure database will include an index to facilitate public access to its information. The system will incorporate subsystems and will link all aspects of the administrative and program management of labor organizations' reporting programs and overall LMRDA program operations. Labor anticipates that the new database will improve LMRDA report accuracy and will reduce the number of labor organizations that do not meet filing or reporting standards. Labor officials expect these benefits because the new database will allow them to better track labor organizations that have filed reports and to follow up with those that have not, eliminate the practice of returning reports by mail for corrections, and facilitate the notification of labor organizations when reports are due. According to Labor officials, an automated system for desk auditing union

²H.R. Rep. No. 105-635, at 22-23 (1998).

³Labor officials said that they expect limited use of electronic reporting initially, because many unions are small organizations that have limited computer resources. However, Labor officials expect electronic reporting to increase over time as these organizations obtain computers and electronic communications proliferate.

reports will also help improve reporting accuracy, and built-in edits and prompts in the database will improve reporting compliance.

Finally, with respect to the third component, Labor plans to give the public electronic access to LMRDA report information and disclosures both through the Internet and through computers on-site at Labor offices around the country. Hard copy reports currently collected and archived will be maintained during a transition period. The public will not have Internet access until Labor has developed and initiated the new database. Copies of each labor organization's administrative practices and financial reports will then be available electronically for comparative and analytical review.

Labor officials said they used a contractor that was doing ongoing computer work for other agency projects to help them plan and develop the LMRDA reporting system. Labor officials assessed their needs, consulted with government agencies and firms experienced in setting up similar systems, and obtained advice from Labor's technology staff to ensure the system's compatibility with existing and planned computer systems. Officials said they decided on phasing in the project to allow for testing to ensure the satisfactory operation of each component before moving to the next one.

Labor views the implementation plan it submitted to the Congress as satisfying the House Appropriations Committee's directive, but Labor officials said they are considering whether to update the plan in the future. Labor officials stated that the project's cost and timeline estimates will be refined as the project evolves. For fiscal year 1999, Labor officials developed for internal use an operating plan to be prepared quarterly that will track the progress of the project throughout the fiscal year and that will provide data on its planned and actual costs and milestones.

LABOR'S PROGRESS IN IMPLEMENTING ITS PLAN

Labor's plan is being phased in over a 3-year period. According to Labor officials, project implementation was roughly 10 percent completed as of February 1999. Labor initiated contract work to develop the project in the first quarter of fiscal year 1998 and expects this work to be complete by the end of fiscal year 2001 at a cost of about \$4.2 million.

Labor has developed general estimates of the timelines for the plan's three key components. The plan for the electronic filing of reports includes developing an Internet Web-based data entry application. This segment of the project was initiated early in fiscal year 1999 and is expected to be ready for pilot testing in fiscal year 2000. Full implementation of Internet filing of required reports is projected for fiscal year 2001.

The design of the new electronic database was initiated in fiscal year 1998. The database is expected to be ready for testing by the end of fiscal year 1999. Labor

expects that the database will be ready to incorporate LMRDA report data beginning in fiscal year 2000. Labor will design and develop the capacity to convert manually filed reports to a compatible electronic format beginning in fiscal year 1999 and finishing in fiscal year 2000. According to Labor, the electronic database is the central and most complex element of the project; therefore, it has based its plan implementation on conservative estimates of the time required for database design, programming, and establishment taken, in part, from other federal agencies' experience with similar projects.

Full public Internet access is projected for fiscal year 2001. Labor officials expect to acquire the necessary hardware and software by fiscal year 2000 and will make some report information available as soon as the database becomes operational.

Labor officials told us that they decided to move cautiously and conservatively, in part because of advice received from federal officials experienced in developing and implementing similar types of systems. Also, Labor wants to ensure that project hardware and software will be compatible with existing and planned agency computer systems. Despite the limited progress, the project is generally on schedule, according to Labor officials. Labor prepared its first progress report for internal use in January 1999. The report, from the Deputy Assistant Secretary of the Office of Labor-Management Standards to the Director of the Division of Financial Management, provided information on the status of the project along with a detailed time and spending plan. The progress report showed that

- a systems requirements study had been completed,
- the reports database design had been completed,
- programming for the reports' receipt and processing systems had been initiated, and
- a contract to develop recommendations for the Internet and report filing and public disclosure systems had been awarded.

In the May 1998 implementation plan, Labor projected that the entire project would cost about \$4.2 million, estimating costs of \$500,000 in fiscal year 1998, \$500,000 in fiscal year 1999, \$1,870,000 in fiscal year 2000, and \$1,365,000 in fiscal year 2001. Full implementation of the filing of required reports is projected to cost \$1,150,000. Labor's design and development of a compatible electronic format and database is projected to cost \$1,735,000. Full public Internet availability is projected to cost \$1,350,000. Table 1 summarizes more specifically Labor's May 1998 plan for the use of project funds.

Table 1: Electronic Filing and Disclosure System Cost Projections by Fiscal Year

Component	1998	1999	2000	2001	Total
Electronic filing					
Web-based data entry and validation for forms LM-2/3/4		\$60,000	\$250,000	\$415,000	\$725,000
Electronic submission of reports-pilot test			^a	200,000	200,000
Internet filing of LM-2/3/4 reports-implementation			75,000 ^b	150,000	225,000
Subtotal		\$60,000	\$325,000	\$765,000	\$1,150,000
Database design					
LM-2/3/4 database systems design and support	\$150,000	\$100,000			\$250,000
Phase I subsystem applications	300,000	140,000	\$50,000	\$100,000	590,000
Phase II subsystem applications	50,000		350,000	100,000	500,000
Data conversion design and development		100,000	50,000		150,000
Data conversion and scanning			95,000	150,000	245,000
Subtotal	\$500,000	\$340,000	\$545,000	\$350,000	\$1,735,000
Public accessibility to electronic reports					
Internet database and image retrieval system design			\$250,000		\$250,000
Equipment		\$100,000	750,000	\$50,000	900,000
Internet disclosure of LM-2/3/4 reports and data retrieval				200,000	200,000
Subtotal		\$100,000	\$1,000,000	\$250,000	\$1,350,000
Total	\$500,000	\$500,000	\$1,870,000	\$1,365,000	\$4,235,000

^a Labor said that it plans to begin testing the electronic forms and report submissions with several international unions in fiscal year 2000 even though it did not earmark funds for this step in this fiscal year. According to Labor, full testing will be completed in fiscal year 2001.

^b Labor said that implementation will begin with the international unions and will include scanning data into the electronic system, developing instructions, and training the unions to use the system.

Source: U.S. Department of Labor, Employment Standards Administration, Office of Labor-Management Standards, Modernizing LMRDA Union Reporting and Disclosure: Implementation Plan, May 1998.

The Congress provided the initial funding of \$500,000 in Labor's fiscal year 1998 appropriations to establish the electronic system. The House Appropriations Committee directed Labor to include in future budget requests funds to continue the project. According to Labor officials, Labor incorporated \$500,000 in its fiscal year 1999 budget request. The Congress appropriated \$1,000,000 in fiscal year 1999—\$500,000 more than Labor requested.⁴ According to Labor officials, receiving the \$500,000 earlier than expected in fiscal year 1999 will allow the development of Internet-based reports filing and public disclosure systems to be initiated ahead of the schedule shown in the table. Labor officials told us in February 1999 that the total project is still estimated to cost about \$4.2 million.

⁴Labor officials said that the May 1998 implementation plan reflects what they anticipated would be the total costs for the project but that they did not expect the additional \$500,000 funding in fiscal year 1999 from the Congress.

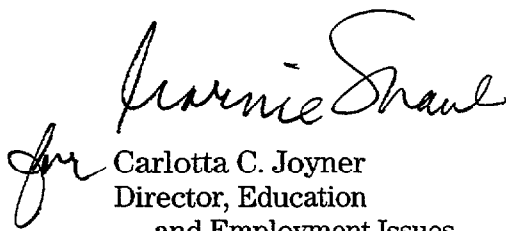
Labor has incurred only contract costs in implementing its electronic system since the Congress first appropriated funds in fiscal year 1998. Labor officials said that the OLMS staff have contributed extensively to the development and implementation of the project but none of the staff time has been charged to the cost of the project. In fiscal year 1998, Labor spent about \$160,700 of the \$500,000 appropriation and obligated the remainder to a contractor for completing the system's requirements, database design, and database programming. Labor reported that it had spent \$128,643 during the first quarter of fiscal year 1999. Labor plans to obligate the remaining fiscal year 1999 funds by June 1999. Labor has requested \$1 million for fiscal year 2000 to continue the project.

AGENCY COMMENTS

We provided a draft of this correspondence for review and comment to the Department of Labor. Labor provided technical comments and suggested several clarifications for our presentation. We have incorporated these technical comments and clarifications where appropriate.

As agreed with your offices, we are sending copies of this correspondence to the staffs of Senator James Jeffords, Chairman, and Senator Edward M. Kennedy, Ranking Minority Member, of the Senate Committee on Health, Education, Labor and Pensions and to Representative William Goodling, Chairman, and Representative William Clay, Ranking Minority Member, of the House Committee on Education and the Workforce. We are also sending copies of this report to the Honorable Alexis Herman, Secretary of the Department of Labor. Copies will also be made available to others who make requests for them.

If you have any questions about this correspondence, please call Larry Horinko, Assistant Director, or me on (202) 512-7014. Major contributors to this correspondence include Jacqueline Harpp, Evaluator-in-Charge; Gene Kuehneman; and Daniel Schwimer.


for Carlotta C. Joyner
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