



Financial Performance Overview

Improving financial management continues to be a cornerstone of the Department's efforts to deliver services effectively and efficiently to its constituents. By providing tools to ensure more informed decision-making throughout the organization, focusing on transparency and accountability, and maintaining a strong internal control system, the Department continues to maximize the value of each taxpayer dollar it receives.

In FY 2008, DOL continued its efforts to provide program managers with timely and reliable cost information for use in managerial decisions to improve operating economy and efficiency. DOL's managerial cost accounting initiative, Cost Analysis Manager (CAM), allows the Department to determine the full costs of achieving each of its quarterly performance results.

As one of the first Department-wide managerial cost accounting initiatives in the federal sector, the CAM Program has maintained high profile visibility within the DOL, the Office of Management and Budget (OMB), the U.S. Congress, and the Government Accountability Office (GAO). Since inception, the OCFO CAM Team has worked closely with 15 agencies to develop 18 models and train over 200 users across the Department's national and regional offices. The CAM Program Team maintains constant dialogue with the users and facilitates a quarterly DOL CAM User Group meeting for agency CAM Team leads as well as representatives from the Office of Inspector General and the DOL Center for Program Planning and Results (CPPR). These meetings enable agency executives and program managers to share best practices, review lessons learned, and communicate the status of the CAM Program.

The CAM Program continues to provide a structured approach that follows a Federal Accounting Standards Advisory Board (FASAB) endorsed best practice methodology that senior stakeholders, budget directors, and program managers use to report managerial cost accounting information. DOL's CAM Program directly supports the section of the PAR that highlights Program Net Costs and the Statement of Net Costs. Total Net Costs of DOL activities for FY 2008 were \$58.3 billion.

The Debt Collection Improvement Act (DCIA) of 1996 designated the Department of the Treasury as the central agency for collection of debts owed the Federal government. Debt management accounts for a relatively small part of DOL's financial management activities; however, the majority of debts managed by DOL relate to the assessment of fines and penalties as a result of its enforcement programs. Through the third quarter of FY 2008, DOL referred debt in the amount of \$79,558,619 to the Treasury for collection. This amount represents 65 percent of delinquent debt required to be referred for collection. DOL continues to monitor and aggressively pursue delinquent debt and will continue to refer eligible debt to Treasury for collection.

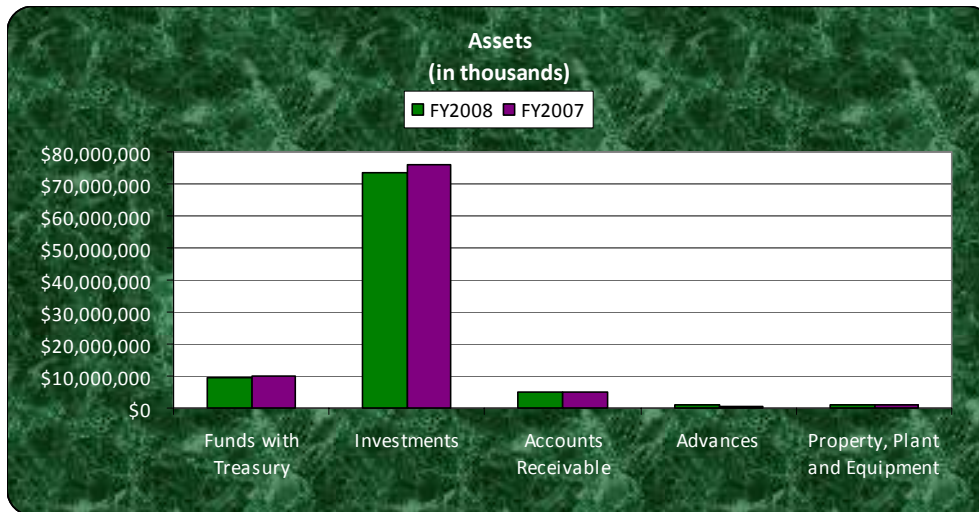
The Department continues to make improvements in its efforts to meet guidance and regulations outlined in the *Prompt Payment Act (PPA)*. The PPA requires Executive agencies to pay commercial obligations within discrete time periods and to pay interest penalties when those time constraints are not met. During FY 2008, approximately \$1.3 billion in gross payments were made. Included in this amount was just over \$164,000 in interest penalty fees. Also during FY 2008, there were over 111,000 payments made to vendors and travelers. Of this amount, 3,348 invoices were paid late resulting in only 3 percent of the total payments incurring interest penalties.

The Department continues to work aggressively with its agencies to increase the number of vendors receiving payments through *electronic fund transfer (EFT)*. The total number of vendors receiving EFT payments in FY 2008 remains the same as in FY 2007 at 99 percent as the fiscal year ended. Although our Employment Standards Administration is continuing to promote EFT payments for their benefit and medical programs, their percentage rates continue to remain below Treasury's goal of 98 percent.



Analysis of Financial Statements

The principal financial statements summarize the Department's financial position, net cost of operations, and changes in net position, provide information on budgetary resources and financing, and present the sources and disposition of custodial revenues for FY 2008 and FY 2007. Highlights of the financial information presented in the principal financial statements are shown below.

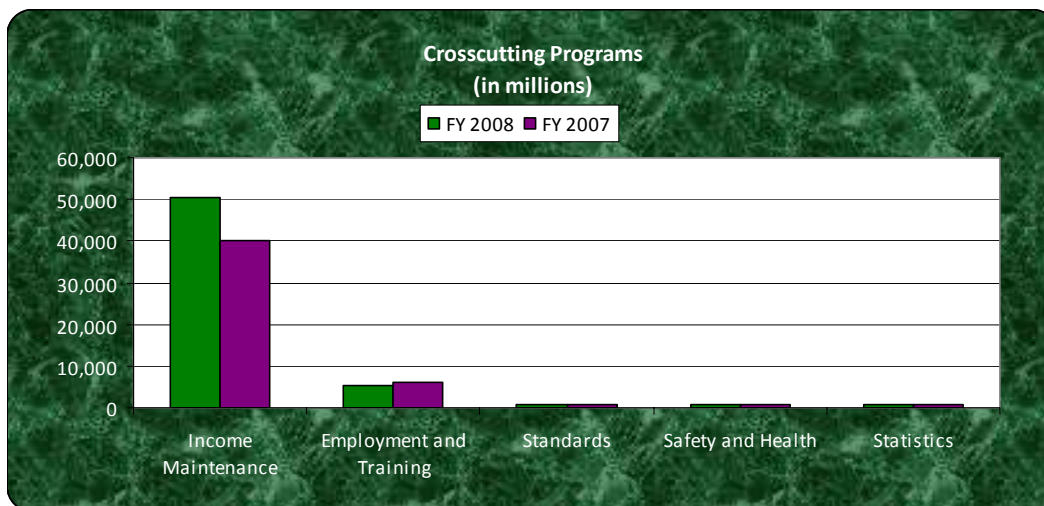


Financial Position

The Department's Balance Sheet presents its financial position through the identification of agency assets, liabilities, and net position. The Department's total assets decreased from \$92.8 billion in FY 2007 to \$89.9 billion in FY 2008. The Department invests in non-marketable, special issue Treasury securities balances held in the Unemployment Trust Fund. The decrease in total assets primarily was accounted for in these investments as a result of increasing unemployment costs. Liabilities increased from \$21.3 billion at the end of FY 2007 to \$22.6 billion in FY 2008. This increase was due primarily to increases in liabilities for current and future benefits, as a result of rising unemployment, and an increase in energy compensation and injuries claims.

Net Cost of Operations

The Department's total net cost of operations in FY 2008 was \$58.3 billion, an increase of \$10.0 billion from the prior year. This increase was attributable to the following crosscutting programs:



Income Maintenance programs continue to comprise the major portion of costs. These programs include costs such as unemployment benefits paid to individuals who are laid off or out of work and seeking employment, as well as payments to individuals who qualify for disability benefits due to injury or illness suffered on the job. Income maintenance increased by \$10.5 billion from FY 2007 to FY 2008. The primary reasons for this increase were the increase in regular unemployment paid and the additional weeks of emergency unemployment compensation provided by the enactment of the Supplemental Appropriations Act, 2008 in June.

Employment and Training programs comprise the second largest cost. These programs are designed to help individuals deal with the loss of a job, research new opportunities, find training to acquire different skills, start a new job, or make long-term career plans.

Statement of Budgetary Resources. This statement reports the budgetary resources available to DOL during FY 2008 and FY 2007 to effectively carry out the activities of the Department as well as the status of these resources at the end of each fiscal year. The Department had direct obligations of \$62.5 billion in FY 2008, an increase of \$10.4 billion from FY 2007.

Limitations on the Principal Financial Statements. As required by the Government Management Reform Act of 1994 (31 USC 3515 (b)), the principal financial statements report the Department's financial position and results of operations. While the statements have been prepared from the Department's books and records, in accordance with formats prescribed by OMB, the statements differ from the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity, and that liabilities reported in the financial statements cannot be liquidated without legislation providing resources to do so.

Financial Management Systems and Strategy

During FY 2008, DOL continued to pursue its financial management system strategy to improve reporting, accountability, and decision-making, while furthering implementation of key provisions of the President's Management Agenda, e-Gov requirements, and other regulatory mandates. The Department seeks to maintain financial management systems, processes, and controls that ensure financial accountability, provide useful information to management, and satisfy Federal laws, regulations, and guidance.

Currently, the DOL's financial management functions, processes, and activities are distributed across multiple information systems and financial applications, all centered on the Department of Labor Accounting and Related Systems (DOLAR\$) mainframe accounting system. DOLAR\$ has been in service since 1989 and has been both enhanced and extended to meet Departmental and external requirements. While DOLAR\$ has served DOL well over its history and continues to exceed its intended useful life, the DOLAR\$ technology is antiquated and no longer able to efficiently and effectively meet DOL's financial management requirements. DOLAR\$ was implemented prior to all of the modern day laws and regulations that drive Federal accounting, financial management systems, financial management reporting and security, such as: the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Federal Financial Management Improvement Act of 1996, the Reports Consolidation Act of 2000, and the Federal Information Security Management Act (FISMA) of 2002.

DOL released on January 15, 2008, Request for Proposal (RFP) on Federal Business Opportunities (FBO) for the purpose of obtaining the services of a Financial Management Line of Business (FMLoB) Shared Service Provider (SSP) to modernize DOL's core financial functions from the current 19 year old mainframe system to the New Core Financial Management System (NCFMS).



DOL sought the services of a federal or commercial FMLoB SSP in the following areas:

- **Technology Hosting and Administration Services** – involves providing the IT infrastructure (facilities and infrastructure software) that serves as the foundation for running business software applications and the services to maintain that infrastructure.
- **Application Management Services** – involves providing the software and services for running and managing access to business software applications, in this case, financial management software and the feeder systems that provide data to the financial management software.
- **System Implementation Services** – includes services to help an agency through a migration of their current financial management operations to the FMLoB SSP environment.

After detailed evaluation of the responses received, DOL selected and issued an award to Global Computer Enterprises (GCE) on June 26, 2008. GCE began work on July 1, 2008 to have the system fully implemented and operational by October 2009.

Reducing Improper Payments

Improved financial performance through the reduction of improper payments continues to be a key financial management focus of the Federal government. At DOL, developing strategies and the means to reduce improper payments is a matter of good stewardship. Accurate payments lower program costs. This is particularly important as budgets have become increasingly tight.

In accordance with the Improper Payments Information Act (IPIA) of 2002, as implemented by the OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, the Department reviews its programs and activities annually, identifies programs that may be susceptible to significant improper payments, performs testing of programs considered high risk, establishes improper payment reduction targets in accordance with OMB guidance and develops and implements corrective actions for high risk programs.

The Department has 3 programs that are classified to be at risk of significant improper payments in accordance with OMB criteria or classification--the Unemployment Insurance (UI) benefit program, the Federal Employees' Compensation Act (FECA) benefit program and the Workforce Investment Act (WIA) grant program. The Department performed detailed testing of these three programs to identify improper payments and their major causes. Additionally, in FY 2008 a recovery audit was performed to identify FY 2007 improper contractor payments.

The Department met its improper payments reduction targets. The table below shows the estimated improper payments error rates for the last three fiscal years for the three programs designated as high risk.

DOL Program	FY 2006	FY 2007	FY 2008
Unemployment Insurance	10.7%	10.3%	10.0%
Federal Employees' Compensation Act	.03%	.01%	0.02%
Workforce Investment Act	.17%	.08%	.07%

The Department has implemented various corrective actions to address the causes and reduce improper payments in each of these programs. Like many other Federal agencies, the Department faces challenges in meeting its improper payment reduction and recovery targets, particularly with programs that are sensitive to the U.S. economy fluctuations or natural disasters, such as the UI program. Furthermore, meeting improper payment reduction and recovery targets of programs such as UI and WIA are contingent upon the cooperation and support of State agencies and other outside stakeholders who are intricately involved in the day-to-day management of these programs' activities.

See Other Accompanying Information section of this report for additional information on improper payments.

