

2007

PERFORMANCE AND ACCOUNTABILITY REPORT



U.S. DEPARTMENT OF LABOR



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**U.S. Department of Labor**



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If you have questions or comments regarding this report, contact:

Center for Program Planning and Results  
U.S. Department of Labor  
200 Constitution Avenue, NW, Room S-3317  
Washington, DC 20210  
202-693-7120

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# Secretary's Message

November 15, 2007

I am pleased to submit the ninth annual Department of Labor Performance and Accountability Report to Congress and the American people. This is the first opportunity to report progress under our FY 2006-2011 Strategic Plan, which articulates the Department's program performance priorities, strategies, and targets for the years ahead and identifies four strategic goals that serve as the basis of this annual report:

- *A Prepared Workforce* — to provide training and services to new and incumbent workers and supply quality information on the economy and labor market.
- *A Competitive Workforce* — to enhance the effectiveness and efficiency of the workforce development and regulatory systems that assist workers and employers in meeting the challenges of worldwide competition.
- *Safe and Secure Workplaces* — to ensure that workplaces are safe, healthful, and fair; protect workers' rights to wages due them; protect workers' equal opportunity rights; and protect veterans' employment and re-employment rights.
- *Strengthened Economic Protections* — to protect and strengthen economic security; ensure union transparency; and secure pension and health benefits.



## President's Management Agenda

Building upon these four goals, the President's Management Agenda (PMA) continues to be the central strategy for the Department's efforts in management improvement. The Department continues to demonstrate progress in each of the five government-wide PMA initiatives: Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government, and the Performance Improvement Initiative (formerly Budget and Performance Integration). A major achievement linked to PMA implementation is the good-government results that have been implemented on behalf of our stakeholders – including America's taxpayers. These results are exemplified by DOL's winning four President's Quality Awards for management excellence since 2004, including the award for Expanded Electronic Government we received last November.

## Preparing Workers for New Opportunities

To better accomplish the Department's mission, DOL has worked to overhaul the nation's duplicative, compartmentalized, and bureaucracy-ridden workforce training programs. This Administration has proposed innovative strategies to spur regional workforce development, give workers personalized Career Advancement Accounts to reach their own career goals, and create a workforce investment system that puts workers first. The Department of Labor continues to build on the President's results-oriented vision – and strives to maximize the use of all Federal workforce investment funds for the direct provision of training and other value-added services to workers.

The workforce investment system is expanding its work with employers in high-growth, high-demand industries, including collaborations with large multi-State employers. These partnerships help to identify the workforce needs of high-growth industries and provide a forum for improved communication between industry and the workforce investment system. To further address the need for in-demand skills, the Department eliminated a backlog of approximately 363,000 applications in the permanent foreign worker certification program over the last three years.

### **Protecting Workers' Safety and Health, Pay, Benefits, and Union Dues**

The Department's agencies that protect workers' health, safety, benefits, pay, and union member rights continue to achieve results for American workers and their families, all within restrained budget growth. In addition to enforcement, DOL is deploying outreach and compliance assistance to prevent violations and identify high-risk industries. The Occupational Safety and Health Administration's National Emphasis Program (NEP) is one example of how the Department is combining aggressive, targeted strategies to reduce or eliminate hazards from workplaces with high injury and illness rates. In 2007, DOL established NEP's for petroleum refineries and microwave popcorn manufacturing facilities.

The passage of the Mine Improvement and New Emergency Response (MINER) Act of 2006 – the most significant mine safety legislation in nearly 30 years – provides the Department new tools to better ensure miner safety. The Mine Safety and Health Administration has vigorously implemented this legislation to better protect miners.

In protecting the economic security of workers, the Department reached its compliance and discrimination rate targets for audited Federal contractors while union criminal investigations leading to prosecutions resulted in more than \$30 million in court-ordered restitution. The Department released the first-ever regulations implementing, clarifying, and streamlining the Uniformed Services Employment and Reemployment Rights Act, or USERRA. These regulations and other Departmental efforts, which help protect the jobs and benefits of citizen-soldiers while on active duty, led to a decrease in claims of prohibited personnel practices by four percent from the previous year, based on preliminary reports.

Workers' compensation claims were processed with greater efficiency without sacrificing the quality of decisions. The Department successfully eliminated 100 percent of the backlog of Energy Employee Occupational Illness cases inherited from the Department of Energy. In addition, the rate of change in medical costs for injured Federal workers remained below the national average for the fifth consecutive year.

The Pension Benefit Guaranty Corporation (PBGC) is now trustee of some 3,800 terminated plans, managing an asset portfolio in excess of \$55 billion. Effective management of this diverse portfolio is critical; 650,000 retirees and beneficiaries with trusteed plans were receiving benefits and 525,000 other participants had earned benefits. The Department is working with PBGC to develop strategies and measures focused on their long-term financial challenge to support the Administration's commitment to safeguarding the pension insurance program.

### **Program Data and Financial Systems**

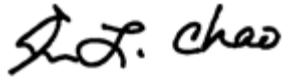
Department of Labor managers routinely use the performance and financial information summarized in this report to improve the quality and cost-effectiveness of the services they provide to the public. For management and accountability purposes, it is crucial to have confidence in the quality of this information. Program performance data presented in this report are complete and reliable, with no material inadequacies as defined in OMB Circular A-11 – with one exception. Performance Goal 06-2D (Community-Based Job Training Grants) data are considered inadequate for the purpose of determining goal achievement. Accordingly, it has been omitted from this report. DOL continues to develop a reporting system that will provide Federal job training program common measures outcome data for this program.

Last year, DOL implemented data quality assessments to continue efforts in effective performance management and transparent reporting. These assessments promote continuous improvement in performance goal data by applying additional criteria beyond adequacy, such as data accuracy, validity, and timeliness. Based on such criteria, the Department's data quality is rated Very Good or Excellent on a five point scale for more than half of the data presented in this report. Program performance data quality, assessment of internal controls pursuant to the Federal Managers' Financial Integrity Act (FMFIA) and compliance of financial management systems with the Federal Financial Management Improvement Act of 1996 (FFMIA) are discussed in greater detail in the Management's Discussion and Analysis section of this report.



**Conclusion**

This 2007 Performance and Accountability Report is a comprehensive assessment of achievements with respect to ambitious and challenging goals and targets. The positive results this year have been possible because of Department wide teamwork to prepare America's workers for a competitive global market; to provide for safe and healthy work environments; and to vigorously protect retirement security and ensure fair compensation.



Elaine L. Chao  
Secretary of Labor





## **Management's Discussion and Analysis**

## Introduction

### Mission

The Department of Labor (DOL or the Department) fosters and promotes the welfare of the job seekers, wage earners, and retirees of the United States by improving their working conditions, advancing their opportunities for profitable employment, protecting their retirement and health care benefits, helping employers find and retain workers, strengthening free collective bargaining, and tracking changes in employment, prices, and other national economic measurements.



President William Howard Taft signed the bill establishing the Department of Labor on March 4, 1913, just hours before leaving office. In the words of the act establishing the Department of Labor, its main purpose is ***"to foster, promote and develop the welfare of working people, to improve their working conditions, and to advance their opportunities for profitable employment."*** While socio-economic conditions have changed greatly since 1913 and new statutory responsibilities have expanded its scope, the Department's mission remains unchanged.

### Vision

We will promote the economic well-being of workers and their families; help them share in the American dream through rising wages, pensions, health benefits and expanded economic opportunities; and foster safe and healthful workplaces that are free from discrimination.



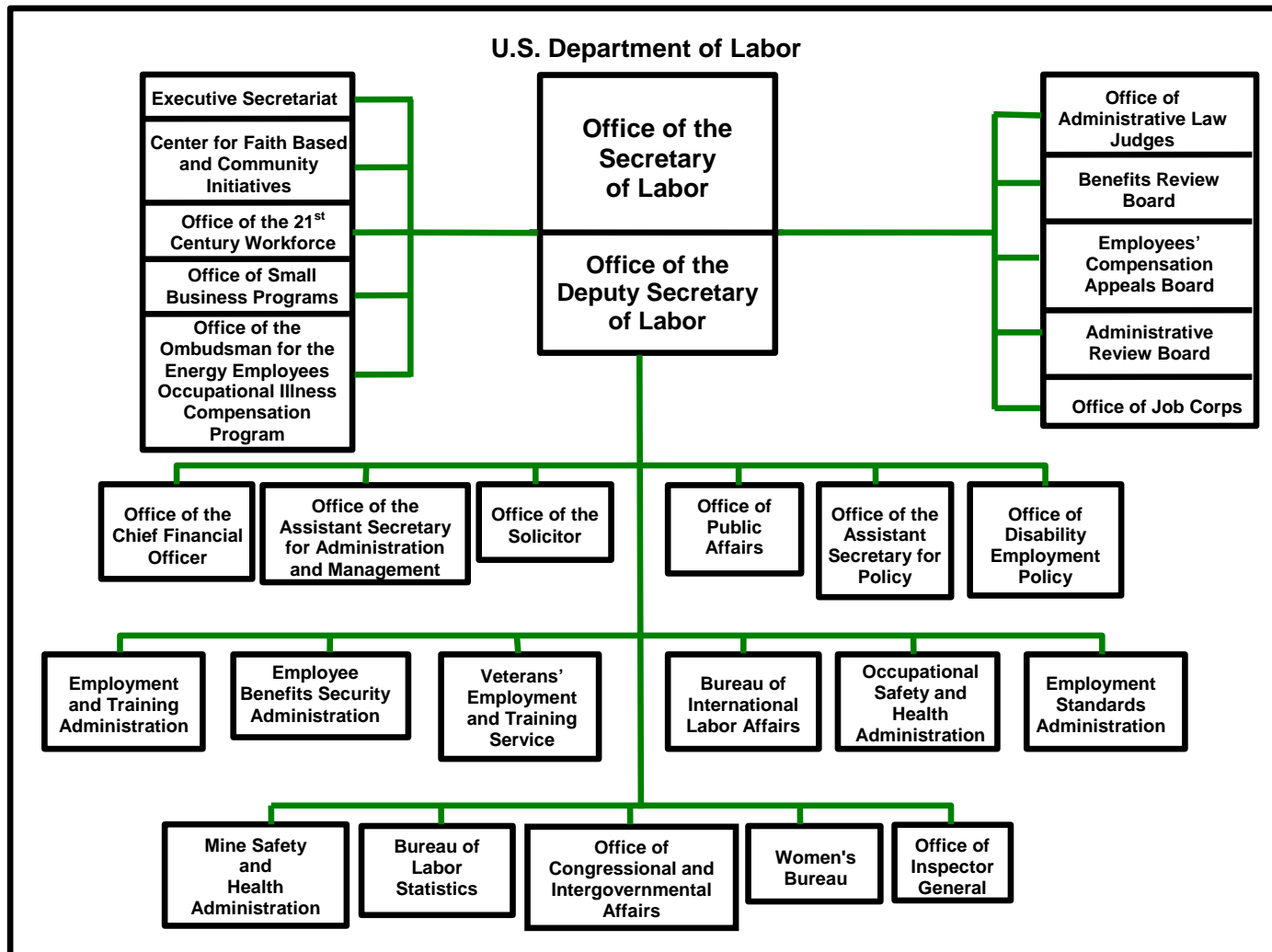
The seal of the Department of Labor was approved by President Woodrow Wilson on June 21, 1913. The seal is a gold shield divided horizontally by a red band. The gold color denotes integrity; the red color is for courage and endurance.

On the gold shield above the red band is an anvil and below the band is a plough, both in their natural colors. These represent industry. On the red band are a pulley, a lever, and an inclined plane. They are in silver and represent the three fundamental principles of mechanics and represent humanity's efforts to understand and harness the forces of nature for productive ends.

The crest is an eagle with outspread wings.

## Organization and Program Activities

DOL accomplishes its mission through component agencies and offices that administer the various statutes and programs on behalf of the Department. These programs are carried out through a network of regional offices and smaller field, district, and area offices, as well as through grantees and contractors. The largest program agencies, each headed by an Assistant Secretary, Commissioner, or Director, are the Employment and Training Administration (ETA), Employment Standards Administration (ESA), Occupational Safety and Health Administration (OSHA), Mine Safety and Health Administration (MSHA), Veterans' Employment and Training Service (VETS), Employee Benefits Security Administration (EBSA), Pension Benefit Guaranty Corporation (PBGC)<sup>1</sup>, and Bureau of Labor Statistics (BLS). The organization chart and the major activity description that follows include the most significant offices of the Department.



### Employment and Training

ETA provides high quality job training and education, employment, labor market information, and income maintenance services primarily through State and local workforce investment systems. For example, the Trade Adjustment Assistance Program provides re-employment services such as occupational training, job search and relocation assistance, and income support to workers who have lost their jobs due to increased imports or shifts of production to foreign countries.

<sup>1</sup> PBGC – a Federal corporation created by the Employee Retirement Income Security Act of 1974 – is not included in the DOL organization chart. However, in accordance with the requirements of the Government Performance and Results Act (GPRA), PBGC's performance reporting is included in this report because PBGC's performance goals are included in the Department's performance budget.

*VETS* helps veterans, reservists, and National Guard members in securing and maintaining employment and the rights and benefits associated with employment.

The *Women's Bureau (WB)* promotes profitable employment opportunities for women, empowering them by enhancing their skills and improving their working conditions, and providing employers with more alternatives to meet their labor needs.

The *Office of Disability Employment Policy (ODEP)* seeks to increase employment opportunities for people with disabilities by expanding access to training, education, employment supports, assistive technology, integrated employment, entrepreneurial development, and small-business opportunities.

### **Unemployment Insurance**

ETA's Unemployment Insurance (UI) programs provide unemployment benefits to workers who are unemployed because of a lack of suitable work and meet other eligibility requirements that are established mostly by the States.

### **Workers' Compensation**

ESA's Office of Workers' Compensation Programs (OWCP) provides wage replacement benefits, medical treatment, vocational rehabilitation, and other benefits to Federal and certain other workers who are injured at work or acquire an occupational disease, and/or to other members of their families.

### **Workplace Safety and Health**

*OSHA* seeks to assure for every working man and woman in the Nation safe and healthful working conditions. *OSHA* enforces compliance with the regulations and safety and health standards contained in the Occupational Safety and Health Act. Employers subject to the Act have a general duty to provide work and a workplace free from recognized, serious hazards.

*MSHA* protects the safety and health of miners by assuring compliance with Federal safety and health standards through inspections and investigations and working cooperatively with the mining industry, labor, and States to improve training programs aimed at preventing accidents and occupationally-caused diseases.

*ESA* protects the welfare and rights of, and generates equal employment opportunity for, American workers by promoting compliance with laws such as the Fair Labor Standards Act, which contains rules concerning the safe employment of young workers.

### **Health Plan and Retirement Benefit Protections**

The Department is responsible for administering and enforcing provisions of the Employee Retirement Income Security Act (ERISA). *EBSA* enforces ERISA through civil and criminal actions, provides consumer information on benefit plans and compliance assistance to employers and plan service providers and develops regulations encouraging the growth of employment-based benefits.

*PBGC*, for which the Secretary serves as Chair of the Board of Directors, insures retirement-plan participants' pension benefits and supports a healthy retirement plan system by encouraging the continuation and maintenance of private pension plans, protecting pension benefits in ongoing plans, providing timely payments of benefits in the case of terminated pension plans, and making the maximum use of resources and maintaining premiums and operating costs at the lowest levels consistent with statutory responsibilities.

### **Labor Statistics**

*BLS* provides key economic statistics to the public, Congress, Federal agencies, State and local governments, businesses, and others, including data on employment, wages, inflation, productivity, and many other topics.

### **International Policy**

The *Bureau of International Labor Affairs (ILAB)* develops and implements Departmental policy, oversees programs relating to international labor activities, and coordinates Departmental international activities involving other U.S. Government agencies, intergovernmental and non-governmental organizations.

## Report Outline

This report, prepared in accordance with the Reports Consolidation Act of 2000, presents the results of the Department's program and financial performance for FY 2007. It is divided into four sections:

- The *Secretary's Message* is a letter from the chief executive that highlights the Department's achievements for the year and communicates direction and priorities.
- *Management's Discussion and Analysis (MD&A)* introduces the Department's mission, vision, organization, and activities; summarizes program and financial performance, including Program Assessment Rating Tool reviews and compliance with relevant financial management legislation; addresses major management challenges such as those identified annually by the Office of Inspector General (OIG); and reports on DOL's implementation of the President's Management Agenda.
- The *Performance Section* presents program results and costs, and includes assessments of progress in achieving the Department's performance goals as presented in the Strategic Plan and Performance Budget.
- The *Financial Section* demonstrates our commitment to effective stewardship over the funds DOL receives to carry out the mission of the Department. It includes a letter from the Chief Financial Officer, the *Independent Auditors' Report* (an independent opinion on the Consolidated Financial Statements) and the *Annual Financial Statements*.

Three *Appendices* supplement the performance and financial sections by providing additional information on improper payments reduction, a list of acronyms and a list of Web sites featuring labor programs and issues.

### Labor Day History

Labor Day, celebrated on the first Monday in September, is a yearly national tribute to the contributions workers have made to the strength, prosperity, and well-being of America. The Central Labor Union of New York City first proposed to celebrate Labor Day "as a general holiday for the laboring classes." They appointed a committee that planned a street parade to demonstrate the *esprit de corps* of the trade unions and a festival for workers and their families, and held the first celebration on Tuesday, September 5, 1882, in New York City. Members took unpaid leave and invited other unions to join them in the march. At first, only a handful of marchers assembled and onlookers jeered. Then, shortly before the march started, 200 men and a band from the Jewelers' Union arrived. As the parade inched forward, more and more groups joined in. By the time they reached the reviewing stands in Union Square, there were around 10,000 marchers. Afterwards, the marchers and their families went to Wendel's Elm Park for a picnic, speeches, dancing and fireworks.



In 1884, the Central Labor Union went back to their original idea of celebrating Labor Day on the first Monday of September. They urged similar organizations in other cities to follow suit, and by 1885, Labor Day was celebrated in many industrial centers across the country. The first governmental recognition of the holiday came through city ordinances passed in 1885 and 1886. Legislation was first introduced in New York, but first passed in Oregon on February 21, 1887. The same year, four more states – Colorado, Massachusetts, New Jersey, and New York – passed Labor Day legislation. Connecticut, Nebraska, and Pennsylvania did so by the end of the decade. Over the next seven years, 23 other states joined. Finally, a bill making it a national holiday was passed unanimously by both houses of Congress and signed by President Grover Cleveland on June 28, 1894.

## Program Performance Overview

Fiscal Year (FY) 2007 marks the ninth year that the Department of Labor has reported program results under the Government Performance and Results Act (GPRA). Program goals that are key to the accomplishment of DOL strategic goals<sup>2</sup> were selected for inclusion in the FY 2008 Performance Budget Overview.<sup>3</sup> These performance goals and their indicators provide the basis for assessments of DOL's effectiveness. The Department's goal structure has three levels that are described below. The table that follows indicates FY 2007 program performance goal achievement by strategic goal.

### Strategic Goals

DOL has four goals that express outcomes associated with the Department's mission and serve to focus Departmental efforts on links between activities and higher purposes: *A Prepared Workforce*, *A Competitive Workforce*, *Safe and Secure Workplaces*, and *Strengthened Economic Protections*.

### Performance Goals

Each of DOL's strategic goals is supported by several program-level goals that provide clarity of purpose. This report includes 25 performance goals.<sup>4</sup>

### Performance Indicators

Quantitative measures determine achievement of performance goals. For this reporting period, 87 indicators serve this purpose. DOL requires that all indicator targets are reached to qualify as Achieved. Substantially Achieved, which recognizes results that were very close to the goal, requires that for 80 percent of indicators, targets are reached or results improved over the prior year.

| Strategic Goal   | Performance Goals |                        |              |           |  |
|--|-------------------|------------------------|--------------|-----------|--|
|  | Goals Achieved    | Substantially Achieved | Not Achieved | Total     | Percent Achieved or Substantially Achieved |
| <b>Goal 1 – A Prepared Workforce:</b> <i>Develop a prepared workforce by providing effective training and support services to new and incumbent workers and supplying high quality information on the economy and labor market.</i>  | 2                 | 1                      | 2            | 5         | 60%  |
| <b>Goal 2 – A Competitive Workforce:</b> <i>Meet the competitive labor demands of the worldwide economy by enhancing the effectiveness and efficiency of the workforce development and regulatory systems that assist workers and employers in meeting the challenges of global competition.</i> | 5                 | 0                      | 5            | 10        | 50%  |
| <b>Goal 3 – Safe and Secure Workplaces:</b> <i>Promote workplaces that are safe, healthful and fair; guarantee workers receive the wages due them; foster equal opportunity in employment; and protect veterans' employment and re-employment rights.</i>  | 3                 | 1                      | 1            | 5         | 80%  |
| <b>Goal 4 – Strengthened Economic Protections:</b> <i>Protect and strengthen worker economic security through effective and efficient provision of unemployment insurance and workers' compensation; ensuring union transparency; and securing pension and health benefits.</i>                  | 1                 | 3                      | 1            | 5         | 80%  |
| <b>Total</b>   | <b>11</b>         | <b>5</b>               | <b>9</b>     | <b>25</b> | <b>64%</b>                                 |

<sup>2</sup> See the DOL FY 2006-2011 Strategic Plan at [http://www.dol.gov/\\_sec/stratplan/main.htm](http://www.dol.gov/_sec/stratplan/main.htm)

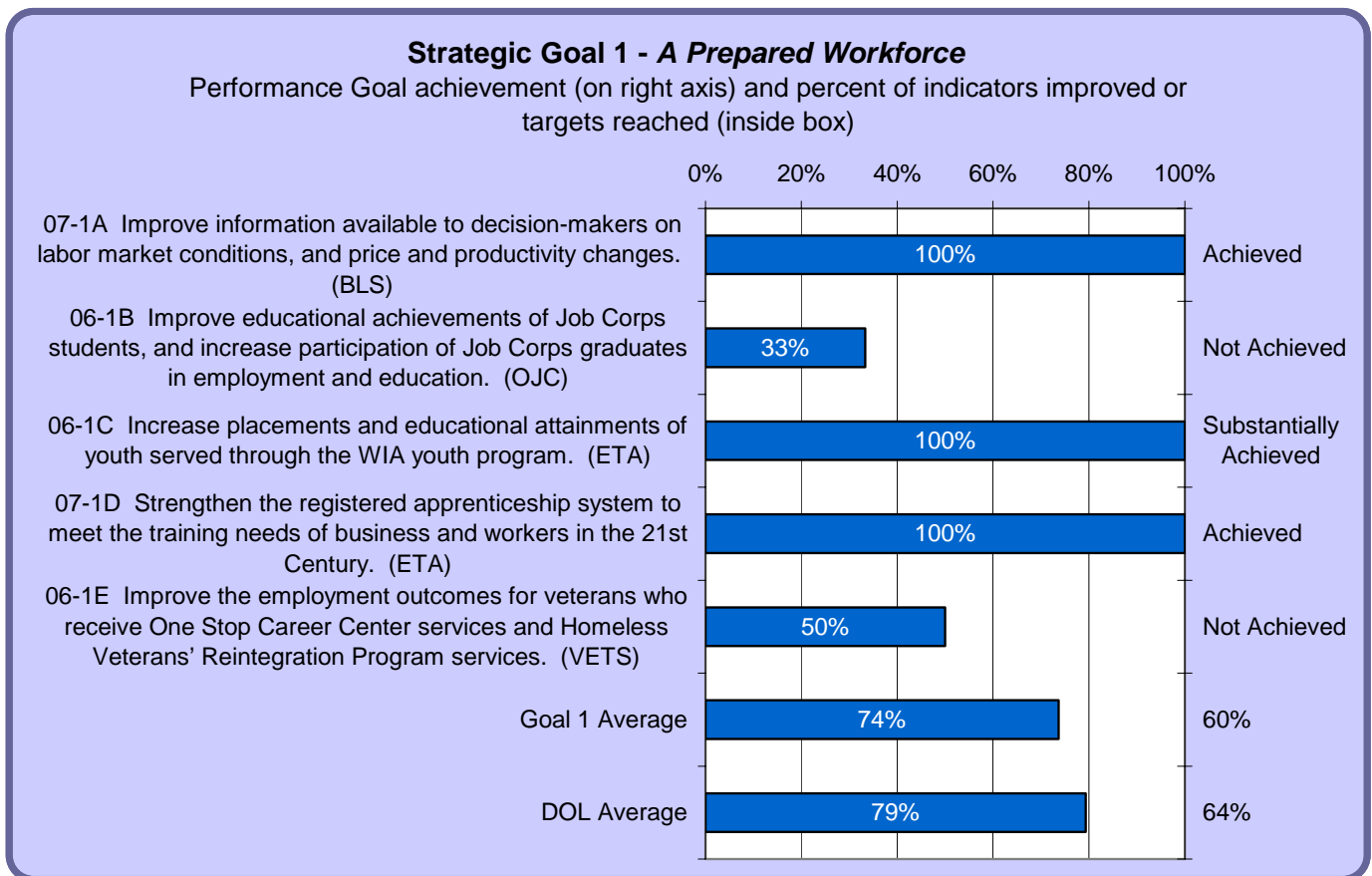
<sup>3</sup> [http://www.dol.gov/\\_sec/Budget2007/overview-pb.htm#app1](http://www.dol.gov/_sec/Budget2007/overview-pb.htm#app1)

<sup>4</sup> This report includes performance goals from two different reporting periods. Workforce Investment Act (WIA) programs are forward-funded, meaning that their spending and performance goals are tracked on a cycle that lags the Federal fiscal year by nine months. This period is referred to as a Program Year (PY); such goals being reported on in this document cover July 1, 2006 to June 30, 2007 (PY 2006). PY 2007 goals will appear in the FY 2008 report.



The total of 64 percent achieved or substantially achieved compares with 50 percent last year and 60 percent in FY 2005. Starting in FY 2007, DOL simplified its performance reporting by replacing the indicator result category “substantially reached” with “improved.” Of the five substantially achieved goals, just two would have qualified under the old rule, and the overall percent achieved and substantially achieved would have been 52 percent. In other words, two percentage points of the improvement are due to performance and the other twelve points are accounted for by methodology.

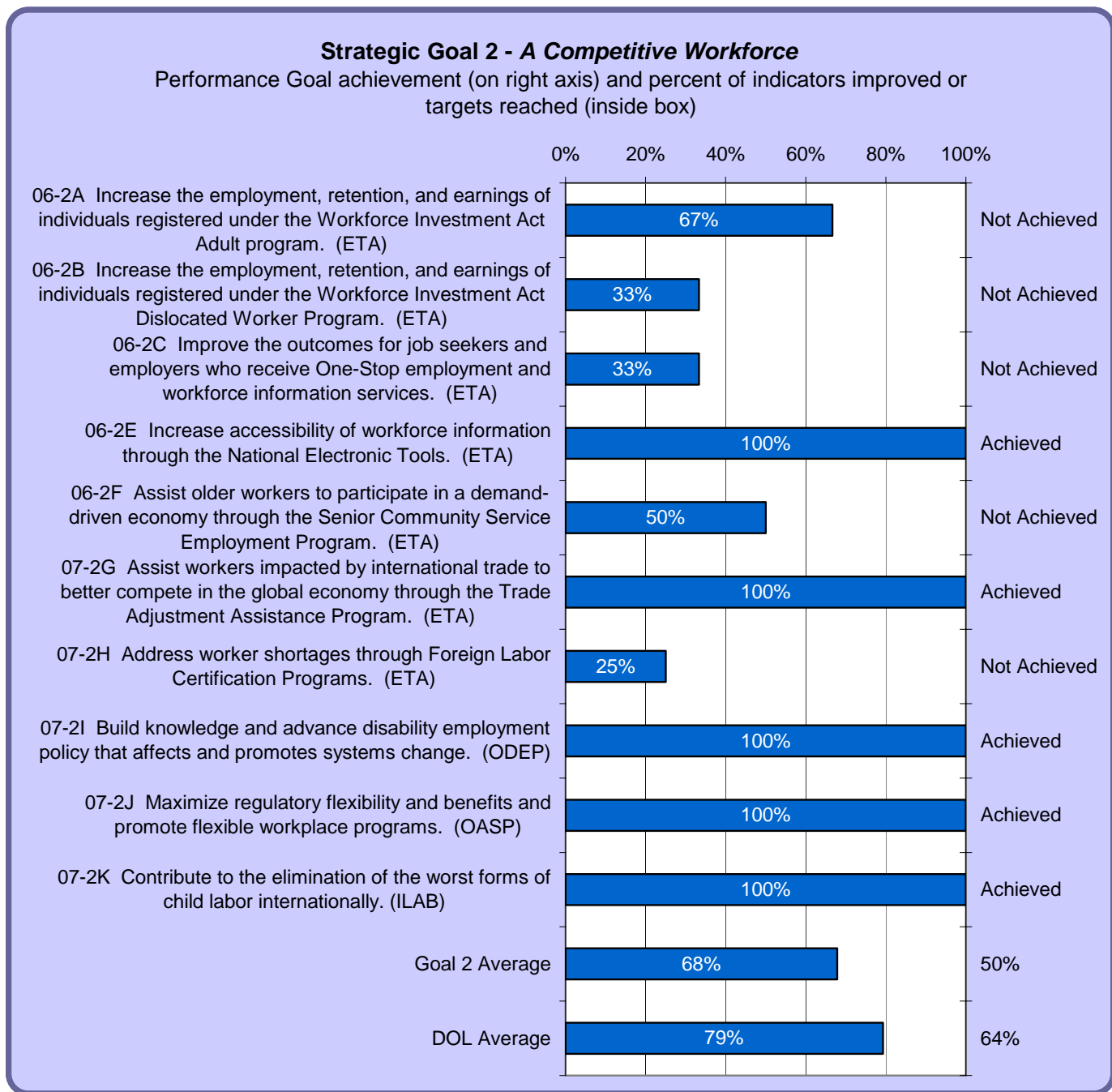
Charts below present, by strategic goal, FY 2007 achievement as measured by performance indicators and performance goals. The performance goal number,<sup>5</sup> goal statement, and responsible agency appear on the left axis, the total percentage of indicator targets reached or improved is indicated in the horizontal bars, and the goal result is on the right axis. Corresponding strategic goal and DOL-wide averages for indicators and performance goals (percentage of goals achieved or substantially achieved) are presented at the bottom of each chart in the bars and on the right axis, respectively, to facilitate comparisons. If the goal is achieved, the bar will run all the way across because by definition, 100 percent of indicator targets were reached. If the goal is substantially achieved, the indicator total can range from 80 percent to 100 percent as determined by the category definition (see “Performance Indicators” description on the preceding page).



As indicated in the chart above, DOL had five performance goals under Strategic Goal 1 in FY 2007, of which three were achieved or substantially achieved (60 percent) – below the Department wide average of 64 percent. BLS achieved its goal, reaching all six targets. Job Corps reached its literacy/numeracy target but not its targets for placement in employment or education and attainment of a degree, General Educational Development (GED) credential or certificate. The WIA Youth program, which uses the same measures, substantially achieved its goal; student academic attainment reached the target, while placement improved

<sup>5</sup> The first two digits of each goal number indicate the funding year. In this report, all “06” goals are reporting on the Program Year period defined above.

over PY 2005 results but fell slightly below the target. The Office of Apprenticeship achieved its goal by reaching its employment retention and average hourly wage gains targets. VETS' goal was not achieved; three of six targets were reached.

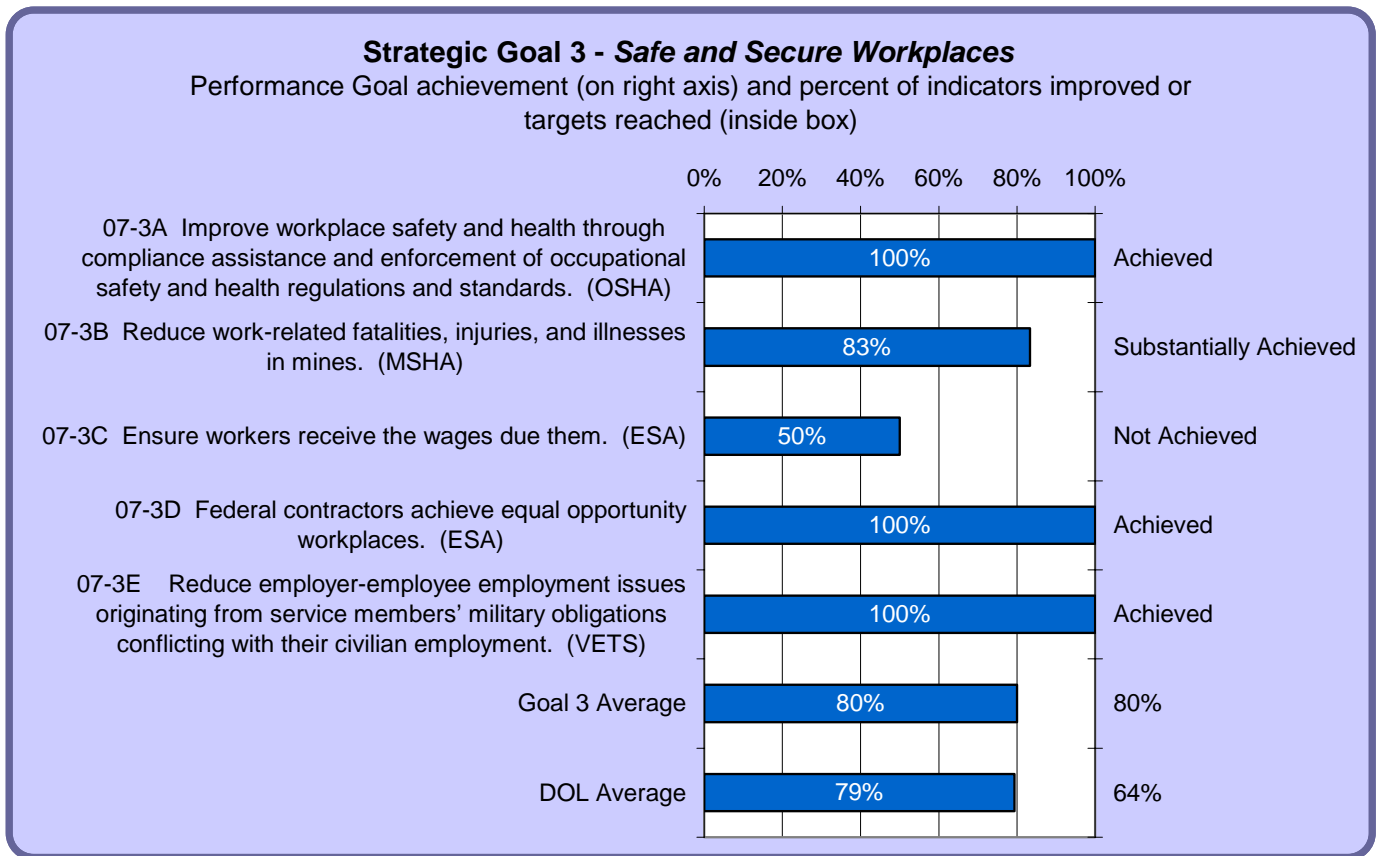


DOL achieved or substantially achieved five of ten performance goals (50 percent) in Strategic Goal 2, which is below the Department's average of 64 percent. The WIA Adult program goal was not achieved, but two of the three Federal job training program common measure<sup>6</sup> targets were reached. The WIA Dislocated Worker

<sup>6</sup> Several Federal agencies, including the Departments of Labor, Education, Health and Human Services, Interior and Veterans Affairs, administer programs that share the goal of helping people find jobs. To inform comparative evaluations of effectiveness, the Administration worked with these agencies to develop outcome measures that apply to their diverse methods and target populations. While these measures have evolved over the last several years, they have consistently focused on participants' entered employment and employment retention rates, and earnings.

goal was not achieved, either, missing the entered employment and retention targets but reaching the average earnings target. The performance goal for One-Stop employment and workforce information services was not achieved; in this case, the average earnings target was reached but targets for entered employment and employment retention were not. Results for Performance Goal 06-2D (Community Based Job Training Grants) are not reported because data are considered inadequate for the purpose of determining goal achievement. The performance goal for increasing accessibility of workforce information through National Electronic Tools was achieved, reaching all three targets. The Senior Community Service Employment Program did not achieve its goal, reaching just one of two targets. The Trade Adjustment Assistance program reached all three of its targets, achieving the goal.

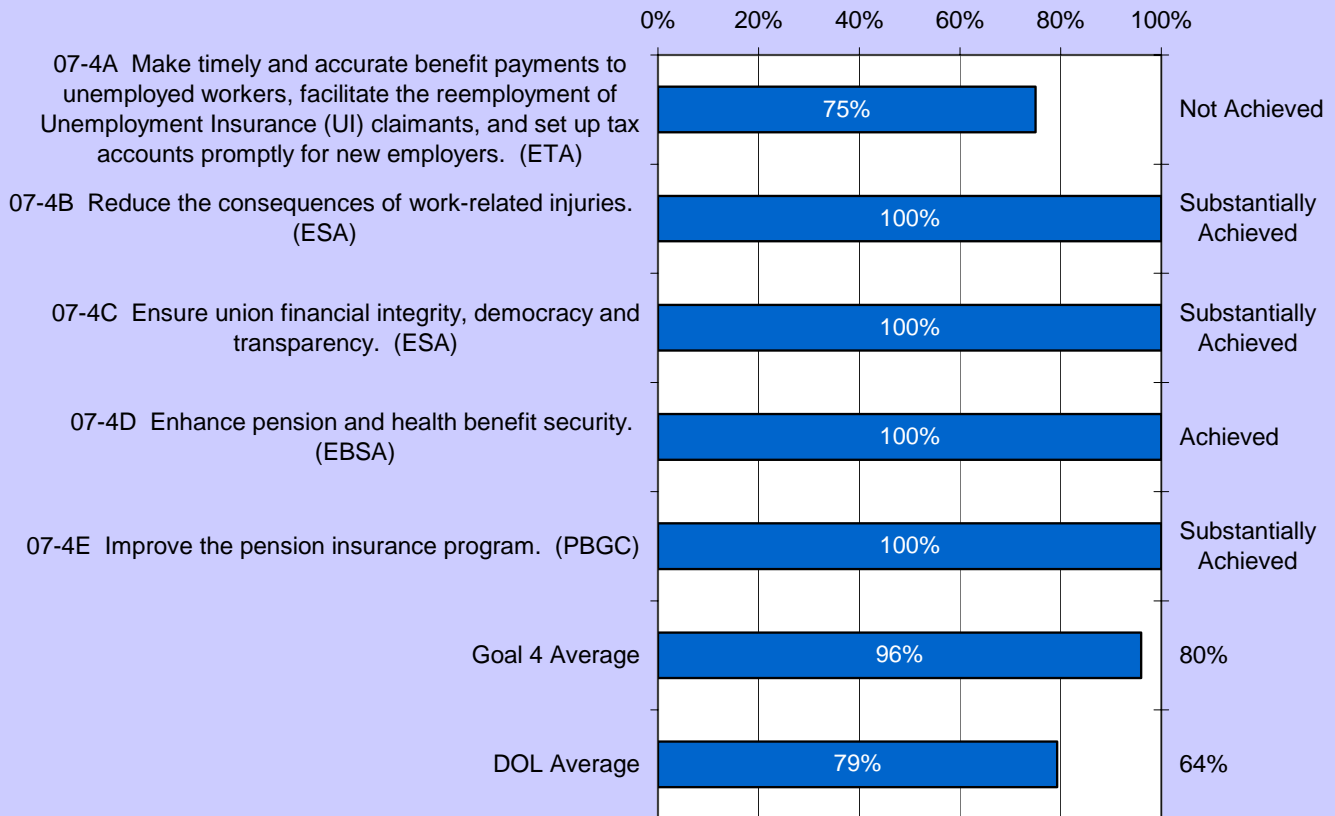
The Foreign Labor Certification program goal was not achieved; one of four targets was reached. ODEP achieved its goal, reaching all three targets. The Office of the Assistant Secretary for Policy achieved its goal by reaching all three of its targets. ILAB's goal to reduce exploitive child labor worldwide was achieved by reaching both targets.



For Strategic Goal 3, DOL achieved or substantially achieved four of five performance goals (80 percent), exceeding the FY 2007 average of 64 percent. OSHA achieved its goal by reaching targets for reducing the workplace injury and illness rate and the fatality rate. MSHA substantially achieved its goal to improve mine safety and health by reaching targets for four performance indicators and improving results for another (of six total). ESA's Wage and Hour Division did not achieve its goal because it reached just one of four targets – for improving efficiency of the wage determination process. ESA's Office of Federal Contractor Compliance Programs achieved its goal, reaching its targets for reducing discrimination and increasing compliance among Federal contractors. VETS' goal for protecting employment and reemployment rights of service members was achieved via improvement in the program's comprehensive Progress Index.

**Strategic Goal 4 - Strengthened Economic Protections**

Performance Goal achievement (on right axis) and percent of indicators improved or targets reached (inside box)



DOL achieved or substantially achieved four of the five performance goals in Strategic Goal 4 (80 percent) – above the 64 percent Department wide average. The Unemployment Insurance program did not achieve its goal; however, it reached two of its four indicator targets and improved results for a third. ESA’s OWCP substantially achieved its goal by reaching eight of nine targets for Federal Employees' Compensation Act, Longshore and Harbor Workers' Compensation, Black Lung Benefits and Energy Employees Occupational Illness Compensation programs. ESA’s OLMS substantially achieved its performance goal by reaching one target and improving results for the other two indicators. EBSA achieved its goal, reaching all three targets. PBGC substantially achieved its goal by reaching five of six targets and improving results for the sixth indicator.

A tally of goals achieved and targets reached, while providing an indication of whether DOL is on schedule with its plan, does not convey any actual performance information. To understand what was achieved in terms of benefits to the public, it is necessary to look at whether observed results indicate positive program impacts. Separate performance goal narratives in the Performance Section discuss significant trends and their implications.

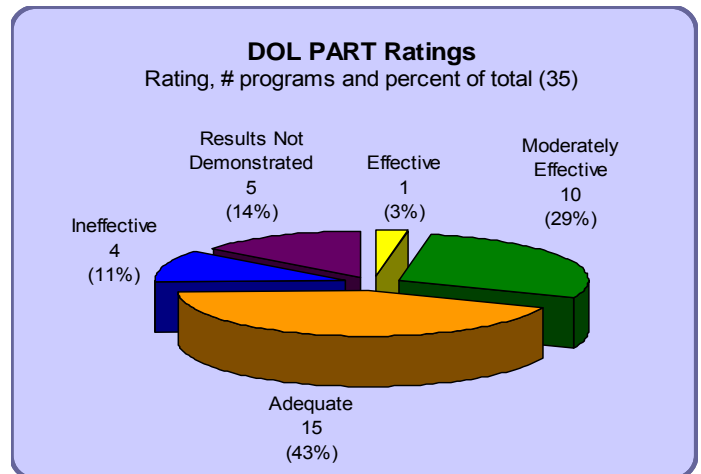
The next table lists Program Year 2007 goals (July 1, 2007 – June 30, 2008) for which results will be reported in the FY 2008 Performance and Accountability Report. All track spending and performance on a cycle that lags the Federal fiscal year by nine months due to WIA forward-funding provisions.

|              |  |
|--------------|--|
| 07-1B (OJC)  | Improve educational achievements of Job Corps students, and increase participation of Job Corps graduates in employment and education.               |
| 07-1C (ETA)  | Increase placements and educational attainments of youth served through the WIA youth program.   |
| 07-1E (VETS) | Increase the employment outcomes for veterans who receive One Stop Career Center services and Homeless Veterans' Reintegration Program services.     |
| 07-2A (ETA)  | Increase the employment, retention, and earnings of individuals registered under the Workforce Investment Act Adult program.                         |
| 07-2B (ETA)  | Increase the employment, retention, and earnings replacement of individuals registered under the Workforce Investment Act Dislocated Worker program. |
| 07-2C (ETA)  | Improve the outcomes for job seekers and employers who receive One Stop employment and workforce information services.                               |
| 07-2D (ETA)  | Increase accessibility of workforce information through the National Electronic Tools.   |
| 07-2E (ETA)  | Assist older workers to participate in a demand-driven economy through the Senior Community Service Employment Program.                              |

### Program Assessment Rating Tool (PART) Reviews

The Program Assessment Rating Tool (PART) was developed to assess and improve programs' positive impact on outcomes that matter to the public. A review using the PART helps identify a program's strengths and weaknesses to inform funding and management decisions aimed at making the program more effective. Federal programs are scored on their purpose and design, strategic and performance planning, management, and results and accountability. Total scores determine ratings: *Effective*, *Moderately Effective*, *Adequate*, *Ineffective*, or *Results Not Demonstrated*. The final category can apply to a program with any score if performance goals and measures are not sufficiently outcome (results) oriented and/or the program does not have adequate data. Summaries of each program's assessment and improvement plan are published on [ExpectMore.gov](http://ExpectMore.gov), a site dedicated to making meaningful information about Federal program performance more accessible to the public.

To date, 35 DOL programs have been assessed using the PART. One is rated *Effective*, ten *Moderately Effective*, fifteen *Adequate*, four *Ineffective*, and five *Results Not Demonstrated*. The table below lists the programs as they are identified in [ExpectMore.gov](http://ExpectMore.gov). For cross-referencing with the performance section of this report, where Departmental performance goals apply, goal numbers are provided. The list is sorted first by the calendar year in which the review was conducted, then by total score.



PART assessments are useful because they lead to improvement plans intended to enhance accountability and performance. Improvements DOL has recently implemented include development of new outcome-oriented performance measures for two DOL programs currently rated *Results Not Demonstrated* (Job Training Apprenticeship and the Women's Bureau) and development and implementation of efficiency measures for each of the DOL programs assessed through the PART.

| PART Scores and Ratings  |      |       |                                 |
|--|------|-------|---------------------------------|
| Program/Goal   | Year | Score | Rating                          |
| Pension Benefit Guaranty Corporation/07-4E                                   | 2007 | 70    | <i>Moderately Effective</i>     |
| Energy Employees Occupational Injury Compensation Program/07-4B              | 2007 | 61    | <i>Adequate</i>                 |
| Dislocated Worker National Emergency Grants/07-2B                            | 2007 | 56    | <i>Adequate</i>                 |
| Occupational Safety and Health Administration/07-3A                          | 2007 | 56    | <i>Adequate</i>                 |
| Job Corps/06-1B  | 2007 | 55    | <i>Adequate</i>                 |
| Trade Adjustment Assistance/07-2G  | 2007 | 49    | <i>Ineffective</i>              |
| Homeless Veterans' Reintegration Program/06-1E                               | 2006 | 82    | <i>Moderately Effective</i>     |
| Wage and Hour Enforcement and Compliance Program/07-3C                       | 2006 | 73    | <i>Moderately Effective</i>     |
| Office of the Solicitor  | 2006 | 71    | <i>Moderately Effective</i>     |
| Office of Disability Employment Policy/07-2I                                 | 2006 | 41    | <i>Results Not Demonstrated</i> |
| Youthbuild   | 2006 | 37    | <i>Results Not Demonstrated</i> |
| Veterans' Employment and Training State Grants/06-1E                         | 2005 | 76    | <i>Moderately Effective</i>     |
| Work Incentive Grants  | 2005 | 57    | <i>Adequate</i>                 |
| Office of Labor Management Standards/07-4C                                   | 2005 | 55    | <i>Adequate</i>                 |
| Longshore and Harbor's Workers Compensation Program/07-4B                    | 2005 | 54    | <i>Adequate</i>                 |
| Workforce Investment Act - Adult Employment and Training/06-2A               | 2005 | 53    | <i>Adequate</i>                 |
| Job Training Apprenticeship/07-1D  | 2005 | 45    | <i>Results Not Demonstrated</i> |
| Women's Bureau   | 2005 | 41    | <i>Results Not Demonstrated</i> |
| H-1B Work Visa for Specialty Occupations – Labor Condition Application/07-2H | 2004 | 78    | <i>Moderately Effective</i>     |
| Employee Benefits Security Administration/07-4D                              | 2004 | 71    | <i>Moderately Effective</i>     |
| Office of Federal Contract Compliance Programs/07-3D                         | 2004 | 65    | <i>Adequate</i>                 |
| Permanent Labor Certification/07-2H  | 2004 | 64    | <i>Adequate</i>                 |
| Employment Service/06-2C   | 2004 | 56    | <i>Adequate</i>                 |
| International Child Labor and Office of Foreign Relations                    | 2004 | 51    | <i>Adequate</i>                 |
| Workforce Investment Act – Native American Programs                          | 2004 | 51    | <i>Adequate</i>                 |
| Bureau of Labor Statistics/07-1A   | 2003 | 88    | <i>Effective</i>                |
| Unemployment Insurance Administration State Grants/07-4A                     | 2003 | 74    | <i>Moderately Effective</i>     |
| Black Lung Benefits Program/07-4B  | 2003 | 71    | <i>Moderately Effective</i>     |
|  |      |       |                                 |

| PART Scores and Ratings                                       |      |       |                                 |
|---|------|-------|---------------------------------|
| Program/Goal  | Year | Score | Rating                          |
| Mine Safety and Health Administration/07-3B                   | 2003 | 55    | <i>Adequate</i>                 |
| Workforce Investment Act – Dislocated Worker Assistance/06-2B | 2003 | 50    | <i>Adequate</i>                 |
| Workforce Investment Act – Youth Activities/06-1C             | 2003 | 45    | <i>Ineffective</i>              |
| Workforce Investment Act – Migrant and Seasonal Farmworkers   | 2003 | 38    | <i>Ineffective</i>              |
| Prevailing Wage Determination Program/07-3C                   | 2003 | 29    | <i>Results Not Demonstrated</i> |
| Community Service Employment for Older Americans/06-2F        | 2003 | 28    | <i>Ineffective</i>              |
| Federal Employees' Compensation Act/07-4B                     | 2002 | 75    | <i>Moderately Effective</i>     |

### Cost of Results

Total Net Cost<sup>7</sup> of DOL activities for FY 2007 was \$47.872 billion. An allocation based on the Department's goal structure indicates that the fourth strategic goal, *Strengthened Economic Protections*, is dominant – accounting for \$38.495 billion, or 80 percent of the total. This figure consists in large part (\$35.101 billion, or 91 percent) of mandatory benefit payments to unemployed workers or workers disabled as a result of work-related injuries or illnesses. The first goal, *A Prepared Workforce*, required \$3.103 billion (6 percent) for employment-related services. The second goal, *A Competitive Workforce*, accounted for \$5.027 billion, 11 percent of the total, which went toward job training programs and other services focused on maintaining America's position in a global market for labor. Approximately \$1.237 billion (3 percent) went toward the third goal, *Safe and Secure Workplaces*, to fund direct services (such as salaries of Federal employees) aimed at improving safety and health in the workplace.

The table that spans the next several pages, DOL Program Net Costs, provides a comprehensive view of the cost information presented in the Performance Section, including footnotes that explain terms and methodology. It is important to note that while all net cost information in this report is derived from the same financial accounting system, DOLAR\$, there are significant differences between statements in the Performance Section and in the Financial Section due to the Department's numerous forward-funded programs (those operating on a Program Year).

Where applicable, the program net cost statement includes a row labeled "Dollars not associated with indicators" to indicate costs that cannot be associated with the current set of performance indicators. Remaining difficulties may be resolved over time and lead to more complete allocations in future statements. However, it could also require a change in performance indicators that reduces the overall value of performance information. Frequently, costs for several indicators are intentionally combined by merging cells because program activities are not separable into categories associated with one or another of them (e.g., job training program common measures – entered employment, employment retention and average earnings).

As indicated in the preceding paragraph, several programs make mandatory benefit payments that account for the majority of their costs. Because performance indicators and the Department's managerial cost accounting system that generates this information are designed to inform analysis and decision-making related to discretionary budgets and program management, such payments are shown separately and not included in allocation cost models.

<sup>7</sup> Net Cost reflects the full cost of each program as assigned by DOL entities to the Department's outcome goals less any exchange revenue earned. Full cost consists of (a) both direct and indirect costs, and (b) the costs of identifiable supporting services provided by other segments within the reporting entity and by other reporting entities.

DOL's FY 2005 Performance and Accountability Report was the first to feature a statement of full costs at the performance goal level. Last year, allocation of costs reached the performance indicator level for some goals. This year, most DOL programs were able to associate costs with their performance indicators. This information is provided along with results in the tables at the beginning of each performance goal narrative in the Performance Section. Many of these narrative sections also include charts that display three years of net cost data at the performance goal level.

| <b>DOL Program Net Costs (Millions of Dollars)</b>   |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
| Goal   | FY 2005<br>PY 2004 | FY 2006<br>PY 2005 | FY 2007<br>PY 2006 |
| <b>Strategic Goal 1: A Prepared Workforce<sup>8</sup></b>  | <b>\$3,211</b>     | <b>\$3,360</b>     | <b>\$3,103</b>     |
| Performance Goal 07-1A (BLS)   | 536                | 573                | 574                |
| <i>Percent of output, timeliness, accuracy, and long-term improvement targets achieved for labor force statistics</i>  | -                  | -                  | 268                |
| <i>Percent of output, timeliness, accuracy, and long-term improvement targets achieved for prices and living conditions</i>  | -                  | -                  | 198                |
| <i>Percent of output, timeliness, accuracy, and long-term improvement targets achieved for compensation and working conditions</i>   | -                  | -                  | 95                 |
| <i>Percent of output, timeliness, accuracy, and long-term improvement targets achieved for productivity and technology</i>   | -                  | -                  | 12                 |
| <i>Customer satisfaction with BLS products and services (e.g., the American Customer Satisfaction Index)</i>   | -                  | -                  | 0                  |
| <i>Cost per transaction of the Internet Data Collection Facility</i>   | -                  | -                  | 1                  |
| Dollars not associated with indicators   | -                  | 573                | 0                  |
| Performance Goal 06-1B (Job Corps)   | 1,309              | 1,402              | 1,238              |
| <i>Percent of participants entering employment or enrolling in post-secondary education or advanced training/occupational skills training in the first quarter after exit</i>            | -                  |                    |                    |
| <i>Percent of students who attain a GED, high school diploma or certificate by the end of the third quarter after exit</i>   | -                  | 1,402              | 1,238              |
| <i>Percent of students who achieve literacy or numeracy gains of one Adult Basic Education (ABE) level</i>   | -                  |                    |                    |
| Performance Goal 06-1C (WIA Youth)   | 947                | 1,017              | 908                |
| <i>Percent of youth who enter employment or the military or enroll in post secondary education and/or advanced training/occupational skills training in the first quarter after exit</i> | -                  | 1,017              |                    |
| <i>Percent of students who attain a GED, high school diploma, or certificate by the end of the third quarter after exit</i>  | -                  |                    | 908                |
| <i>Percent of students who achieve literacy or numeracy gains of one Adult Basic Education (ABE) level</i>   | -                  | -                  |                    |

<sup>8</sup> Strategic goal subtotals reported in DOL's FY 2006 Performance and Accountability Report are not valid for comparison to FY 2007 due to restructuring pursuant to the FY 2006-2011 Strategic Plan. Most performance goals moved, and costs for FY 2005 and FY 2006 have been restated to facilitate comparison. In addition, VETS' costs for FY 2005 and FY 2006 were restated to reflect a more accurate allocation; totals for Strategic Goals 1, 2, and 3 were affected.



| DOL Program Net Costs (Millions of Dollars)   |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
| Goal  | FY 2005<br>PY 2004 | FY 2006<br>PY 2005 | FY 2007<br>PY 2006 |
| Performance Goal 07-1D (Apprenticeship)   | 23                 | 25                 | 24                 |
| <i>Percent of those employed nine months after registration as an apprentice</i>  | -                  |                    |                    |
| <i>Average hourly wage gain for tracked entrants employed in the first quarter after registration and still employed nine months later</i>          | -                  | 25                 | 24                 |
| Performance Goal 06-1E (VETS Employment Services)   | 209                | 212                | 211                |
| <i>Percent of Veteran participants employed in the first quarter after exit</i>   | -                  |                    |                    |
| <i>Percent of Veteran participants employed in the first quarter after program exit still employed in the second and third quarters after exit</i>  | -                  | 89                 | 90                 |
| <i>Percent of Disabled Veteran participants employed in the first quarter after exit</i>  | -                  |                    |                    |
| <i>Percent of Disabled Veteran participants employed in the first quarter after exit still employed in the second and third quarters after exit</i> | -                  | 89                 | 90                 |
| <i>Entered employment rate for homeless veterans participating in the HVRP</i>  | -                  |                    |                    |
| <i>Employment retention rate after 6 months for homeless veteran HVRP participants</i>  | -                  | 30                 | 29                 |
| Dollars not associated with indicators  | -                  | 4                  | 2                  |
| Other (Youth Offender Reintegration, Indian and Native American Youth Programs, etc.)   | 187                | 131                | 147                |
| <b>Strategic Goal 2: A Competitive Workforce<sup>9</sup></b>  | <b>\$5,110</b>     | <b>\$5,064</b>     | <b>\$5,027</b>     |
| Performance Goal 06-2A (WIA Adult)  | 906                | 912                | 864                |
| <i>Percent of participants employed in the first quarter after exit</i>   | -                  |                    |                    |
| <i>Percent of those employed in the first quarter after exit still employed in the second and third quarters after exit</i>                         | -                  | 912                | 864                |
| <i>Average earnings in the second and third quarters after exit</i>   | -                  |                    |                    |
| Performance Goal 06-2B (WIA Dislocated Worker)  | 1,472              | 1,543              | 1,443              |
| <i>Percent of participants employed in the first quarter after exit</i>   | -                  |                    |                    |
| <i>Percent of those employed in the first quarter after program exit still employed in the second and third quarters after exit</i>                 | -                  | 1,543              | 1,443              |
| <i>Average earnings in the second and third quarters after exit</i>   | -                  |                    |                    |
| Performance Goal 06-2C (One-Stop Employment and Workforce Information Services)   | 831                | 884                | 815                |
| <i>Percent of participants employed in the first quarter after exit</i>   | -                  |                    |                    |
| <i>Percent of those employed in the first quarter after exit still employed in the second and third quarters after exit</i>                         | -                  | 884                | 815                |
| <i>Average earnings in the second and third quarters after exit</i>   | -                  |                    |                    |

<sup>9</sup> Costs associated with Performance Goal 06-2D (Community Based Job Training Grants) are not listed separately because the goal was omitted from this report due to inadequate performance data; they are included in Goal 2 Other. Costs associated with Performance Goal 07-2J (OASP) are included in costs allocated to other performance goals.

| DOL Program Net Costs (Millions of Dollars)   |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
| Goal  | FY 2005<br>PY 2004 | FY 2006<br>PY 2005 | FY 2007<br>PY 2006 |
| Performance Goal 06-2E (National Electronic Tools)  | 26                 | 27                 | 25                 |
| <i>Number of page views on America's Career InfoNet</i>   | -                  |                    |                    |
| <i>Number of O*NET site visits</i>  | -                  | 27                 | 25                 |
| <i>Number of page views on Career Voyages</i>   | -                  |                    |                    |
| Performance Goal 06-2F (Senior Community Service Employment Program) <sup>10</sup>  | 426                | 432                | 443                |
| <i>Percent of participants employed in the first quarter after exit</i>   | -                  |                    |                    |
| <i>Percent of participants employed in the first quarter after exit still employed in the second and third quarters after exit</i>  | -                  | 432                | 443                |
| <i>Average earnings in the second and third quarters after exit</i>   | -                  |                    |                    |
| Performance Goal 07-2G (Trade Adjustment Assistance)  | 846                | 700                | 816                |
| <i>Percent of participants employed in the first quarter after exit</i>   | -                  |                    |                    |
| <i>Percent of participants employed in first quarter after exit still employed in the second and third quarters after exit</i>  | -                  | 700                | 816                |
| <i>Average earnings in the second and third quarters after exit</i>   | -                  |                    |                    |
| Performance Goal 07-2H (Foreign Labor Certification)  | 60                 | 46                 | 63                 |
| <i>Percent of H-1B applications processed within seven days of the filing date for which no prevailing wage issues are identified</i>   | -                  | -                  | -                  |
| <i>Percent of employer applications for permanent labor certification under the streamlined system that are resolved within six months of filing</i>  | -                  | -                  | -                  |
| <i>Percent of accepted H-2A applications with no pending State actions processed within 15 days of receipt and 30 days from the date of need</i>  | -                  | -                  | -                  |
| <i>Percent of H-2B applications processed within 60 days of receipt</i>   | -                  | -                  | -                  |
| Dollars not associated with indicators  | -                  | 46                 | 63                 |
| Performance Goal 07-2I (ODEP)   | 52                 | 50                 | 34                 |
| <i>Number of policy related documents</i>   | -                  |                    |                    |
| <i>Number of formal agreements</i>  | -                  | 50                 | 34                 |
| <i>Number of effective practices</i>  | -                  |                    |                    |
| Performance Goal 07-2K (ILAB)   | 74                 | 95                 | 101                |
| <i>Number of children prevented or withdrawn from child labor and provided education and/or training opportunities as a result of DOL-funded child labor elimination projects</i>   | -                  | 95                 | 101                |
| <i>Number of countries with increased capacities to address child labor as a result of DOL-funded child labor elimination projects</i>  | -                  |                    |                    |
| Other (Indian and Native American Adult Programs, National Farmworker Jobs Program, Work Incentive Grants, Transition Assistance Program, Pilots, Demonstrations, Research & Evaluations, Community Based Job Training Grants, H-1B Technical Skills Training, and other ILAB programs) | 417                | 375                | 424                |

<sup>10</sup> This is a new goal that was listed with Other in the FY 2005 table.

| DOL Program Net Costs (Millions of Dollars)   |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
| Goal  | FY 2005<br>PY 2004 | FY 2006<br>PY 2005 | FY 2007<br>PY 2006 |
| <b>Strategic Goal 3: Safe and Secure Workplaces<sup>11</sup></b>  | <b>\$1,147</b>     | <b>\$1,189</b>     | <b>\$1,237</b>     |
| Performance Goals 07-3A (OSHA)  | 515                | 519                | 547                |
| <i>Days away, restricted and transferred (DART) per 100 workers</i>   | -                  | 519                | 547                |
| <i>Workplace fatalities per 100,000 workers for sectors covered by the OSH act</i>  | -                  |                    |                    |
| Performance Goal 07-3B (MSHA)   | 307                | 348                | 356                |
| <i>Mine industry fatalities per 200,000 hours worked</i>  | -                  | -                  | 121                |
| <i>Mine industry injuries per 200,000 hours worked</i>  | -                  | -                  | 107                |
| <i>Percent of respirable coal dust samples exceeding the applicable standards for designated occupations</i>                            | -                  | -                  | 50                 |
| <i>Percent of silica dust samples taken with a result that is less than half of the exposure limit in metal and nonmetal mines</i>      | -                  | -                  | 35                 |
| <i>Percent of noise samples taken with a result that is less than half of the exposure limit in metal and nonmetal mines</i>            | -                  | -                  | 18                 |
| <i>Percent of noise exposures above the citation level in coal mines</i>  | -                  | -                  | 25                 |
| Dollars not associated with indicators  | -                  | 348                | -                  |
| Performance Goal 07-3C (Wage and Hour)  | 214                | 214                | 221                |
| <i>Number of workers for whom there is an agreement to pay or an agreement to remedy per 1,000 enforcement hours in complaint cases</i> | -                  | 112                | 123                |
| <i>Percent of prior violators who achieved and maintained FLSA compliance following a full FLSA investigation</i>                       | -                  | 27                 | 30                 |
| <i>Low wage workers assisted per 1,000 case hours</i>   | -                  | 39                 | 45                 |
| <i>Number of wage determination data submission forms processed per 1000 hours</i>  | -                  | 23                 | 23                 |
| Dollars not associated with indicators  | -                  | 12                 | -                  |
| Performance Goal 07-3D (Federal Contractor Compliance)  | 99                 | 97                 | 103                |
| <i>Discrimination rate for audited Federal contractors</i>  | -                  | 68                 | 72                 |
| <i>Compliance rate for all other EEO requirements</i>   | -                  | 29                 | 31                 |
| Performance Goal 07-3E (USERRA)   | 12                 | 11                 | 10                 |
| <i>USERRA Progress Index (measures compliance and assistance performance)</i>   | -                  | 11                 | 10                 |

<sup>11</sup> In FY 2005, OSHA and MSHA shared performance goals. Amounts shown for Performance Goals 07-3A and 07-3B for that year represent agencies' shares of the total costs.

| DOL Program Net Costs (Millions of Dollars)  |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
| Goal   | FY 2005<br>PY 2004 | FY 2006<br>PY 2005 | FY 2007<br>PY 2006 |
| <b>Strategic Goal 4: Strengthened Economic Protections<sup>12</sup></b>  | <b>\$40,597</b>    | <b>\$35,705</b>    | <b>\$38,495</b>    |
| Performance Goal 07-4A (Unemployment Insurance)  | 34,243             | 33,340             | 34,697             |
| Mandated benefit payments  | –                  | 30,506             | 32,051             |
| <i>Percent of intrastate first payments made within 21 days</i>  | –                  | –                  | –                  |
| <i>Percent of the amount of estimated detectable/recoverable overpayments that the States can establish for recovery</i>                             | –                  | –                  | –                  |
| <i>Percent of UI claimants who were reemployed by the end of the first quarter after the quarter in which they received their first payment</i>      | –                  | –                  | –                  |
| <i>Percent of new employer liability determinations made within 90 days of the end of the first quarter in which liability occurred</i>              | –                  | –                  | –                  |
| Dollars not associated with indicators   | –                  | 2,834              | 2,645              |
| Performance Goal 07-4B (Workers' compensation)   | 6,131              | 2,130              | 3,554              |
| Mandated benefit payments  | –                  | 1,708              | 3,050              |
| <i>Lost production days rate (LPD per 100 employees) for FECA cases of the United States Postal Service</i>  | –                  | 7                  | 7                  |
| <i>Lost production days rate (LPD per 100 employees) for FECA cases of All Other Government Agencies</i>   | –                  | 7                  | 7                  |
| <i>Savings resulting from Periodic Roll Management case evaluations</i>  | –                  | 20                 | 34                 |
| <i>The rate of change in the indexed cost per case of FECA cases receiving medical treatment remains below the nationwide health care cost trend</i> | –                  | 22                 | 40                 |
| <i>Targets for six communications performance areas</i>  | –                  | 7                  | 12                 |
| <i>Average days required to resolve disputed issues in Longshore and Harbor Worker's Compensation Program contested cases</i>                        | –                  | 6                  | 6                  |
| <i>Average number of days to render a decision on a claim for Black Lung benefits</i>  | –                  | 24                 | 26                 |
| <i>Average number of days to process initial claims for Energy Employees Occupational Illness benefits</i>   | –                  | 155                | 185                |
| <i>Percent of Final Decisions in the Energy Program processed within 180 days (hearing cases) or 75 days (all other cases)</i>                       | –                  | 16                 | 18                 |
| <i>Percent of Part E claims backlog receiving initial decisions</i>  | –                  | –                  | –                  |
| Dollars not associated with indicators   | –                  | 159                | 172                |
| Performance Goal 07-4C (Labor-Management Standards)  | 63                 | 56                 | 68                 |
| <i>Percent of unions with fraud</i>  | –                  | 18                 | 35                 |
| <i>Percent of unions in compliance with LMRDA standards for democratic union officer elections</i>   | –                  | 11                 | 13                 |
| <i>Percent of union reports meeting standards of acceptability</i>   | –                  | 8                  | 16                 |
| Dollars not associated with indicators   | –                  | 20                 | 4                  |

<sup>12</sup> Costs for Performance Goal 07-4E (PBGC) are not referenced because the Corporation's financial statements are not part of the Department's consolidated statements. PBGC's financial statements can be found in their Annual Management Report at <http://www.pbgc.gov/docs/PBGCAMR.pdf>.

| DOL Program Net Costs (Millions of Dollars)   |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
| Goal  | FY 2005<br>PY 2004 | FY 2006<br>PY 2005 | FY 2007<br>PY 2006 |
| Performance Goal 07-4D (EBSA)   | 160                | 179                | 176                |
| <i>Ratio of closed civil cases with corrected fiduciary violations to civil closed cases</i>  | -                  | -                  | 103                |
| <i>Ratio of criminal cases accepted for prosecution to cases referred</i>   | -                  | -                  |                    |
| <i>Customer Satisfaction Index for employers, plan sponsors, employee representatives, trustees of multiemployer plans, and other plan professionals who have contacted EBSA for assistance</i> | -                  | -                  | 29                 |
| <i>Applications to Voluntary Compliance programs</i>  | -                  | -                  | -                  |
| Dollars not associated with indicators  | -                  | 179                | 44                 |
| Costs Not Assigned to Goals   | \$11               | \$10               | \$10               |
| Total <sup>13</sup>   | \$50,076           | \$45,328           | \$47,872           |
| Reconciliation to the Consolidated Statements of Net Costs:   |                    |                    |                    |
| Costs for programs included above on a program year basis (July 1 to June 30)   | \$6,268            | \$6,659            | \$6,224            |
| Costs for these same programs on a fiscal year basis (October 1 to September 30)  | \$6,556            | \$6,205            | \$6,643            |
| Net Cost of Operations per Consolidated Statements of Net Costs   | \$50,364           | \$44,874           | \$48,291           |

### Cost of Regulations Enforced by DOL

The Department enforces a broad range of regulations that provide for *Safe and Secure Workplaces* and for *Strengthened Economic Protections*.<sup>14</sup> However, the cost data reported in the preceding table – and in the Financial Section of this report – do not include the costs (and benefits) to non-DOL entities of compliance with these regulations. To further improve transparency and accountability of our PAR, we are introducing data on the cost of our regulations this year, and plan to make additional information available in subsequent reports. Reporting costs at the performance indicator level took several years, and we expect this ambitious effort to take some time, as well.

In the Performance Section of the PAR, we quantify our results (or benefits) via outcome or output indicators that are seldom monetized, or valued in dollars. However, the DOL regulatory agencies do provide reports to OMB's Office of Information and Regulatory Affairs (OIRA), which produces the annual Report to Congress on the Costs and Benefits of Federal Regulations. Accounting in these reports relies on rigorous, defensible estimates of the monetary value of both the cost and benefit sides of the ledger. OIRA's report to Congress covers reviews of major final rules concluded in the preceding fiscal year.<sup>15</sup> OSHA's final rule – issued in

<sup>13</sup> This total does not match total net costs in the Consolidated Statements of Net Cost as certain costs in this table are presented on a program year basis. All costs in the Consolidated Statements of Net Cost are on a fiscal year basis.

<sup>14</sup> Occupational Safety and Health Administration (OSHA), Mine Safety and Health Administration (MSHA), Employment Standards Administration (ESA), Employment Training Administration (ETA), and Employee Benefits Security Administration (EBSA).

<sup>15</sup> Major rules include those likely to result in (A) an annual effect on the economy of \$100 million or more; (B) a major increase in costs or prices for consumers, individual industries, Federal, State, or local government agencies, or geographic regions; or (C) significant adverse effects on competition, employment, investment, productivity, innovation, or on the ability of United States-based enterprises to compete with foreign-based enterprises in domestic and export markets – per the Small Business Regulatory Enforcement Fairness Act of 1996 – or that may result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of \$100 million or more (adjusted annually for inflation) in any one year – under the Unfunded Mandates Reform Act of 1995 – or that may have an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities – per Executive Order 12866.

February 2006 – on Occupational Exposure to Hexavalent Chromium was the only DOL rule among the seven added to OIRA's 2007 Report to Congress.

Hexavalent chromium compounds include chromate pigments found in some dyes, paints, inks, and plastics, and can also be used in the production of stainless steel and as anticorrosive agents in paint, primers, and other surface coatings. Workers who breathe hexavalent chromium compounds at their jobs for many years may be at increased risk of developing lung cancer – and breathing high levels of hexavalent chromium can irritate or damage the nose, throat, and lungs. Annual costs of this regulation were estimated to range from \$244 million to \$253 million, and annual benefits were estimated at \$36 million to \$896 million (both cost and benefit data are expressed in 2001 dollars). OSHA's estimated compliance costs are based on the need to install engineering controls and to purchase and use supplemental respirators. Benefits are based on OSHA's estimate that the rule would prevent 40-145 fatal cancers annually and 5-20 non-fatal lung cancers per year. OSHA also quantified, but did not monetize, an estimated benefit of avoiding from 332-1,140 nasal perforations per year.

The only major final rule issued by a DOL agency in FY 2007 is MSHA's Mine Evacuation Rule. A summary of the costs and benefits of this rule appears in the narrative for Performance Goal 07-3B.



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## Financial Performance Overview

Improving financial management continues to be high priority at DOL and an essential element of demonstrating accountability and enhancing services provided to the public. With the added impetus of tightening budgetary resources, improvements initiated under the President's Management Agenda continue to mature from externally driven "initiatives" to internally embraced "ways of doing our business better." Pivotal to driving better performance results through enhanced financial management practices has been DOL's ongoing efforts to better inform day-to-day decision making with reliable cost information.

In a July 2007 study of managerial cost accounting (MCA) practices in ten agencies, GAO found that only three agencies, including DOL, had implemented an MCA system entity-wide (GAO-07-679). The GAO Report commended DOL and the other agencies for having a strong leadership that supports MCA implementation. DOL's ongoing efforts to improve its MCA tool, Cost Analysis Manager (CAM), are creating an instrument of change that managers increasingly value and use in their decision making.

CAM allows agencies to identify, accumulate, and assign costs to outputs and bring relevant cost information to the desktops of managers throughout the department. An indispensable tool for improving program performance, CAM improves accountability and transparency for how well tax dollars are spent. One of DOL's remaining challenges is the validation of labor distribution and performance data, where labor cost is often the most predominant factor when determining the cost of an activity.

In FY 2007, DOL used CAM for costing quarterly performance indicator results using continual refinements for more accurate reporting. Throughout the year, DOL expanded the use of CAM by developing cost models for several programs, including one model that calculates the marginal rate of return on investment. Broader use of CAM is also being seen in the support of other budget activities. In DOL's FY 2007 PAR, CAM provides net costs for 89 percent of the performance indicators.

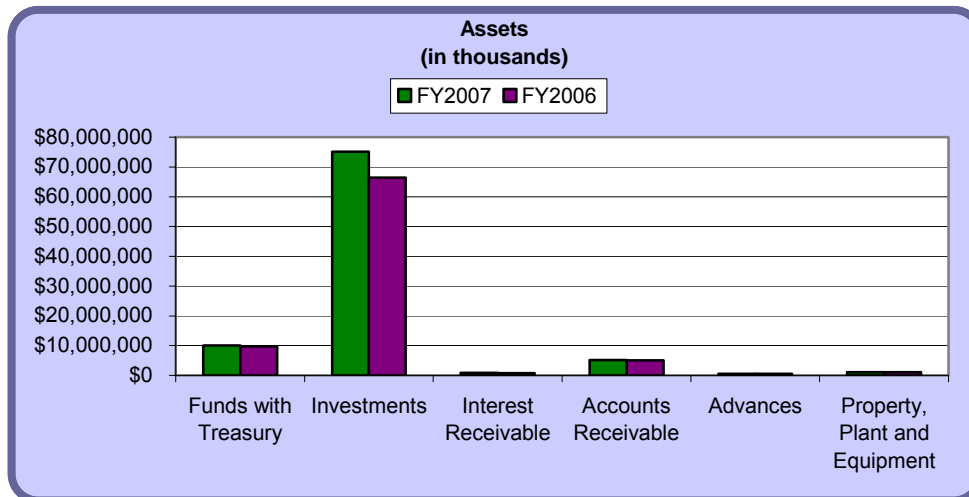
The *Debt Collection Improvement Act of 1996 (DCIA)* designated the Department of the Treasury as the central agency for collection of Federal debts over 180 days delinquent. The Department applies cross-services to all delinquent debts in accordance with this statute. Debt management accounts for a relatively small part of our financial management activity. The majority of debts managed by the Department relate to the assessment of fines and penalties in our enforcement programs. As of the end of 3rd quarter FY 2007, DOL referred \$65.2 million, which represents 57 percent of all delinquent debt required to be referred to Treasury for collection. The Department continues to monitor and aggressively pursue its debt greater than 180 days old.

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 2007, approximately \$1.2 billion in gross payments were made. Included in this amount was just over \$355,000 in interest penalty fees. Also during FY 2007, there were over 111,000 payments made to vendors and travelers. Of this amount, 3,352 invoices were paid late resulting in only 3 percent of the total payments incurring interest penalties. This is the same percentage rate that was reported by the Department for FY 2006.

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 2007 increased by 4 percent to 99 percent as the fiscal year ends. Although our Employment Standards Administration is continuing to promote EFT payments for their benefit and medical programs, their percentage rates continues 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 2007 and FY 2006. Highlights of the financial information presented in the principal financial statements are shown below.



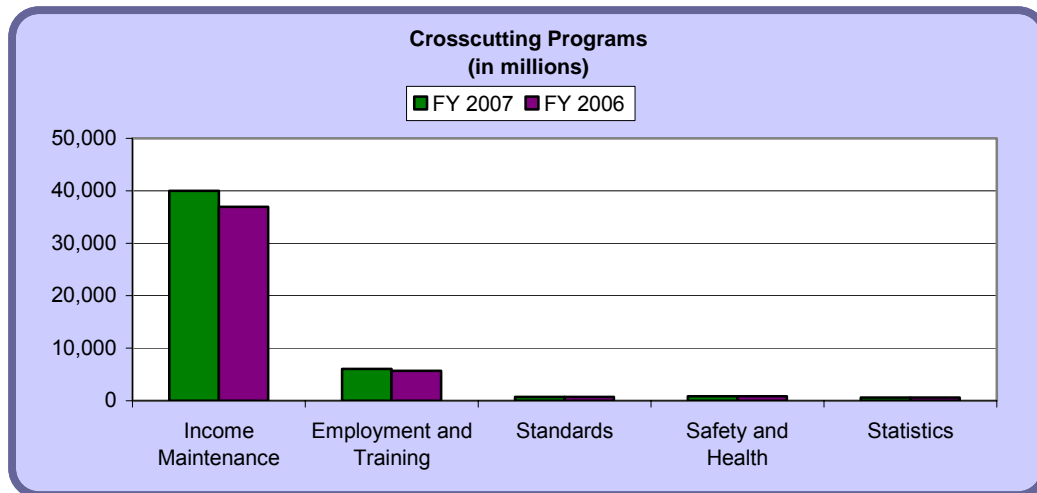
### Financial Position

The Department's Balance Sheet presents its financial position through the identification of agency assets, liabilities, and net position. The Department's total assets increased from \$83.6 billion in FY 2006 to \$92.8 billion in FY 2007. The increase in total assets primarily was accounted for in the Department's investments. The Department invests in non-marketable, special issue Treasury securities balances held in the Unemployment Trust Fund. The Department did not experience major changes in liabilities during FY 2007. Liabilities totaled \$19.8 billion at the end of FY 2006 and \$21.3 billion in FY 2007. Beginning in FY 2006, agencies were required to report earmarked non-exchange revenue and other financing sources, including appropriations. The Department was also required to report the portions of cumulative results of operations and unexpended appropriations on the face of the Balance Sheet.



## Net Cost of Operations

The Department's total net cost of operations in FY 2007 was \$48.3 billion, an increase of \$3.4 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 \$3 billion from FY 2006 to FY 2007. There are two reasons for the increase. The Unemployment Trust Fund weekly reimbursement rate increased by 4.5% and the Energy Benefit Program actuarial liability increased by \$1 billion.

**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 2007 and FY 2006 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 \$52 billion in FY 2007, an increase of \$1.7 billion from FY 2006.

**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.

## Management Assurances

The Department successfully implemented the internal control requirements outlined in the revised OMB Circular A-123, *Management's Responsibility for Internal Controls*, Appendix A. The Department's A-123 compliance builds upon existing successes in financial management, including the Quarterly Financial Management Certification program, which requires managers at all levels to attest to the adequacy of effective management controls over program resources, financial systems, and financial reporting. The Department's approach to the A-123 requirement is compliance at managed cost, sustainability by reducing compliance mindset and reliance on outside parties to discover errors and problems, and improvement in effectiveness and efficiency of agency programs.

### Federal Managers' Financial Integrity Act

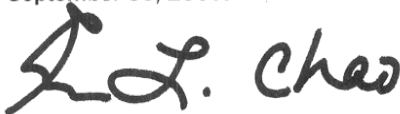
The Department of Labor's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). DOL is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of two significant deficiencies in complying with the Federal Information Security Management Act (FISMA) which are required to be reported as material weaknesses. The details of the exceptions are provided on the following page.

DOL conducted its assessment of the effectiveness of internal control over the efficiency and effectiveness of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, DOL identified two significant deficiencies which are required to be reported as material weaknesses in its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007. Other than the exceptions noted on the following page, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls. DOL is also in conformance with Section 4 of FMFIA.

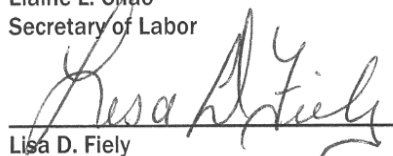
In addition, DOL conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, DOL can provide reasonable assurance that its internal control over financial reporting as of June 30, 2007, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

### Federal Financial Management Improvement Act of 1996

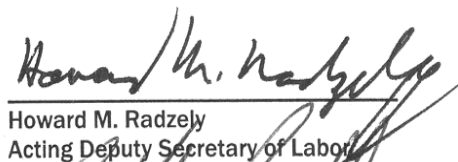
The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. All Department of Labor financial management systems substantially comply with FFMIA as of September 30, 2007.



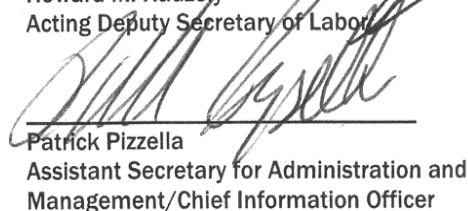
Elaine L. Chao  
Secretary of Labor



Lisa D. Fiely  
Acting Chief Financial Officer



Howard M. Radzely  
Acting Deputy Secretary of Labor



Patrick Pizzella  
Assistant Secretary for Administration and  
Management/Chief Information Officer

November 9, 2007

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## Disclosure of Federal Information Security Management Act (FISMA) Significant Deficiencies

FISMA requires the Office of Inspector General (OIG) to perform annual independent evaluations of the DOL information security program and practices based upon audits of a subset of DOL's identified major information systems. The objective of the audits is to determine if security controls over the systems are in compliance with FISMA requirements.

Based on the audits performed during FY 2007, the OIG identified two significant deficiencies. One significant deficiency relates to access control weaknesses covering eight financial and non-financial information systems. None of the systems had an individual significant deficiency; however, when taken together the OIG stated that an access control significant deficiency exists at the Department level. Management has determined that the deficiencies relating to financial systems did not rise to the level of a significant deficiency. The other significant deficiency relates to a lack of an effective information security program in one other non-financial system. The OIG recommended that DOL: (1) implement an enhanced Department wide monitoring program to address the first deficiency, and (2) establish an information security program to address the second deficiency, with both programs designed to afford management reasonable assurance of compliance with DOL security controls, policies and procedures. In its response to the audit report, DOL stated that it has already taken certain corrective actions and is in the process of taking additional corrective actions to address the recommendations.

## Financial Management Systems and Strategy

During FY 2007, DOL continued to pursue its financial management systems 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.

DOL's existing enterprise architecture for financial management consists of a central, mainframe-based core accounting system, DOLAR\$. DOLAR\$ receives and transmits financial data through both manual and automated processes from numerous feeder systems. These feeder systems include PeoplePower, CAM, eProcurement, systems maintained by program agencies to oversee the Department's benefits programs, and others.

DOLAR\$ has been in use for over 18 years and was implemented prior to the passage of numerous significant laws affecting Federal financial management, including the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993 (GPRA), the Government Management Reform Act of 1994 (GMRA), the Clinger-Cohen Act of 1996, the Reports Consolidation Act of 2000, and the Federal Information Security Management Act of 2002 (FISMA). It is no longer cost-effective to upgrade DOLAR\$, which is a mainframe, COBOL-based system, to continue to meet the new requirements intended to enhance accountability and results through improved financial management that have been and will continue to be promulgated by Congress, OMB, the Department of the Treasury, and the Federal Accounting Standards Advisory Board.

In 2004, the Department began an effort to supersede DOLAR\$ with a commercial off-the shelf (COTS) financial management system that would ensure sufficient flexibility to comply with new requirements and meet the Department's future needs. In FY 2007, an assessment of this effort, which included a comprehensive cost-benefit analysis (CBA), indicated that migration to a shared service provider (SSP) would better meet the Department's needs. In FY 2008, DOL will issue a solicitation to both public and private providers whose services comport with the requirements of the FMLoB for serving as an SSP. The timely replacement of DOLAR\$ is critical to continuing to meet DOL's financial management needs and support the Secretary's 21<sup>st</sup> century and competitive workforce priorities. The completion of this initiative will provide managers with the financial information and metrics they need to manage their programs efficiently and effectively.

## **IPIA Compliance**

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.

Over the past several years, identifying and reducing improper payments has been a major financial management focus of the Federal government. A key PMA component is to improve agency financial performance through reductions in improper payments. OMB originally provided Section 57 of Circular A-11 as guidance for Federal agencies to identify and reduce improper payments for selected programs.<sup>16</sup> The Improper Payments Information Act of 2002 (IPIA) broadened the original erroneous payment reporting requirements to programs and activities beyond those originally listed in Circular A-11. In August 2006, OMB issued Circular A-123, Appendix C - Requirements for Effective Measurement and Remediation of Improper Payments.

IPIA defines improper payments as those payments made to the wrong recipient, in the wrong amount, or used in an improper manner by the recipient. IPIA requires a Federal agency to identify all of its programs that are high risk for improper payments. It also requires the agency to implement a corrective action plan that includes improper payment reduction and recovery targets and to report annually on the extent of its improper payments for high risk programs and the actions taken to increase the accuracy of payments.

To coordinate and facilitate the Department's efforts under IPIA, the Chief Financial Officer (CFO) is the Erroneous Payment Reduction Coordinator for the Department. The OCFO works with program offices to develop a coordinated strategy to perform annual reviews for all programs and activities susceptible to improper payments. This cooperative effort includes developing actions to reduce improper payments, identifying and conducting ongoing monitoring techniques, and establishing appropriate corrective action initiatives.

### ***Methodology***

Due to the inherent differences in managing and accounting for funds in the benefit, grant and other programs, the Department conducted its FY 2007 risk assessment using different methodologies to assess their improper payment risk. Per OMB guidance, two benefit programs – Unemployment Insurance (UI) and Federal Employees' Compensation Act (FECA), and one grant program – Workforce Investment Act (WIA), are deemed to be high risk irrespective of the determined improper payment error rate. This determination is based on the fact that the annual outlays for each of these programs exceed \$2 billion.

In FY 2007 and consistent with prior years, programs with FY 2006 outlays totaling less than \$200 million were deemed to be low risk, unless a known weakness existed in the program management based on reports issued by oversight agencies such as the Department's Inspector General (IG) and/or the U.S. Government Accountability Office (GAO). Hence, these programs were not statistically sampled. For benefit programs with outlays greater than \$200 million, the Department conducted sampling to determine the improper payment rates. This sampling included FECA, UI, Black Lung Disability Trust Fund, and Energy Employees Occupational Illness Compensation Fund. UI was the only program determined to be susceptible to high risk<sup>17</sup> as a result of this approach. However, the Department is also reporting on FECA's improper payment rate, since it is required per OMB guidance.

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<sup>16</sup> Section 57 identified Unemployment Insurance (UI), Federal Employees' Compensation Act (FECA), and Workforce Investment Act (WIA) as programs required to report annual erroneous payments.

<sup>17</sup> MB Implementation Guidance, M-03-13, further defined programs to be susceptible to risk if the improper payment rate exceeded 2.5 percent and the amount of overpayment exceeded \$10 million. This guidance is now superseded by Appendix C of Circular A-123, which continues to define susceptibility to risk in the same manner.

As mentioned earlier, the Department used a separate methodology to assess the risk of improper payments in grant programs. The Department analyzed all FY 2005 Single Audit Act Reports<sup>18</sup> to identify questioned costs, which were used as a proxy for improper payments, and to estimate an approximate risk for the Department's grant programs. The improper payment rate was determined by calculating the projected questioned costs and dividing this total projection by the corresponding outlays.<sup>19</sup> All error rates were determined to be well below the 2.5 percent threshold; therefore, no grant programs were determined to be susceptible to risk as a result of this approach. However, like FECA, the Department is reporting on WIA's improper payment rate since it is required per OMB guidance, even though its improper payment rate is well below the 2.5 percent threshold.

### ***Challenges for IPIA Compliance***

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.

### ***Accomplishments and Plans for the Future***

The Department met its reduction and recovery targets for improper payments. The estimated improper payment error rates were 9.71 percent for UI, 0.1 percent for FECA and 0.08 percent for WIA for FY 2007.

The Department's analytical studies indicate that earlier detection of recoverable overpayments, especially those where claimants have returned to work but continued to claim benefits, is the most cost-effective way to address improper payments. Early detection allows agencies to stop benefit payments for a claimant who has returned to work and to recover these overpayments more readily. The Department estimates that the forty-five states that crossmatch UI beneficiaries with the State Directory of New Hires (SDNH) or the National Directory of New Hires (NDNH) instead of UI wage records prevented approximately \$75 million of overpayments in each of the past two fiscal years. A pilot study showed that a cross-match using the NDNH is more effective than the SDNH in identifying individuals no longer eligible to receive UI benefits, by including benefit year earnings for out-of-State employers, Federal agencies, and multi-State employers that report all of their new hires to a single state. The Department provided states with funds to implement these NDNH cross-matches; as of September 30, 2007, thirty-five states have implemented the NDNH crossmatch, and seven others have signed the computer-matching agreement with the Department of Health and Human Services that is the prelude to connecting with the NDNH. The remaining states are in the planning process. All States are required to use NDNH crossmatches as part of their Benefit Accuracy Measurement programs by January 1, 2008.

In FY 2005, the Department began providing States funds to conduct Reemployment and Eligibility Assessment (REAs) with UI beneficiaries, to reduce improper payments both by speeding claimants' return to work and by detecting and preventing eligibility violations. Twenty states received funds to continue REAs during FY 2006, and the Department has sought \$40 million to expand the number to about forty in FY 2008. A solicitation of grant applications has been sent to all States. The REAs in the twenty states are estimated to return about \$66 million to the UI trust fund. An impact evaluation of nine states' REA programs will be published in fall 2007.

<sup>18</sup> The Single Audit Act of 1996 provides for consolidated financial and single audits of State, local, non-profit entities, and Indian tribes administering programs with Federal funds. The most recent year available for Single Audit Reports is 2005.

<sup>19</sup> The grant programs assessed were the WIA program, the State Unemployment Insurance and Employment Service Operations (SUIESO) program, and DOL's other grants as a group. To estimate the rate of improper payments for WIA, SUIESO and the other grants as a group, the Department divided the amount of questioned costs from the FY 2005 single audit reports by the amount of the applicable direct outlays. The FY2007 improper payment rate was assumed to be similar to the FY2005 rate and was applied to the program outlays for FY 2007 to determine the amount of estimated improper payments for FY 2007.

To address the second largest cause of overpayments – errors in handling separation issues – the Department has two efforts underway. First, funding has been provided to states to support the training of approximately 400 adjudicators to address improper payments that result from nonmonetary determination errors. Secondly, the Department is facilitating the design and implementation of an automated system - Unemployment Insurance Separation Information Data Exchange System (UI SIDES). UI SIDES is expected to provide more timely and complete separation information from large multi-State employers or Third Party Agencies (TPAs) to make more accurate benefit eligibility decisions.

## Major Management Challenges

The table below lists the major challenges the Department is addressing by identifying specific actions to be taken and measuring its progress in accomplishing these actions. For the purposes of transparency we use the same titles used in the OIG's following discussion of Top Management Challenges. However, the table below includes related matters appearing in numerous GAO audits, such as the audits covering mine safety and health and DOL responses to disasters such as Hurricane Katrina that also had action items identified from the FY 2006 PAR. The following list of ten items listed in "2007 Top Management Challenges Facing the Department of Labor" covers both the OIG challenges and includes the action items remaining from previous PARs and other audit reports. This is the first year the OIG has identified *Preserving Departmental Records* as a challenge. Although the management of performance and financial data was not identified as a stand-alone challenge this year, DOL is tracking completion of remaining actions. These are included as follow-up actions under challenges I and IX. The complete list of challenges for FY 2007 is shown below.

- I. Protecting the Safety and Health of Workers
- II. Ensuring the Effectiveness of the Job Corps Program
- III. Ensuring the Security of Employee Benefit Plan Assets
- IV. Safeguarding Unemployment Insurance
- V. Improving the Federal Employees' Compensation Act (FECA) Program
- VI. Improving Procurement Integrity
- VII. Securing Information Technology Systems and Protecting Related Information Assets
- VIII. Maintaining the Integrity of the Foreign Labor Certification Program
- IX. Improving Performance Accountability of Grants
- X. Preserving Departmental Records

The narrative in the heading of each challenge indicates the significance of the challenge, when the challenge was first identified, and a progress assessment for FY 2007 using a stoplight system: ● Green – Actively Implementing All Remedial Actions; ● Yellow – Actively Implementing Most Remedial Actions; and, ● Red – Not Implementing Most Remedial Actions. Actions completed in FY 2007 are also briefly noted in the heading. The heading also shows the strategic and performance goals affected by the challenge.

The table below breaks down each challenge into the specific issues that need to be addressed, as identified in previous PAR findings and FY 2007 GAO and OIG audits. The source of each specific issue is noted in the cells of the left column. The table's three columns break out the Management Challenges into specific issues (left column), actions taken in FY 2007 (center column), and actions remaining/expected completion date (right column). Additional information on many of these management challenges and their specific issues is in the performance goal narratives.

The Department aggressively pursues corrective action for all significant challenges, whether identified by the OIG, GAO, OCFO or other sources within the Department.

| Management Challenge/<br>Significant Issue  | Actions Taken in FY 2007   | Actions Remaining and<br>Expected Completion Date  |
|---|--|--|
| <b>I. <i>Protecting the Safety and Health of Workers</i></b> Challenge first identified in FY 2005. Areas of concern include the effectiveness of recent efforts to protect the safety and health of mine workers, particularly those who work in underground coal mines, the effectiveness of OSHA's compliance assistance efforts and its ability to respond in disasters. Affects Strategic Goal 3 – <i>Safe and Secure Workplaces</i> , Performance Goal 3A- Improve workplace safety and health through compliance assistance and enforcement of occupational safety and health regulations and standards and Performance Goal 3B- Reduce work-related fatalities, injuries and illnesses in mines. Progress Assessment: ● <i>Yellow</i> |  |  |
| <b>Strengthen MSHA accountability program.</b> (OIG 2007, OIG 05-07-002-06-001)<br><a href="http://www.oig.dol.gov/public/reports/oa/2007/05-">http://www.oig.dol.gov/public/reports/oa/2007/05-</a>  | Announced plans to create an Office of Accountability to ensure that management controls are in place and fully implemented. | Revise current MSHA Accountability Program and Accountability Program Handbook – January 2008. |

| Management Challenge/<br>Significant Issue   | Actions Taken in FY 2007   | Actions Remaining and<br>Expected Completion Date   |
|--|--|---|
| <a href="#">07-002-06-001.pdf</a><br><b>Implement the Mine Improvement and New Emergency Response (MINER) Act of 2006.</b> (2006 PAR)  | Implemented most of the provisions of the MINER Act.   | Complete implementation of the MINER Act – December 2007.   |
| <b>Improve MSHA management data.</b> (OIG 22-07-008-06-001)<br><a href="http://www.oig.dol.gov/public/reports/oa/2007/22-07-008-06-001.pdf">http://www.oig.dol.gov/public/reports/oa/2007/22-07-008-06-001.pdf</a>   | Updated coal noise sampling procedures and drafted revision to Metal and Nonmetal Handbook to require inspectors to verify that their noise sampling results are entered accurately.   | Respond to recommendations to develop the capability to compute fatality and injury incidence rates that include non-exempt contractor work hours at the mine site level – FY 2008. |
| <b>Replace retiring mine inspectors.</b> Implement localized and targeted recruiting to increase the applicant pool (2006 PAR). In FY 2007, GAO issued a second report on hiring mine inspectors. (GAO-07-704R)  | Hired all 170 coal mine enforcement personnel funded by emergency supplemental appropriation. Developed a Human Resources Strategic Plan FY 2006-2011; a strategy roadmap and means to measure performance for staffing.                         | Implement Human Resources Strategic Plan FY 2006 -2011 for hiring new mine inspectors – FY 2008.  |
| <b>Ensure that interim protection is in place before OSHA funded consultation projects grant extensions to correction due dates for serious hazards</b> and refer uncorrected serious hazards to OSHA enforcement. (OIG 2007)  | Reminded consultation officials about requirements to ensure that serious hazards are corrected at the Consultation Project Manager's meeting.   | Regions to monitor consultation programs' adherence to requirements for ensuring that serious hazards are corrected – FY 2008.  |
| <b>Identify cost effective methods of collecting complete and comparable data on OSHA program outcomes.</b> (2006 PAR)   | Improved the data management system for the Voluntary Protection Programs and implemented an automated data management system for the Strategic Partnership Program.   | Complete system to improve data collection for voluntary programs – September 2009.   |
| <b>Improve planning for OSHA efforts to protect workers in disasters.</b> (GAO-07-193)   | Signed a Standard Operating Procedures (SOP) document addressing roles and responsibilities of FEMA and OSHA and forwarded to FEMA for signature.  | FEMA to approve SOP– FY 2008.   |
| <b>II. Ensuring the Effectiveness of the Job Corps Program</b> Challenge first identified in FY 2006. Contractors operate 98 Job Corps Centers nationwide; the Departments of the Interior and Agriculture operate another 28 centers via interagency agreements with DOL. These centers provide services to about 60,000 students annually. DOL Regional Offices monitor contractors to ensure DOL policies are implemented. DOL is challenged to ensure that regional monitoring is effective. Affects Strategic Goal 1 – <i>A Prepared Workforce</i> , Performance Goal 1B, <i>Improve educational achievements of Job Corps students and increase participation of Job Corps graduates in employment and education</i> . Progress Assessment: ● Yellow |  |   |
| <b>Promote effective regional monitoring.</b> (OIG 2007, 2006 PAR)   | Required Regional Offices to perform rigorous data quality/data integrity reviews in addition to comprehensive onsite policy compliance monitoring reviews at least once every 24 months. Assessed \$315,739 in liquidated damages for recovery. | Continue to conduct rigorous data integrity audits concurrently with onsite compliance/quality assessments – FY 2008.   |



| Management Challenge/<br>Significant Issue   | Actions Taken in FY 2007   | Actions Remaining and<br>Expected Completion Date  |
|--|--|--|
| <p><b>Improve contracts management.</b> Job Corps runs contractor-operated centers through performance-based contracts, which tie incentive fees and bonuses directly to contractor performance. There is a risk that contractors will inflate their performance reports. Recent audits determined that specific centers manipulated performance data and others had inadequate financial management systems and weaknesses in the management of personal property. (OIG 2007)</p>   | <p>A new process that included both a fiscal and performance review became operational in July. Trained three (of six) regional offices on monitoring contractor performance of financial management and cost reporting, data integrity, and asset management.</p> <p>Drafted revised Interagency Agreement (IA) with Interior and Agriculture to provide for more accountability on financial and property management by the agencies and greater oversight by Job Corps.</p> | <p>Conduct training for the three remaining regional offices on monitoring contractor performance of financial management and cost reporting, data integrity, and asset management – October 2007.</p> <p>The agencies will continue to work collaboratively to revise the drafted IA and expect a final IA to become effective in FY 2008.</p>                              |
| <p><b>Ensure student safety and health.</b> (OIG 2007)</p>   | <p>Addressed the safety and health issues identified by OIG by closing the Oconaluftee Center effective March 22. A Notice to Proceed has been issued to repair failing infrastructure and when work is completed, the Oconaluftee Center will once again commence operations.</p>   | <p>Implement occupational safety and health standards; develop and disseminate programs promoting occupational safety and health; ensure timely and accurate injury reporting; provide technical assistance, conduct annual safety and health reviews; monitor quarterly facility inspection reports; and, assist regions in approving center abatement plans – FY 2008.</p> |
| <p><b>Assess incoming students for cognitive disabilities.</b> Federal law requires assessment for cognitive disabilities under specific circumstances. (OIG 2007)</p>   | <p>Revised screening admissions process to ensure that criteria are objective and comply with nondiscrimination laws. Hired part-time Regional Disability Coordinators and revised the Health Questionnaire to aid in minimizing or removing barriers to success. Began developing training packages and information booklets for center staff on topics related to cognitive disabilities.</p>  | <p>Offer staff training opportunities on instructional strategies for cognitively disabled and low achieving students. Strengthen site-level training, technical guidance and monitoring to ensure that students with cognitive disabilities are identified and properly assessed. Convert part-time Regional Disability Coordinators to full time – FY 2008.</p>            |
| <p><b>III. Ensuring the Security of Employee Benefit Plan Assets</b> Challenge first identified in FY 2000. Safeguarding the retirement assets of American workers, retirees, and their families is a daunting challenge that affects the quality of life for millions. EBSA strengthened its enforcement program and leveraged its resources. Affects Strategic Goal 4, <i>Strengthened Economic Protections</i> and Performance Goal 4D- <i>Enhance pension and health benefit security</i>. Progress Assessment: ● <i>Green</i></p> |  |  |
| <p><b>Implement the Pension Protection Act of 2006.</b> (2006 PAR)</p>   | <p>Issued regulations implementing the Pension Protection Act of 2006.</p>   | <p>Continue to implement regulations – FY 2008.</p>  |
| <p><b>Establish written procedures for the PBGC Board’s monitoring of operations.</b> (GAO-07-22)</p>  | <p>Enhanced PBGC’s governance processes.</p>   | <p>Review and revise PBGC’s bylaws to delineate authorities – FY 2008.</p>   |
| <p><b>Increase efforts toward legislative change to strengthen EBSA oversight authority over plan auditors and the scope of plan audits to increase plan protections for American workers.</b> (OIG 2007)</p>  | <p>Continued CPA firm inspection program, focusing on firms that conduct at least 200 audits annually. Performed augmented reviews of 450 sets of work papers from CPA firms and referred 24 to the American</p>   | <p>Continue to focus on CPA firms that perform a significant amount of plan audit work and to selectively target those that have smaller audit practices for ongoing enforcement – FY 2008.</p>  |

| Management Challenge/<br>Significant Issue   | Actions Taken in FY 2007  | Actions Remaining and<br>Expected Completion Date   |
|--|---|---|
| Plan audits provide a first-line defense for plan participants against financial loss. DOL's authority to require corrective action is currently limited.  | Institution of Certified Public Accountants Professional Ethics Division or a State board of public accountancy.  |   |
| <b>Continue EBSA efforts to decrease the number of fraudulent Multiple Employer Welfare Arrangements (MEWAs).</b> Continue to work closely with State insurance commissioners and the Department of Justice to identify and prosecute fraudulent MEWAs. (OIG 2007, 2006 PAR)   | Worked with the Department of Justice to prosecute these complex white-collar crimes. Closed 36 civil and criminal MEWA cases that restored, protected, corrected or recovered in excess of \$5.1 million. Met with National Association of Insurance Commissioners (NAIC) quarterly to coordinate actions against fraudulent MEWA operators. | Health Fraud/MEWAs is an EBSA national enforcement project with a focus on health fraud recidivists. EBSA will continue to coordinate closely with NAIC and DOJ officials – FY 2008.  |
| <b>IV. Safeguarding Unemployment Insurance</b> Challenge first identified in FY 2000. Preventing overpayments and reducing fraud against these programs remains a major challenge. The Department, other Federal agencies, and the states are further challenged in having the necessary systems and controls in place to quickly respond and yet prevent improper payments during national emergencies or disasters. Affects Strategic Goal 4 – <i>Strengthened Economic Protections</i> , and Performance Goal 4A- <i>Make timely and accurate benefit payments to unemployed workers, facilitate the reemployment of unemployment insurance beneficiaries and set up unemployment tax accounts promptly for new employers.</i> Progress Assessment: ● Green |   |   |
| <b>Prevent overpayments.</b> Continue to disseminate information about best practices and promote the use of mechanisms, to identify ineligible claimants more timely. Require states to cross-match UI payments selected for Benefit Accuracy Measurement audits with the National Directory of New Hires (NDNH) to improve detection of erroneous payments. (OIG 2007, 2006 PAR)   | Issued a Directive requiring all states to incorporate the NDNH cross match into their Benefit Accuracy Measurement audits. All states are expected to comply by the January 2008 deadline.   | All states incorporate the NDNH cross match into their Benefit Accuracy Measurement audits – January 2008.<br><br>Monitor the initiation of cross-matching activities. If a State fails to implement cross-matching, it will be required to address remedies in its annual State Quality Service Plan for the next fiscal year – FY 2008. |
| <b>Collect results of Reemployment and Eligibility Assessment (REA) Grants.</b> (2006 PAR)   | Analysis of REA report revealed that in some states, REAs enhanced rapid reemployment of unemployed and reduced overpayments while other states found no significant impact. Even though results were uneven, REA grants are likely effective and ETA solicited all states for REA grant applications.  | Requested \$40 million in the FY 2008 President's Budget to expand the number of states receiving REA grants to about forty.  |
| <b>Reduce fraud.</b> Contingent upon the appropriation of funds and passage of the Integrity Act, State UI agencies will increase efforts to prevent fraudulent employment benefit claims. (OIG 2007, 2006 PAR)  | The Integrity Act included in the President's FY 2007 Budget did not receive Congressional action, but has been included again in the President's FY 2008 Budget request.   | Continue to promote enactment of the 2008 Integrity Act – FY 2008.<br><br>Conduct an Integrity Conference for State UI agencies – FY 2008.  |
| <b>V. Improving the Federal Employees' Compensation Act (FECA) Program</b> Challenge first identified in FY 2005. FECA is one of three DOL programs classified as high risk for improper payments due to the amount of benefits paid. (The other two are UI and WIA.) Affects Strategic Goal 4, <i>Strengthened Economic Protections</i> and Performance Goal 4B- <i>Reduce the consequences of work-related injuries.</i> Progress Assessment: ● Green  |   |   |
| <b>Reduce improper payments.</b> OWCP had not consistently obtained and reviewed medical evidence when   | Conducted testing of iFECS system controls to ensure that current medical evidence is on file during  | Monitor and adjust iFECS as necessary – FY 2008.  |

| Management Challenge/<br>Significant Issue   | Actions Taken in FY 2007  | Actions Remaining and<br>Expected Completion Date  |
|--|---|--|
| determining claimants' continued eligibility for FECA compensation payments. (OIG 2007) Ensure that current medical information for claimants is on file, so that payments are not made to those who are no longer disabled. (2006 PAR)  | FECA program district office accountability reviews.  |  |
| <b>Reduce fraud.</b> OWCP does not have legal authority to match FECA compensation recipients against their social security wage records to identify those who are collecting FECA benefits while working. (OIG 2007) Seek legislative reforms to enhance incentives for injured employees to return to work; address benefit equity issues; discourage unsubstantiated claims; and make other improvements. (2006 PAR)  | Redrafted legislative proposal to include a provision to enable data record matching of FECA payment records with SSA records to identify concurrent receipt of FERS retirement benefits and receipt of employment earnings. Estimated savings of the entire legislative proposal over ten years is \$608 million.  | Transmit draft bill to Congress – FY 2008.   |
| <b>VI. Improving Procurement Integrity</b> Challenge first identified in FY 2005. DOL resolved all prior procurement recommendations except one. The OIG believes the Department should move quickly to fill the CAO position and place the Department's acquisition workforce under the supervision of the CAO. Affects all DOL strategic goals. Progress Assessment: ● <i>Yellow</i>   |   |  |
| <b>Improve procurement integrity.</b> Resolve the "unresolved and open" OIG procurement recommendations. (OIG 2007, 2006 PAR)  | Issued Secretary's Order 2-2007 establishing the Chief Acquisition Officer (CAO) position and requiring acquisition management to be the CAO's primary duty. The CAO will report to the Secretary with day-to-day guidance from the Deputy Secretary and will have responsibility for overseeing Department acquisition activities.   | Issue decision on recommendation that Departmental procurement responsibilities be removed from the Office of the Assistant Secretary for Administration and Management and that a Senior Procurement Executive position reporting to the Deputy Secretary be established – FY 2008. |
| <b>VII. Securing Information Technology Systems and Protecting Related Information Assets</b> Challenge first identified in FY 2002. Developing and maintaining efficient, effective and secure systems is an ongoing challenge. DOL successfully completed its challenges in the FY 2006 PAR to enhance incident response capability and maintain information technology security. In addition, DOL was the first agency to successfully implement Smart Card requirements in Homeland Security Presidential Directive 12. Affects all DOL strategic goals. Progress Assessment: ● <i>Green</i> |   |  |
| <b>Secure Personally Identifiable Information (PII).</b> Implement security controls for protection of remote information provided in OMB's Memorandum "Protection of Sensitive Agency Information". (OIG 2007)  | Developed and began implementing a plan to protect personally identifiable information (PII) in compliance with OMB requirements.<br><br>Drafted DOL Directive on for PII, revised the Computer Security Handbook (CSH), and implemented an annual process requiring agencies to review their PII and sensitive data.<br><br>Revised incident handling procedures to include new requirements for reporting incidents involving PII and developed a breach notification policy. | DOL-wide implementation of OMB requirements – Ongoing.<br><br>Complete DOL Clearance process for DLMS 9-1200 – December 2007.<br><br>Develop policy and procedures for logging computers' readable extract – June 2008.  |

| Management Challenge/<br>Significant Issue   | Actions Taken in FY 2007  | Actions Remaining and<br>Expected Completion Date  |
|--|---|--|
|  | <p>Began deploying encryption of mobile devices and computers and selected a solution for 2-factor authentication.</p> <p>Drafted policy regarding user responsibility to safeguard PII.</p> <p>Established a Task Force of representatives from each DOL agency to eliminate unnecessary use of SSN and reduce holdings of PII.</p>  | <p>Implement 2-factor authentication solution for remote access capabilities – June 2008.</p> <p>Finalize and issue the <i>PII Rules and Consequences Policy</i> – FY 2008.</p> <p>Implement SSN Reduction Implementation plan milestones – FY 2008-FY 2009.</p>   |
| <p><b>Prevent unauthorized access to systems.</b> (OIG 2007) Be proactive in identifying and mitigating IT security weaknesses. (2006 PAR)</p>   | <p>Revised the Computer Security Handbook (CSH) to incorporate National Institute of Standards and Technology (NIST) Security Controls for Federal Information Systems requirements for all minimum controls. Performed Access Controls security controls testing and evaluation for all DOL Major Information Systems. Implemented agency specific continuous monitoring requirements.</p> | <p>Complete revision to the CSH to incorporate additional requirements for access controls – June 2008.</p> <p>Implement enhanced security controls testing and evaluation process – FY 2008.</p> <p>Transition VETS' major information systems to DOL's ECN /DCN and properly apportion security responsibilities between the OASAM and VETS Security teams – March 2008.</p> |
| <p><b>Ensure certification and accreditation of systems.</b> (OIG 2007)</p>  | <p>Completed a comprehensive review of DOL's security certification and accreditation document repository to ensure the documentation was complete and current for all systems.</p>   | <p>Revise DOL's CSH to incorporate additional NIST Recommended Security Controls for certification and accreditation – June 2008.</p> <p>Continue to review certification and accreditation documentation to ensure adequacy as they are revised and updated – Ongoing.</p>  |
| <p><b>Create an independent Chief Information Officer (CIO).</b> Consider having agency security officers report to the Chief Information Security Officer (CISO) in addition to reporting to their agency heads. Consider having the CISO report to the Secretary's Office as well as to the CIO. (OIG 2007)</p>  | <p>Considered the creation of a new CIO position.</p>   | <p>Issue a decision regarding the creation of a new CIO position and consider having agency security officers report to the CISO in addition to their agency heads and having the CISO report to the Secretary's office in addition to the CIO – FY 2008.</p>  |
| <p><b>VIII. Maintaining the Integrity of the Foreign Labor Certification Program</b> Challenge first identified in FY 2001. Problems with the integrity of the labor certification process and fraud may result in economic hardship for American workers, the abuse of foreign workers, and may have national security implications when applications are not adequately screened. DOL published the PERM fraud regulation reducing the incentives and opportunities for fraud and abuse. Affects Strategic Goal 2 – <i>A Competitive Workforce</i>, Performance Goal 2H-<i>Address worker shortages through the Foreign Labor Certification</i>. Progress Assessment: ● <i>Green</i></p> |   |  |
| <p><b>Reduce high incidence of fraud.</b> Increase the detection of fraudulent labor applications during the certification process. (OIG 2007) Reduce the incidence of applications certified with wage rates on the application that are lower than the</p>   | <p>Programmed the H-1B Application System to verify that the wage rate listed on the employer's application is at least the prevailing wage for the occupation and enhanced the system to check for inaccuracies in the Employer Identification Numbers,</p>  | <p>Monitor the impact of the actions taken in FY 2007 and make adjustments as necessary to enhance detection of fraud – FY 2008.</p>   |

| Management Challenge/<br>Significant Issue   | Actions Taken in FY 2007  | Actions Remaining and<br>Expected Completion Date  |
|--|---|--|
| <p>prevailing wage and erroneous employer identification numbers. (2006 PAR)</p> <p><b>Reduce certification backlogs.</b> It remains a challenge to avoid backlogs while maintaining the integrity of the FLC process. (OIG 2007) In 2006, DOL received 125,000 applications at the National Processing Centers in Atlanta and Chicago. In addition to reducing backlog, DOL is challenged to prevent new backlogs. (2006 PAR)</p>   | <p>based on data checks currently in place for employers filing W-2 Wage Reports.</p> <p><u>Permanent Certification Program</u><br/>Eliminated backlog. To address limited resources, DOL proposed a fee on employers for the processing of Permanent Labor Certifications.</p> <p><u>Temporary, agricultural worker (H-2A visas)</u> In response to a 19 percent increase in demand and processing delays at the States, trained State Workforce Agencies in requirements for the H-2A program. Requested retaining the H-2A processing fee revenue to offset the costs.</p> <p><u>Temporary, non-agricultural workers (H-2B visas)</u> Responding to a more than 20 percent increase in demand, some PERM resources were temporarily reallocated to eliminate an applications backlog in the H-2B Program. Requested authority to establish a fee structure to cover the Department's direct costs of administering the H-2B program.</p> | <p>Review regulations implementing the H-2A program and institute changes providing farmers with an orderly and timely flow of foreign legal workers, while protecting the rights of American laborers – FY 2008.</p> <p>Monitor H-2B application caseloads and act to address backlogs as they arise – FY 2008.</p> <p>Issue regulations streamlining the process by moving from a government-certified system to an employer-attestation system akin to the PERM system that has reduced backlogs – FY 2008.</p> |
| <p><b>IX. Improving Performance Accountability of Grants</b> Challenge first identified in FY 2007. The competitiveness of the American workforce is a top priority. The OIG found high error rates in the performance data reported by DOL direct grantees that raised concerns about the usefulness of that data for decision making. ETA made progress in improving performance data by making data validation by the states a criterion for incentive awards. (This information was taken into account when preparing the relevant ETA Performance Data Quality Assessments. For information about the DOL Performance Data Quality Assessments, please see the Performance Section Introduction.) Due to funding constraints, ETA did not modify data validation software to allow Federal staff to sample records at the State level, and instead Regional staff will continue to request manual samples for review. In addition, ETA did not meet milestones for developing a monitoring guide for the trade program as an addendum to the ETA Core Monitoring Guide and continues to use the draft issued in FY 2005 as a tool. ETA's Workforce Investment Streamlined Performance System, scheduled for implementation in FY 2008, will integrate and expand program reporting. Affects Strategic Goal 1: <i>A Prepared Workforce</i>, Performance Goals 1C-1D, and Goal 2: <i>A Competitive Workforce</i>, Performance Goals 2A-G. Progress Assessment: ● Yellow</p> |   |  |
| <p><b>Improve monitoring of direct grants.</b> Audits of three direct or non-formula grantees showed underperformance, services to participants whose eligibility was not established, unsupported or unallowable costs, and inadequate financial and performance reporting systems. (OIG 2007)</p>  | <p>Held new grantee training, including sessions on allowable costs and eligibility requirements. Federal grant managers conducted desk reviews of grantee financial and performance quarterly reports as well as on-site reviews. Grant project officers provided ongoing assistance throughout the life of the grant.</p>   | <p>Emphasize financial and performance requirements at new grantee training sessions – FY 2008.</p> <p>Train grant project officers – FY 2008.</p> <p>In the Solicitation for Grant Applications (the vehicle used by ETA to award non-formula grants), continue to comply with applicable Federal laws, regulations, and OMB circulars. Selected grantees must conduct or will be subject to</p>  |

| Management Challenge/<br>Significant Issue   | Actions Taken in FY 2007  | Actions Remaining and<br>Expected Completion Date   |
|--|---|---|
| <p><b>Audit ETA data validation.</b> DOL lacks monitoring procedures to ensure that single audits of its grantees are completed and that reports are received in a timely manner for those grantees that meet the single audit threshold. (OIG 2007) DOL uses audits conducted by independent accountants or State auditors under the Single Audit Act (SAA) to provide oversight of more than 90 percent of DOL expenditures by State and local governments and non-DOL organizations. (2006 PAR)</p> | <p>Monitored grantees' performance on submitting their audit reports required under the single audit act to the Federal government. Additionally, ETA modified its standard grant agreement to emphasize adherence to the single audit submission requirements.</p>   | <p>independent evaluations to determine the outcomes and benefits of the projects – FY 2008.</p> <p>Develop and test the monitoring procedures for the single audit report submission – FY 2008.</p> <p>Codify procedures into the appropriate offices' Procedures Manuals – FY 2008.</p> |
| <p><b>Improve performance measurement for Youthbuild grants,</b> transferred from HUD to DOL in 2007. (GAO-07-82)</p>  | <p>Built a Web-based MIS/Case Management System for YouthBuild.</p>   | <p>Produce quarterly performance reports that include three common performance measures (placement in employment/education, attainment of a degree/certificate, and literacy/numeracy gains) as well as a six month retention rate, a recidivism rate, and additional data – FY 2008.</p> |
| <p><b>Work with States to improve data quality.</b> Implement reporting format (Workforce Investment Streamlined Performance System – WISPR) to enable DOL to analyze performance across programs. (2006 PAR)</p>  | <p>WISPR implementation delayed.</p>  | <p>Implement WISPR, which will expand data collection and reporting – FY 2008.</p>  |
| <p><b>Collect employer services information to help gauge employer involvement in the One-Stop system.</b> (GAO-07-167)</p>  | <p>The WISPR System will capture employer services data based on customized geographic areas down to the One-Stop Career Center level.</p>  | <p>Phase II RAIS Quarterly performance data available – FY 2009.</p>  |
| <p><b>Improve Apprenticeship data quality.</b> Develop a cost-effective strategy for collecting data from council-monitoring states. Continue to negotiate with states to participate in the Registered Apprenticeship Information System (RAIS). (2006 PAR)</p>   | <p>Retention and wage data from Phase I of the performance reporting system for Apprenticeship became available. California and New Hampshire agreed to participate in the RAIS, bringing the total of participating states to 32. Nearly 70% of the Federally managed registered apprentices are registered in RAIS.</p> | <p>Phase II RAIS Quarterly performance data available – FY 2009.</p>  |
| <p><b>X. Preserving Departmental Records</b> Challenge first identified in FY 2007. Current DOL policy requires employees to treat e-mail like any paper record. Recently, the OIG reported that employees may not be aware of their responsibilities to preserve Federal records and recommended that DOL require records management training for employees. Affects all DOL strategic goals. Progress Assessment: ●Green</p>   |   |   |
| <p><b>Require records management training for managers and employees.</b> (OIG 2007) Employees may not be aware of their responsibilities to preserve Federal</p>  | <p>Conducted numerous records management training sessions throughout the year.</p> <p>Published and disseminated the <i>DOL</i></p>  | <p>Install a URL link to NARA's "Records Management for Everyone" training course on LaborNet for all DOL employees to receive the training – November</p>  |

| Management Challenge/<br>Significant Issue | Actions Taken in FY 2007   | Actions Remaining and<br>Expected Completion Date |
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| records.                                   | <p><i>Records Management Staff Development Training Plan</i> to DOL Records Officers and Records Management Contacts.</p> <p>Announced and disseminated NARA's <i>Basic Electronic Records Management Training</i> course to DOL Records Managers, Administrative Officers, Employees, and Agency Heads.</p> | 2007.   |

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## DOL Top Management Challenges Identified by the OIG

For 2007, the Office of Inspector General (OIG) considers the following areas to be the most serious management and performance challenges facing the Department of Labor. They involve workplace protections, compliance, accountability, and delivery of services and benefits. The OIG has assessed the Department's progress in these areas and will continue to review and monitor the Department's effort to address these complex challenges.

- Protecting the Safety and Health of Workers
- Ensuring the Effectiveness of the Job Corps Program
- Ensuring the Security of Employee Benefit Plan Assets
- Safeguarding Unemployment Insurance
- Improving the Federal Employees' Compensation Act Program
- Improving Procurement Integrity
- Securing Information Technology Systems and Protecting Related Information Assets
- Maintaining the Integrity of Foreign Labor Certification Programs
- Improving Performance Accountability of Grants
- Preserving Departmental Records

### **CHALLENGE: Protecting the Safety and Health of Workers**

**Overview:** The Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response Act of 2006 (MINER Act), charges the Mine Safety and Health Administration (MSHA) with protecting the safety and health of over 300,000 men and women who work in our nation's mines.

The Occupational Safety and Health Administration (OSHA), authorized by the Occupational Safety and Health Act of 1970, promulgates and enforces occupational safety and health standards and provides compliance assistance to employers and employees. State OSHA Programs provide comparable protections and services to over 7.7 million state and local government employees. Recent OIG audits have identified opportunities for strengthening MSHA and OSHA's enforcement and assistance activities.

**Challenge for the Department:** The magnitude of the Department's mission to protect the health and safety of workers and the finite resources available presents a significant challenge requiring an appropriate balance between enforcement and compliance assistance and vigilance in ensuring that such programs are effectively administered. MSHA created an Accountability Program to ensure that its health and safety enforcement program is working effectively. This Accountability Program is MSHA's internal peer review process that is supposed to ensure that mine safety inspectors are doing their jobs effectively. However, a recent OIG audit found that this program is not well-designed and should be strengthened, because some peer reviews only looked at paper records of mine inspections and peer review teams did not always visit the mines to review what inspectors had examined. Recent tragic events involving several mines underscore the importance of thorough mine safety inspections and of having an effective peer review process to provide assurance that mine inspections are properly conducted.

OSHA's Consultation Program was designed to encourage employers to volunteer for an inspection and then resolve work place safety and health issues without the use of enforcement fines and penalties. However, a recent OIG audit found that consultation program officials seldom ensured that interim protection was in place before granting employers' requests for extensions to correct serious hazards, and employers who did not complete corrective actions in a timely fashion were seldom referred for enforcement actions. We have recommended that OSHA establish a performance measure that benchmarks and reports the percentage of serious hazards corrected by the initial correction due date.

**Department's Progress:** MSHA has proposed several steps to address shortcomings in its Accountability Program. Most significantly, MSHA has announced plans to create a new Office of Accountability within the

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Office of the Assistant Secretary to ensure that management controls are in place and fully implemented to prevent potential lapses in enforcement policies and procedures.

In response to problems in its Consultation Program identified by our audit, OSHA will ensure that its new OSHA Information System will not allow consultants to grant extensions without the assurance that proper interim protections are in place. In addition, OSHA has taken some actions and will implement additional measures to ensure that consultation program officials refer employers for enforcement action. These measures include clarifying existing requirements, training for both Federal and state consultation staff, and increased monitoring by Regional Offices. While OSHA disagreed with our recommendation on performance measures, the OSHA Information System is being designed to allow OSHA to create specific benchmarks for states that may have problems monitoring the correction of serious hazards.

### **CHALLENGE: Ensuring the Effectiveness of the Job Corps Program**

**Overview:** Job Corps operates 126 centers throughout the United States and Puerto Rico to provide occupational skills, academic training, job placement services, and other support services, such as housing and transportation, to approximately 60,000 students each year. Its purpose is to assist eligible at-risk youth who need intensive education and training services. The program was appropriated nearly \$1.5 billion in FY 2007. It utilized contracts with private companies to operate 98 centers and interagency agreements with the Departments of Interior and Agriculture to operate 28 centers.

**Challenge for the Department:** The challenges facing the Department regarding its Job Corps program include: 1) management of its centers; 2) performance monitoring and verification; 3) student safety and health; and 4) assessment of incoming students for cognitive disabilities. For example, a recent OIG report found numerous health and safety problems, such as inoperable fire alarms, and an unhealthful food handling area at the Oconaluftee Job Corps Center, which is operated by another Federal agency. Job Corps needs to utilize the results of facilities surveys conducted by its contractor to make sure necessary repairs are funded and completed as scheduled. In addition, we have found that the Department needs to hold regional offices accountable for utilizing effective monitoring techniques in their oversight of services provided by Job Corps contractors and government operators. Further, an OIG audit of Job Corps' processes for assessing students for cognitive disabilities found that Federal law requires assessment for cognitive disabilities under specific circumstances, but that Job Corps had not done so. Job Corps must identify and address cognitive disabilities of current and future students in order to improve their outcomes and long-term success.

Another concern relates to the fact that Job Corps runs contractor-operated centers through performance-based contracts, which tie incentive fees and bonuses directly to contractor performance. Under such contracts, there is a risk that contractors will inflate their performance reports so they can continue to operate centers. Recent audits determined that specific centers have manipulated their reported performance data. Our audits have disclosed other challenges as well, including inadequate financial management systems, unauthorized costs charged to center budgets, and deficiencies in the management of personal property.

**Department's Progress:** Job Corps has addressed some student safety and health issues raised by the OIG by temporarily closing the Oconaluftee Center. In addition, Job Corps has indicated that it will provide more rigorous monitoring of all centers. Job Corps has also taken action to improve performance data reliability at all centers, including requiring each regional office to conduct mandatory audits of student records concurrent with annual center quality assessments. Further Job Corps has developed additional criteria and a dedicated website for identifying and addressing students with cognitive disabilities. Much remains to be done to address the many challenges faced by this program to provide safe, quality, and long-impact services to disadvantaged youth.

## **CHALLENGE: Ensuring Security of Employee Benefit Plan Assets**

**Overview:** Pension, health, and welfare benefit plans consist of over \$5.6 trillion in assets covering more than 150 million workers and retirees. These plans and their service providers continue to be a strong audit and investigative focus of both the OIG and the Employee Benefits Security Administration (EBSA). EBSA is charged with overseeing the administration and enforcement of the fiduciary, reporting, and disclosure provisions of Title I of the Employee Retirement Income Security Act (ERISA).

**Challenge for the Department:** Protecting pensions and health benefit plan assets against fraud is a challenge for the Department. OIG labor racketeering investigations and the increased criminal enforcement by EBSA continue to find that plan assets are vulnerable to criminal activity.

Plan audits by independent public accountants provide a first-line defense for plan participants against financial loss. Ensuring that audits by independent public accountants meet quality standards adds to the Department's challenges in providing adequate oversight. However, the Department's authority to require corrective action is currently limited. The Department should increase its efforts toward legislative change to strengthen its oversight authority over plan auditors and the scope of plan audits to increase plan protections for American workers.

Another challenge is the Department's increased responsibility for regulatory oversight of ERISA health care provisions. In the health care arena, the Department needs to continue its efforts to decrease the number of fraudulent Multiple Employer Welfare Arrangements, which are typically marketed to small businesses as a way to obtain inexpensive health coverage for their employees. In this regard, the Department should continue, through its national enforcement projects, to work closely with State insurance commissioners and the Department of Justice to identify and prosecute fraudulent MEWAs.

**Department's Progress:** The Department has made several improvements to its processes for identifying and correcting deficient employee benefit plan audits. Also, the Department has sought legislative changes to obtain more authority over plan auditors and the scope of plan audits.

The Department continues to utilize a multi-pronged strategy to help ensure compliance with ERISA Title I. This includes imposing criminal penalties to correct violations of the law, ensuring the security of employee benefit plan assets, and regulatory oversight of health care laws.

## **CHALLENGE: Safeguarding Unemployment Insurance**

**Overview:** The Department partners with the states in administering unemployment benefit programs. State Unemployment Insurance (UI) provides benefits to workers who are unemployed because of a lack of suitable work and meet other eligibility requirements established by their respective states. UI benefits are financed through employer taxes imposed by the states and collected by the Internal Revenue Service, which holds them in the Unemployment Trust Fund (UTF) until needed to pay benefits.

The second program, Disaster Unemployment Assistance (DUA), is a Federally funded program that provides financial assistance to individuals who lose their jobs as a direct result of a major disaster and are ineligible for other UI. The 2005 hurricanes demonstrated the importance of effective controls to ensure that unemployment benefits reached only eligible persons.

Through the Benefits Accuracy Measurement (BAM) program, the Department has identified duplicative payments to individuals who are working while concurrently claiming UI benefits as the single largest cause of overpayment errors. Also, audit work initiated following Hurricanes Katrina and Rita identified potential benefit overpayments as a result of claimants concurrently filing under the UI and DUA programs, states not timely verifying eligibility for DUA, and other reasons. For example, we found that Louisiana paid claimants when the National Directory of New Hires (NDNH) database reported those individuals as having obtained jobs

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requiring further follow-up by the state. This one example represented potential overpayments of \$51 million. In addition, following the 2005 hurricanes, the OIG opened over 300 cases of potential UI and DUA fraud resulting in 77 indictments and 43 convictions. As of August 10, 2007, 189 of these cases have been closed.

**Challenge for the Department:** Preventing UI and DUA overpayments and reducing fraud against these programs remains a major challenge for the Department and states. The Department, other Federal agencies, and the states are further challenged in having the necessary systems and controls in place to quickly respond and yet prevent improper payments during national emergencies or disasters. Ongoing audit and investigative work indicate that improper payments related to past disasters may be extensive. The prevention and early detection of overpayments is critical because the follow-up required to verify and collect an overpayment once it has been made is significant. Therefore, the Department needs to continue its efforts to disseminate information to the states about best practices and promote the use of mechanisms, such as the NDNH, to help states identify ineligible claimants more timely.

**Department's Progress:** The Department has taken some measures to eliminate UI and DUA overpayments. For example, in coordination with other Federal partners and the National Association of State Workforce Agencies, the Department developed action plans using lessons learned from recent disasters. The Department has also brought together Federal partners to develop a resource guide to facilitate coordination and streamline the delivery of services in the event of a major disaster.

In addition, the Department stated in its FY 2006 Performance and Accountability Report that it has developed a new core performance measure on overpayment detection and has begun to improve states' ability to identify individuals who are working while also claiming UI benefits. Further, the Department is working with state agencies to encourage the use of the NDNH database, which will improve the states' efforts to detect overpayments early. The Department and its state partners need to continue to incorporate the results of BAM and the NDNH to better prevent and detect overpayments. The OIG will continue to monitor the Department's use of this new performance measure to detect UI overpayments.

## **CHALLENGE: Improving the Federal Employees' Compensation Act Program**

**Overview:** The Federal Employees' Compensation Act (FECA) Program provides income and pays medical expenses for covered Federal civilian employees injured on the job or who have work-related occupational diseases, and dependents of employees whose deaths resulted from job-related injuries or occupational diseases. This program is administered by the Department and impacts employees and budgets of all Federal agencies. FECA benefit expenditures totaled \$2.5 billion in 2006. These costs were charged back to individual agencies for reimbursement to the Department's Office of Workers' Compensation Programs (OWCP).

**Challenge for the Department:** The structure and operation of the FECA program is both a Departmental and government-wide challenge. All Federal agencies rely upon OWCP to adjudicate the eligibility of claims, to manage the medical treatment of those claims, and to make compensation payments and pay medical expenses. Beginning in FY 2003, we reported that OWCP had not consistently obtained and reviewed medical evidence when determining claimants' continued eligibility for FECA compensation payments. Further, beginning in FY 2000, we reported that OWCP did not have the legal authority to match FECA compensation recipients against social security wage records. This is still the case. This match would help enable OWCP to identify individuals who are collecting FECA benefits while working and collecting wages. It is a challenge for the Department to ensure that only eligible recipients are receiving FECA benefits.

**Department's Progress:** The Department has taken several steps to improve the administration of FECA and is seeking legislative reforms to the FECA program. These legislative changes would: enhance incentives for employees to return to work; discourage unsubstantiated claims; and make other benefit and administrative improvements. If these proposals are enacted, the Department estimates that the government will save \$608 million over 10 years.

Last year, the Department completed the roll-out of its new FECA benefit payment system, Integrated Federal Employees' Compensation System, which tracks due dates of medical evaluations; revalidates eligibility for continued benefits; contains increased internal mechanisms to prevent improper payments; boosts efficiency; and promises improved customer satisfaction.

### **CHALLENGE: Improving Procurement Integrity**

**Overview:** The Department contracts for many goods and services to assist in carrying out its mission. In FY 2006, the Department's acquisition authority exceeded \$1.7 billion and included over 8,800 acquisition actions. The OIG continues to be concerned about the Department's procurement activities. Specifically, for several years, we have recommended that the Department separate program and procurement responsibilities to ensure procurement integrity. Several OIG audits have reported that failure to adequately segregate program and procurement duties places procurement actions at risk due to conflict of interest or preferential treatment, among other things.

In addition, the Services Acquisition Reform Act (SARA) of 2003 requires that executive agencies appoint a Chief Acquisition Officer (CAO) whose primary duty is acquisition management. However, the Department's current organization is not in compliance with this requirement, as the Assistant Secretary for Administration and Management is serving as the CAO while retaining other significant non-acquisition responsibilities.

**Challenge for the Department:** Until procurement and programmatic responsibilities are properly separated and effective controls are put in place, the Department will be at risk for wasteful and abusive procurement practices. The Department must improve its procurement and contract management processes to ensure that it is receiving quality services at fair prices in compliance with contract terms. An important first step to improving procurement integrity is the appointment of a CAO, whose primary duty is acquisition management, as required by SARA.

**Department's Progress:** The OIG has classified six of the eight recommendations from Audit Report Number 05-05-005-07-720 (March 31, 2005) as "resolved and closed," due to improved Departmental procurement processes and operating procedures. The Department has taken preliminary steps to implement SARA. In January 2007, the Secretary issued Order 2-2007, which formally established the position of CAO within DOL. This Order specifically stated that the CAO will have acquisition management as his or her primary duty. Further, the Order emphasized that the CAO will report to the Secretary with day-to-day guidance from the Deputy Secretary and that the CAO will have responsibility for overseeing other Department acquisition activities. The OIG encourages the Department to move expeditiously to implement the Secretary's Order, comply with SARA requirements, and separate the procurement and program functions as the OIG has recommended.

### **CHALLENGE: Securing Information Technology Systems and Protecting Related Information Assets**

**Overview:** The security of the Department's information technology (IT) systems and data is vital. Those systems produce key economic indicators and pay billions of dollars in benefits and services. In FY 2007, the OIG identified a significant deficiency related to access controls across DOL financial and non-financial information systems. As of March 2007, the OIG found that the Department had not fully implemented OMB's government-wide requirements to protect personally identifiable information (PII). The term "personally identifiable information" refers to information that can be used to distinguish or trace an individual's identity, such as name and social security number.

**Challenge for the Department:** Our audits have identified a number of IT challenges for the Department, including preventing unauthorized access to systems, certification and accreditation of systems, and incident response capability. It is also a challenge for the Department to fully implement OMB's requirements for protecting PII and close outstanding security issues within management's planned actions and target dates.

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Keeping up with new threats and IT developments, providing assurances that IT systems will function reliably, and safeguarding information assets will continue to challenge the Department and require a sustained effort. As the need to raise the level of accountability for IT security in government continues, it is important for agencies to have the proper structure in place to achieve accountability, effectiveness, compliance with security controls, and remediation of vulnerabilities to prevent security breaches. To this end, as in last year's Top Management Challenges, the OIG recommends the creation of an independent Chief Information Officer (CIO) to provide oversight of IT issues. In addition, we also believe that the Department should now consider having agency-level security officers report to the Department's Chief Information Security Officer (CISO), in addition to reporting to their respective agency heads as they do now. Similarly, the CISO could report to the Secretary's Office as well as to the CIO. The OIG believes such steps would enhance effectiveness within the Department-wide information security program.

**Department's Progress:** To meet the challenges associated with securing IT systems from harm, the Department is continuing to identify, assess, and remediate IT security vulnerabilities and is providing IT security training to program agency ISOs. In addition, the Department has indicated its plans to fully implement OMB's PII recommendations by the first quarter of 2009. The Department has also required all employees to complete Computer Security Awareness Training.

### **CHALLENGE: Maintaining the Integrity of Foreign Labor Certification Programs**

**Overview:** The Department's Foreign Labor Certification (FLC) programs provide U.S. employers access to foreign labor to meet worker shortages under terms and conditions that do not adversely affect US workers. The Permanent Foreign Labor Certification Program allows an employer to hire a foreign worker to work permanently in the United States, if a qualified US worker is unavailable. The H-1B program allows the Department to certify employers' applications to hire temporary foreign workers in specialty occupations.

OIG audits have identified vulnerabilities in FLC programs, and our investigations, some of which have been initiated based on referrals from DOL's Employment and Training Administration (ETA), have identified fraud against these programs. The foreign labor certification process continues to be compromised by dishonest attorneys, labor brokers, and employers. For instance, a recent OIG case led to the conviction of a former owner of an information technology company. He was convicted for his role in fraudulently assisting hundreds of immigrant aliens to live and work illegally in the United States. This former business owner was sentenced to prison and ordered to forfeit \$5.7 million.

**Challenge for the Department:** The Department is challenged in maintaining the integrity of the FLC programs, while effectively reviewing employer requests for foreign workers. For instance, the Department must increase its detection of fraudulent labor applications during the certification process. FLC programs are one of the few legal avenues available for foreign workers who want to enter the U.S. on a temporary or permanent basis. This fact, combined with the large amounts of money that can be made by unscrupulous entities, continues to create strong incentives to commit fraud or abuse.

Because the Department must certify that H-1B applications are accurate and complete within seven days, DOL has limited capacity to validate the information on the application, which presents a challenge to the program's integrity. Considering the large number of both Permanent and H-1B applications, it remains a challenge for the Department to avoid backlogs while maintaining the integrity of the FLC process.

**Department's Progress:** The Department has instituted measures to reduce fraud in its FLC programs. As a result of OIG investigations repeatedly demonstrating the need to eliminate the practice of substituting a new foreign worker for the one originally named on a permanent labor certification application, the Department enacted the Fraud Rule which prohibited the practice of substitution. The Fraud Rule became effective on July 16, 2007. In addition, the OIG and ETA have been working collaboratively to identify and reduce fraud in the FLC process by immigration attorneys, employers, and others. Finally, the Department recently announced that it had eliminated the backlog of permanent program applications on-time.

## **CHALLENGE: Improving Performance Accountability of Grants**

**Overview:** The competitiveness of the American workforce is a top priority for the Department. To that end, the Department's FY 2008 Budget proposed \$3.4 billion to fund its training and employment grant programs. In addition, the Department proposed significant reforms to how the funding will be managed at the State-level. Grant funds are mainly provided as Federal awards to state and local government entities and to other non-profit organizations.

To ensure that grant monies are being used for their intended purpose, in addition to ETA's monitoring and oversight, the Single Audit Act (SAA) requires each recipient that expends \$500,000 or more in Federal awards in a year to obtain an annual audit. The single audit covers both the reporting entity's financial statements and Federal awards. As more than 90% of its expenditures are by state and local governments and other non-DOL organizations, the Department relies on audits conducted under the SAA to provide oversight of its grants.

**Challenge for the Department:** Given the amount of money annually provided by the Department to grantees, it is critical that the Department has an effective means to ensure that funds were used as intended.

OIG audit work disclosed high error rates in the performance data reported by Departmental grantees and raised concerns about the usefulness of that data for decision making. In addition, the OIG continues to be concerned about the adequacy of information that the Department receives from SAA audits, which are conducted by independent public accountants or state auditors. Our quality control reviews of single audits and a June 2007 report on the National Single Audit Sampling Project have revealed serious deficiencies. As a result, the Department is not receiving reliable information that it needs to make program and funding decisions. Further, a recent OIG audit disclosed that the Department lacks monitoring procedures to ensure that single audits of its grantees are completed and that reports are received in a timely manner for each grantee that meets the single audit threshold.

**Department's Progress:** The Department is completing its second full year of operating its new data validation system which was designed to reduce errors in performance data reported by grantees. In support of the Department and other Federal entities that issue grants, the National Single Audit Sampling Project has made significant recommendations to OMB to improve the reliability of single audits. Also, the Department has agreed that single audit procedures should be strengthened and will coordinate with appropriate agencies to develop and implement changes as recommended. These efforts are important steps in the Department's effort to improve performance accountability of grants.

## **CHALLENGE: Preserving Department Records Management**

**Overview:** The Department and other Federal agencies must create and maintain Federal records to account for their official business. As part of this responsibility, the Department is required to ensure that its Federal records are preserved and retrievable to document its policies and activities, and comply with Freedom of Information Act requests, and other statutory and regulatory reasons. The Department implements its records management program through the policy and guidelines established in the DOL Manual Series and Records Management Handbook.

**Challenge for the Department:** The burgeoning use of electronic media to administer its programs makes it essential for the Department to have systems and processes in place to manage records effectively. Like other Federal agencies, the Department faces a major challenge in determining what information constitutes records that must be preserved as well as efficiently determining how to store, back-up, or dispose of records and other information.

For example, current Departmental policy requires employees to treat e-mail like any paper record. If an e-mail is an official record, then employees are expected to print and file the email in a manual recordkeeping

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system. Recently, the OIG reported that department employees may not be aware of their responsibilities to preserve Federal records and recommended that the Department require records management training for managers and employees. To this end, the Department needs to keep their employees trained and apprised of records management responsibilities.

**Department's Progress:** Records management is an emerging challenge for the Department and agencies government-wide. The OIG is conducting an audit which will assess the Department's progress in this area.

### **Changes from Last Year**

The OIG recognizes that matters meriting the continued attention of Departmental management may be omitted from the list of its top challenges. This year we removed the challenge of *Preparing for Emergencies* from the list, because of the Department's progress in making employee safety and emergency preparedness a priority. The OIG will continue to monitor the Department's actions in this area.

















This year, we added a new challenge, *Preserving Department Records Management*, because of the Department's legal requirements to maintain and safeguard its records.

## The President's Management Agenda

In FY 2007, the Department continued its focus on implementing the President's Management Agenda (PMA) – and securing the taxpayer benefits tied to PMA success. Announced in 2001, the PMA remains the key strategy for improving the management and performance of the Federal government. The objective is to ensure a Federal government that is citizen-centered, not bureaucracy-centered; results-oriented, not output-oriented; and market-based – actively promoting rather than stifling innovation through competition.

The Office of Management and Budget (OMB) regularly assesses all Federal agencies' implementation of the PMA, issuing a quarterly Executive Branch Management Scorecard rating of green, yellow or red for both status and progress on each initiative. On June 30, 2005, the U.S. Department of Labor became the *first* Executive Branch department or agency to achieve green status scores on all five government-wide PMA initiatives. While not an end in itself, this achievement represents an ongoing commitment to good management to bring quality services to the American people.

As noted on the table below, as of September 30, 2007 DOL is pleased to have again achieved all-green status scores on the five government-wide initiatives– as well as on two of the three PMA program initiatives managed by DOL. Government-wide PMA results can be found at [www.results.gov](http://www.results.gov).

| Department of Labor's PMA Scorecard Status |  |  |
|--|--|--|
| Executive Branch Management Scorecard      | September 2006 Status  | September 2007 Status  |
| Human Capital                              |  Green    |  Green    |
| Competitive Sourcing                       |  Green   |  Green   |
| Financial Performance                      |  Green  |  Green  |
| E-Government                               |  Green  |  Green  |
| Performance Improvement Initiative         |  Green  |  Green  |
| Eliminating Improper Payments              |  Green  |  Green  |
| Faith-Based and Community Initiative       |  Green  |  Green  |
| Federal Real Property Asset Management     |  Yellow |  Yellow |

We are now into the OMB-led *Proud to Be V* campaign, which runs through June 30, 2008 – with other goals linked to June 30, 2009 – and DOL intends to maintain its dedication to improve its performance through PMA implementation. To ensure that the good-government principles are used in day-to-day management, the Department uses a similar scorecard on a semi-annual basis to measure DOL individual agency progress on the PMA.

### Strategic Management of Human Capital

The Human Capital initiative requires Federal agencies and departments to develop and use a comprehensive human capital plan, with the aim of significantly reducing mission-critical skill gaps. In 2007, to develop future leaders with the critical skills and experience needed to effectively manage DOL programs, the



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Department continued its MBA Fellows, Senior Executive Service (SES) Candidacy, and Management Development programs. Each of these programs is structured to develop the core competencies required for successful performance in the SES and necessary to continue the Department's mission.

DOL's successful MBA Fellows program welcomed its sixth class of 15 Fellows in the summer of 2007 – increasing the total to 92 participants. Of the 49 Fellows who have completed the program, 48 have been placed in permanent positions within the Department.

### **Competitive Sourcing**

Competitive Sourcing allows the government to take advantage of market-based competition while simultaneously allowing the existing Federal employees to compete for the work. Competitive sourcing requires Federal employees to compete against private sector bidders for work that is deemed commercial activity. The skills and competencies that are not required to be performed by government personnel can often be performed more effectively and efficiently when subject to the competition of the marketplace.

The Department encourages the development of a government “most efficient organization” (MEO) to compete with bids which may be received from the private sector. The MEO is designed to find innovative solutions to existing work processes that can be made more efficient to improve the Department's chances of retaining the work in-house when competing against private-sector firms. The competition process generally results in savings regardless of whether the performance decision is in favor of the government or the private sector. The following four recently-completed competitions involving 117 FTE will save the government approximately \$5.4 million:

- National Certification Program
- Installation Services
- Visual Services
- Chemical Services

All four competitions resulted in the work being retained in-house, which means that the work continues to be performed by DOL employees.

### **Improved Financial Performance**

The availability of timely, accurate, and useful information is essential to any well-managed, effective organization. The Improved Financial Performance initiative requires Federal agencies to receive clean audit opinions on their annual financial statements, meet accelerated financial reporting deadlines, implement managerial cost accounting practices, improve internal controls, and have financial management systems that are compliant with Federal laws and regulations. The Office of the Chief Financial Officer (OCFO) has devoted significant resources to secure the Department's achievement of excellence in financial management in the Federal Government. DOL's clean audit opinion for FY 2007 marks the 11<sup>th</sup> straight year for this achievement.

DOL's managerial cost accounting system, Cost Analysis Manager (CAM), provides program managers with costs of outputs and activities to better understand how those costs affect the operations of their programs. This tool collects and allocates costs to activities – and ties these costs to performance. In doing so, it improves accountability and transparency by showing the results for the tax dollars spent. CAM generated the goal costing information at the strategic and performance goal levels for this report and for the second year straight year CAM generated costing information at the performance indicator level. Last year, costs were allocated at the indicator for about half of DOL's performance goals. This year, most DOL programs were able to associate costs with their performance indicators.

### **Expanded Electronic Government (E-government)**

The Expanding Electronic Government (E-government) initiative requires Federal agencies and departments to develop secure Information Technology (IT) systems and strictly adhere to IT project cost, schedule, and performance projections. The Department's Unified DOL Technology Infrastructure (UDTI) initiative is consolidating 30 IT service components into a unified, efficient environment. Savings resulting from UDTI on

network maintenance costs alone are estimated at \$3 million. In addition, E-Grants – a web-based grants management tool – is used by all DOL grant-making programs to award some \$9 billion in grants each year. E-Grants lowers administrative costs, strengthens internal controls, improves efficiency and customer service. Estimated savings associated with E-grants is nearly \$20 million over the system's twelve-year life.

DOL also continues to seek other creative strategies and efficiencies to better serve our stakeholders. In April 2002, GovBenefits.gov was launched – with DOL serving as the managing partner. GovBenefits' mission is to use the Internet to connect citizens to government benefit program eligibility information; increase access to information, particularly for people with disabilities; reduce the burden and difficulty of doing business with the government; and continue to add programs to become the single source for Federal, State, and local government benefit programs. In April 2005, DOL launched *GovBenefits en Espanol* – and in April 2007, GovBenefits.gov was named as one of the Top 50 most innovative government programs in the *Innovations in American Government Award* program of Harvard University's John F. Kennedy School of Government. In fact, GovBenefits.gov was one of only six Federal programs so recognized. Since its 2002 launch, GovBenefits.gov has had over 25 million visits – and now includes over 1,000 programs, both Federal and State.

### **Performance Improvement Initiative**

The Performance Improvement Initiative – which, as of July 1, 2007, replaced the Budget and Performance Integration initiative of the PMA – seeks to ensure that performance is routinely considered in funding and management decisions and that agency programs achieve expected results while working toward continual improvement. At DOL, it has also resulted in a gradual cultural shift that fosters a closer dialogue among program, performance, budget, and finance staff. Three FY 2007 areas to highlight:

#### **DEPARTMENTAL e-BUDGETING SYSTEM (DEBS)**

A recent management efficiency was gained through how DOL's FY 2009 budget submission was created: the Departmental E-Budget System (DEBS). DEBS is an innovative tool designed to automate the budget formulation process – and allow budget analysts the ability to easily and electronically merge budget data with justification narrative using a web browser. For our FY 2008 cycle, we successfully completed pilot tests of the new DEBS system – which involved five DOL agencies or offices with 50 volunteer users. The DEBS system was rolled out to all of DOL for this FY 2009 budget cycle – and we are proud of the efficiencies gained by and budget produced through this new system.

#### **PROGRAM ASSESSMENT RATING TOOL (PART)**

DOL recently concluded six assessments and reassessments through the 2007 PART process. These assessments included National Emergency Grants, the Energy Employees Occupational Injury Compensation Program, Job Corps, the Occupational Safety and Health Administration, the Pension Benefit Guaranty Corporation, and Trade Adjustment Assistance. All new PART assessments, scores, ratings, and Improvement Plans were published this summer on [www.ExpectMore.gov](http://www.ExpectMore.gov). This was several months in advance of when they have been published in the past – and allowed PART findings to play a more central role in the formulation of the FY 2009 DOL Budget.

#### **RIGOROUS EVALUATION OF MAJOR JOB TRAINING PROGRAMS**

DOL is contracting an independent study of program effectiveness – using administrative data – to be completed in 2008. Also in 2008, a more rigorous, seven-year evaluation will begin to determine WIA services' impact on employment and earnings outcomes for participants.

### **Strategic Planning and Program Performance**

This is the first report in which DOL will report on progress against the strategic goal structure launched last September 30 in DOL's 2006–2011 Strategic Plan. The Government Performance and Results Act of 1993 calls for six-year strategic plans that must be updated every three years. Last year's strategic planning process offered an opportunity to re-examine goals, program strategies and targets, and to solicit feedback from Congressional leadership and the public. The updated plan demonstrates how the Department's diverse agency missions and program objectives will contribute to achieving our four overarching strategic goals: *A Prepared Workforce, A Competitive Workforce, Safe and Secure Workplaces, and Strengthened Economic Protections*.

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In addition, the Department's commitment to the new Performance Improvement Initiative continues through the Program Assessment Rating Tool (PART) process and implementation of PART program improvement plans. To date, 35 DOL programs have been reviewed under the PART process. FY 2007 was the first year of in which previously reviewed programs were reassessed to determine the impact of program improvements identified in the first review. DOL has implemented nearly half of the non-legislative PART recommendations.

### **Agency-specific PMA Program Initiatives**

In addition, DOL is responsible for three of the PMA components found in selected departments: *Eliminating Improper Payments*, *Faith-Based and Community Initiative*, and *Federal Real Property Asset Management*.

#### **Eliminating Improper Payments**

The Improper Payments Act of 2002 defines improper payments as payments made to the wrong recipient; in the wrong amount; or used in an improper manner by the recipient. Better detecting and preventing improper payments to ensure taxpayer dollars are wisely and efficiently spent is the goal of the Eliminating Improper Payments initiative.

At DOL, developing strategies and the means to reduce improper payments is good stewardship – and good business. Accurate payments lower program costs, thereby improving efficiency. The Department has three programs classified as high-risk for improper payments. Two are benefit programs – Unemployment Insurance in ETA and the Federal Employees Compensation Act program in ESA – and the third is an ETA grant program administered under the Workforce Investment Act.

While Eliminating Improper Payments is still a fairly new PMA initiative, DOL is making progress and achieving results. Through the efforts of the Department's Office of the Chief Financial Officer and ETA, 35 States now use a cross-match of National Directory of New Hires data with State UI claimant data to identify individuals no longer eligible to receive UI benefits. In 2008, all States will be required to do so.

#### **Faith-Based and Community Initiative**

Over the past six years, DOL has significantly expanded opportunities for partnerships with faith-based and community non-profit organizations (FBCOs) to better serve Americans in need. Critical to this effort is removal of any unnecessary barriers to the participation of small and faith-based and community organizations in DOL grants and programs, thus establishing a level playing field for all. As reported last year, the Department employs a wide range of grants, technical assistance and other tools to draw upon the unique strengths of FBCOs in efforts such as serving the unemployed and underemployed, aiding homeless and incarcerated veterans, helping ex-offenders transition from prison to work, and reducing exploitive child labor abroad. In FY 2007, DOL strengthened its partnerships between faith-based and community organizations and the workforce investment system at the state and local levels.

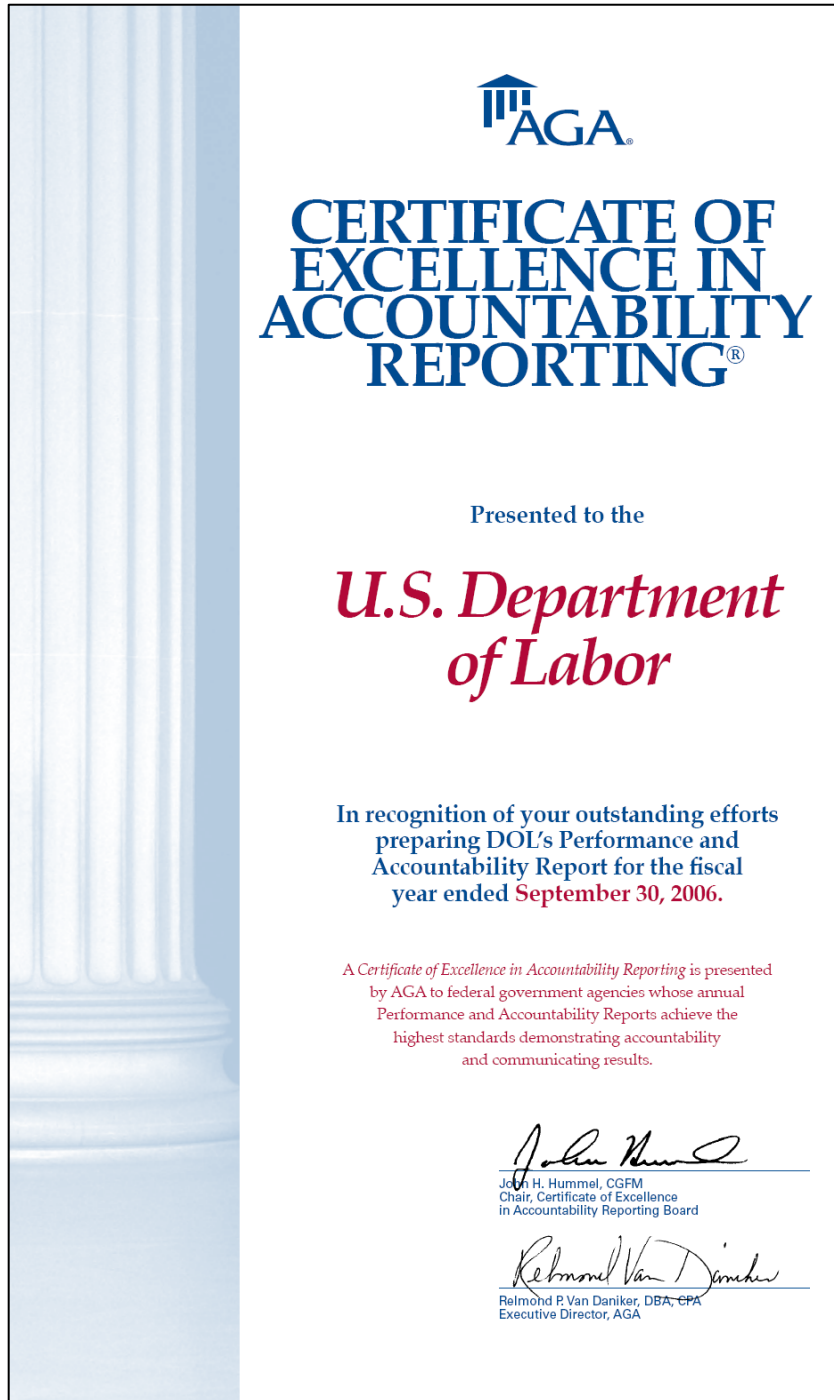
In 2007, DOL's Center for Faith-Based and Community Initiative worked with the Employment and Training Administration to fund a sixth year of Grassroots grants, which feature simplified application and reporting requirements. These modest \$25,000 grants allow DOL to draw upon the unique assets FBCOs bring to the task of assisting individuals looking for training and employment. This is particularly true with hard-to-serve populations who often need long-term, in-depth assistance to find and retain jobs. In Program Year 2006, the grantees reported impressive results. Forty-three Grassroots grantees, in partnership with One-Stop Career Centers, provided an expansive range of services, including enabling 1,460 high-need individuals to enter employment. Significantly, 1,007 of these individuals – ranging from ex-offenders to homeless individuals to persons with disabilities – were helped to retain their jobs for at least six months. Part of the partnerships' success came through the efforts of the grantees to leverage a remarkable 14,275 volunteer hours! In FY 2008, we look forward to reporting greater achievements.

#### **Federal Real Property Asset Management**

Better managing the Department's properties is at the core the Federal Real Property Asset Management effort. This PMA initiative is intended to eliminate surplus assets; better manage the cost of inventory, and improve the condition of critical assets. The Department's ongoing efforts in real property management have

yielded important benefits including DOL's new Space Management System. Our Space Management Initiative includes a new tracking system with data on space holdings, utilization rates, rent costs, and square footage. Using this data to identify potential consolidations, since 2001 the Department has closed just over 100 offices and released over 100,000 square feet – which accounts for an approximate annual cost savings of \$2.8 million.

As demonstrated above, the Department has continued to make solid progress in improving DOL's effectiveness and accountability to the American public. This is reflected in the fact that, since 2004, DOL has been honored with four President's Quality Awards for management excellence. More important than the awards are the results for the taxpayers highlighted in this report. We are dedicated to ensuring that our programs achieve the best possible results, are managed effectively, and provide high quality services.





## Performance Section

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## Reporting Performance Results

The Performance Section of this report presents results at the Strategic Goal and Performance Goal levels. The four Strategic Goals established in our FY 2006-2011 Strategic Plan are general outcomes clearly linked to the Department's mission. Performance goals articulate more specific objectives associated with one or more programs administered by a distinct DOL agency. Progress in achieving these goals is measured by one or more quantifiable performance indicators, for which targets are established in the annual Performance Budget.

Each of the four strategic goal sections is introduced by an overview of results, net cost and future plans for its component performance goals. Results for each performance goal are presented in a brief section that includes the following:

- **Headlines** describe the goal in very basic terms.
- **Goal numbers** (e.g., 07-1A) start with a two-digit year corresponding to the funding (budget) period. The single digit following the hyphen identifies the strategic goal and the letter distinguishes the performance goal from others in the same group. The agency acronym (e.g., BLS) is in parentheses. Finally, we indicate whether the program is reporting on a fiscal year (FY) or program year (PY).<sup>20</sup>
- **Goal statements** appear in italics.
- **Indicators, Targets and Results** tables list each indicator, its targets and results for the reporting period and previous years that have data for the same indicators. Indicators that were dropped prior to the current year are not shown; however, a note indicates where additional historical performance information (legacy data) can be obtained. Where all data for any year are shown, goal achievement is indicated. Where "baseline" appears in the target cell for new indicators, no data were available for establishing a numerical target, and these data do not count towards goal achievement. If results improve over the prior year but do not reach the target, "I" appears in the target cell. Net cost associated with the goal and indicators is also provided.<sup>21</sup>
- **Program Perspectives and Logic** narratives describe the purpose of the program, how its activities are designed and managed to have a positive impact on the goal, and how it measures success and external factors that influence performance. Photos and vignettes communicate examples of programs' impact at the personal level.
- **Analysis and Future Plans** narratives interpret results, assess progress, explain shortfalls and describe strategies for improvement. Performance data at the indicator level and net cost at the goal level are displayed in charts where sufficient data are available to illustrate trends.
- **PART, Program Evaluations and Audits** narratives provide updated information on Program Assessment Rating Tool reviews and improvement plans. Relevant audits and evaluations completed during the fiscal year are summarized in tables that highlight study purpose, major findings, recommendations and follow-up actions.
- **Data Quality and Major Management Challenges** narratives discuss DOL's confidence in the performance information reported for the goal's measures and address management challenges that may have significant implications for achievement of program performance goals.<sup>22</sup>

## Data Quality

This report is published six weeks after the end of the fiscal year. Since the Department uses a wide variety of performance data submitted by diverse systems and governed by agreements with State agencies and grant recipients, it is not possible in all cases to report complete data for the reporting period. The Department requires each agency responsible for performance goals in this report to submit a Data Estimation Plan in February that identifies, for each indicator, whether complete data are expected by the deadline for clearance

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<sup>20</sup> FY 2007 began October 1, 2006 and ended September 30, 2007. PY 2006 began July 1, 2006 and ended June 30, 2007.

<sup>21</sup> See also DOL Program Net Costs table in Cost of Results section of the Program Performance Overview (Management's Discussion and Analysis).

<sup>22</sup> See Major Management Challenges table in Management's Discussion and Analysis.

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and final review of the report in early October. If the data will not be available by then, the agencies must submit an acceptable plan to estimate results for the remainder of the year. Methodologies developed by agencies' program analysts are reviewed by the Department's Center for Program Planning and Results and the Office of Inspector General (OIG). The most common methods are substitution or extrapolation of two or three quarters of data and – for data with significant seasonal variation – use of the missing period's results from the previous year. Estimates are clearly identified wherever they are used in this report. With very few exceptions, final (actual) data are available by the end of the calendar year; these data will be reported in the FY 2008 Performance and Accountability Report.

OIG assesses the internal controls of DOL agencies – systems used to validate, verify and record data submitted by field staff and partners (e.g., grantees). These systems are identified as Data Sources at the bottom of each performance goal history. Lack of findings does not imply that data are factual.

Material inadequacies are disclosed in the Secretary's Message, which includes a statement on the adequacy of program performance data that is supported by signed attestations from each agency head responsible for a performance goal in this report. OMB Circular A-11 defines "material inadequacy" as a condition that significantly impedes the use of program performance data by agency managers and government decision makers. For Departmental management, this threshold is established at the performance goal level as data that are insufficient to permit determination of goal achievement. This is an unlikely occurrence, as most DOL performance goals have sufficient indicators and historical data to allow reasonable estimation of results. Generally, if agency or program level managers do not trust their own data, the results are not reported, because the problems created by skewed targets and trends are much worse than a gap in the data.

Because DOL aspires to maintain high standards and because performance information is being used more than ever for decision-making and accountability, DOL recently created a Data Quality Assessment process to improve the quality of performance information reported to the public. The Data Quality and Major Management Challenges section of each performance goal narrative includes an overall rating of data quality (*Excellent, Very Good, Good, Fair, or Unsatisfactory*). Discussions summarize the rationale for these ratings and, for all but those rated *Excellent*, improvement plans.

Data assessments are based on seven criteria, of which two – accuracy and relevance – are weighted twice as much as others in the rating system (see box below). If data do not satisfy the standards for both of these criteria, the rating is *Data Quality Not Determined*. This reflects the DOL policy that further assessments of quality are irrelevant if the information is not reasonably correct or worthwhile.

**Data Quality Rating System**

Both bulleted descriptions under a criterion must be satisfied to receive points. *No partial credit is awarded*. The rating scale reflects 20 points for Section One “threshold” criteria plus additional points earned in Section Two. Data that do not satisfy both criteria presented in Section One are given the rating *Data Quality Not Determined* – regardless of the points achieved in Section Two. This rating indicates the agency is unable to assess data quality because it does not meet a minimum threshold.

**Section One: 20 points**

**Accurate** Data are correct. (10 points)

- Deviations can be anticipated or explained.
- Errors are within an acceptable margin.

**Relevant** Data are worth collecting and reporting. (10 points)

- Data can be linked to program purpose to an extent they are representative of overall performance.
- The data represent a significant budget activity or policy objective.

**Section Two: 25 points**

**Complete** Data should cover the performance period and all operating units or areas. (5 points)

- If collection lags prevent reporting full-year data, a reasonably accurate estimation method is in place for planning and reporting purposes.
- Data do not contain any significant gaps resulting from missing data.

**Reliable** Data are dependable. (5 points)

- Trends are meaningful; i.e., data are comparable from year-to-year.
- Sources employ consistent methods of data collection and reporting and uniform definitions across reporting units and over time.

**Timely** Data are available at regular intervals during the performance period. (5 points)

- The expectation is that data are reported quarterly.
- Data are current enough to be useful in decision-making and program management.

**Valid** Data measure the program’s effectiveness. (5 points)

- The data indicate whether the agency is producing the desired result.
- The data allow the agency and the public to draw conclusions about program performance.

**Verifiable** Data quality is routinely monitored. (5 points)

- Quality controls are used to determine whether the data are measured and reported correctly.
- Quality controls are integrated into data collection systems.

| <u>Rating</u>                      | <u>Points</u> |
|------------------------------------|---------------|
| <i>Excellent</i>                   | 45            |
| <i>Very Good</i>                   | 40            |
| <i>Good</i>                        | 30-35         |
| <i>Fair</i>                        | 25            |
| <i>Unsatisfactory</i>              | 20            |
| <i>Data Quality Not Determined</i> | Varied        |



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DOL piloted the Data Quality Assessment process in FY 2006. By doing so, DOL not only increased the transparency of data quality among performance goals, but also implemented a forward-looking method for systematically evaluating data systems using widely accepted criteria. In its pilot year, the assessments provided a valuable baseline by identifying weaknesses and establishing improvement plans. By increasing the visibility of data quality, DOL is using the assessment process as an important benchmark for monitoring progress and stimulating change.

In this year's report, data for four performance goals are rated *Excellent*, ten are *Very Good*, six are *Good*, two are *Fair*, and two are *Data Quality Not Determined*. No performance goals were rated *Unsatisfactory*. Ratings this year largely remained the same; exceptions are higher ratings for ESA's Wage and Hour Division, Office of Federal Contractor Compliance Programs and Office of Workers' Compensation Programs goals, and lower ratings for ETA's Senior Community Service Employment Program and VETS' Uniformed Services Employment and Reemployment Rights Act goals. For two other goals, FY 2006 and FY 2007 ratings were not directly comparable due to the restructuring of performance goals. The Community Based Job Training Grants program did not report results and therefore, was not included. Given the short duration between the FY 2006 year-end pilot assessment and the FY 2007 mid-year assessment, this year's reporting focused on improvement plans to address the criteria not met in the pilot year assessment and considered the impact of any pertinent reports or audits released in FY 2007.

OIG continues to identify data quality issues among its Major Management Challenges. Central to this ongoing challenge is the Department's limited ability to ensure the quality of data reported by States and other sources below the Federal level. The Employment and Training Administration (ETA) is the principal agency affected by these findings. While their data quality assessments consistently identify verifiability as a weakness, these findings strictly relate to data collection systems for their performance goals. The OIG findings, however, cover data quality for sources not related to the performance goals. Beyond ETA, measuring the societal impact of compliance assistance, enforcement, policy development, and outreach also poses measurement challenges.

Individual agencies must find a balance between measuring activities linked to their performance goals and measuring the far-reaching benefits to their constituents. Multiple performance measures, often relying on various data collection systems, allow an agency to focus on key performance areas linked to specific strategies. It is important to recognize that the data quality rating system evaluates only those data collection systems which support performance indicators appearing in this report. Program evaluations and audit reports, such as those listed in the performance goal chapters, supplement the performance data and give agencies a more comprehensive view into the effectiveness of their programs and help identify areas for improvement.

In FY 2008, the data quality assessment process will entail full re-assessments for all performance goals. This could result in upward or downward adjustments of ratings for some goals. As data quality standards are further institutionalized and awareness of data quality increases Department-wide, DOL expects improved quality and quantity of information. It may also result in minor changes to ratings. As a testament to the robustness of the assessments to date, subsequent pertinent reports and audits generally confirmed assessment findings. This year's improvement plans focused on remedying deficiencies among data systems that are mostly rated between *Good* to *Excellent*. Nonetheless, the Department views these results as the beginning of a long-term strategy to raise the bar in data quality and performance reporting.

## Planning and Evaluation at the Department of Labor

The diagram below illustrates the theoretical foundation of performance planning and evaluation structures, processes and results covered in this section of the Performance and Accountability Report. The outer circle represents the scope of DOL's resources and influence. At the core is our mission. Everything in between is in continuous motion, clockwise and counter-clockwise. Quadrants represent the planning elements that are tied to periodic budget documents. Spokes incorporate the actual processes that follow resource allocation decisions and translate theory into practice. These elements are managed on a real-time basis; emergent cost and results information ultimately closes the feedback loop via reporting documents and the next period's budget. A more detailed description of planning and evaluation processes follows the diagram.



### Planning Cycle

The planning cycle begins in the upper left quadrant and moves clockwise. While planning can occur throughout the year, budget formulation officially launches the cycle. At this stage, programs define and prioritize desired outcomes by translating mere notions into realistic program goals. With clearly articulated goals in place, programs then need a mechanism for measuring their progress against those goals. Performance indicators, which appear throughout this plan, attempt to capture the results of program activities. Programs collect and monitor the data for these indicators in order to gauge progress towards their performance goals. Managers may adjust program strategies based on these results. As the budget formulation cycle nears, decision-makers can use performance data to strategically allocate resources to the most effective program strategies. Decision-makers also consider cost and which strategies will yield the maximum benefit for the least cost to the public.

### Evaluation Cycle

Starting with the same quadrant but this time moving counter-clockwise, the budget defines fiscal parameters for execution of strategies constrained by program authorization legislation. Strategies materialize as activities, the results of which are assessed using performance indicators. Data from the performance indicators demonstrate whether goals are achieved. Outcomes – in generic terms, demonstrated effectiveness at achieving goals – justify further budget requests.

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## Strategic Goal 1: A Prepared Workforce

*Develop a prepared workforce by providing effective training and support services to new and incumbent workers and supplying high-quality information on the economy and labor market.*

America's engine of prosperity is its skilled workforce. The maintenance of our strong national economy depends, in part, on developing a steady stream of workers that possess skills required by today's employers. The Department must ensure that every available labor pool is tapped, including job seekers with disabilities, veterans, and disadvantaged youth. DOL agencies and offices supporting this goal are:

- Bureau of Labor Statistics (BLS),
- Office of Job Corps (OJC),
- Employment and Training Administration (ETA),
- Veterans' Employment and Training Service (VETS),
- Women's Bureau, and
- Center for Faith-Based and Community Initiatives.

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The Working Women in Transition (WWIT) program is a multi-regional Women's Bureau demonstration project focusing on women who are making a significant transition in their work lives. Sites in ten states target incarcerated women, Hurricane Katrina survivors, women in rural areas, recipients of Temporary Assistance for Needy Families, women recovering from substance abuse, baby boomers changing careers, minority women desiring to start or grow their own businesses, and single mothers. WWIT equips women with the skills and confidence they need to pursue career goals. For example, WWIT works with Vermont Works for Women and the Southeast State Correctional Facility in Windsor, Vermont, to teach building trade skills to incarcerated women. In addition to the hands-on training, the WWIT program also provides tailored support systems that include online and face-to-face mentoring; extra skills training; and tracking mechanisms to ensure participant success. [Photo credit: Jon Olender]

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A prepared workforce has the skills and the education that employers demand. Education – from literacy to vocational training – plays a fundamental role in preparing workers for life-long employment. In addition, DOL focuses on helping those who face exceptional barriers to successful employment. These individuals, such as low-income youth and homeless veterans, benefit from specialized training tailored to their unique situations. DOL provides comprehensive training programs that focus on specific, occupational skills while taking into account the trainees' special circumstances. In addition, DOL produces labor statistics that individuals and businesses can use to better understand the job market and the economy. Performance indicators for these programs measure the extent to which DOL has successfully placed these individuals in jobs. In FY 2007, DOL delivered timely and accurate labor statistics, improved literacy skills and increased educational attainment for youth, connected individuals with better jobs through Apprenticeship programs, and placed homeless veterans in jobs.

### For Youth

- The Job Corps program improved basic reading and math skills for nearly 60 percent of its students.
- The job prospects for many low-income youth increased. Nearly 60 percent of low-income students entered employment, post-secondary education, or occupational skills training after exiting DOL funded training programs.

### For Workers in the Trades

- Over 80 percent of workers in apprenticeship programs remained employed for nine months after entry. For individuals learning a trade, job experience leads to increasing skills and wages.
- Average hourly wages increased by \$1.50.

## For Veterans

- More veterans with disabilities found and kept their jobs.
- More homeless veterans found jobs.

These national results are realized by bringing together the right mix of services, education, and information to help each person fulfill his or her career goals. The vignettes throughout this section illustrate some of the stories behind Strategic Goal One. For more specific information, see the Performance Goal narratives.

The following table provides key information, goal statements, and achievement for DOL performance goals associated with this strategic goal. Those with labels that begin with "06" operate on a Program Year (PY) basis, and are reporting on the period from July 1, 2006 to June 30, 2007 due to the forward-funding authorized in the Workforce Investment Act of 1998 (WIA).

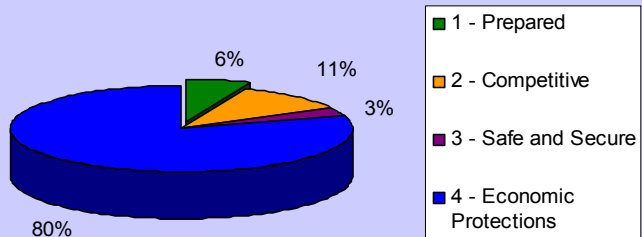
| Goal (Agency) and Statement   | Performance Summary   | Net Cost (millions) <sup>23</sup> |                    |                    |
|---|---|-----------------------------------|--------------------|--------------------|
|   |   | FY 2005<br>PY 2004                | FY 2006<br>PY 2005 | FY 2007<br>PY 2006 |
| <b>07-1A (BLS)</b> Improve information available to decision-makers on labor market conditions, and price and productivity changes.                                 | Goal achieved. All six targets reached.                                     | \$536                             | \$573              | \$574              |
| <b>06-1B (OJC)</b> Improve educational achievements of Job Corps students and increase participation of Job Corps graduates in employment and education.            | Goal not achieved. One target reached and two not reached.                  | 1,309                             | 1,402              | 1,238              |
| <b>06-1C (ETA)</b> Increase placements and educational attainments for youth served through the WIA youth program.  | Goal substantially achieved. One target reached and one improved.           | 947                               | 1,017              | 908                |
| <b>07-1D (ETA)</b> Improve the registered apprenticeship system to meet the training needs of business and workers in the 21st Century.                             | Goal achieved. Both targets reached.  | 23                                | 25                 | 24                 |
| <b>06-1E (VETS)</b> Improve the employment outcomes for veterans who receive One-Stop Career Center services and Homeless Veterans' Reintegration Program services. | Goal not achieved. Three targets reached and three not reached.             | 209                               | 212                | 211                |
| Other (Youth Offender Reintegration, Indian and Native American Youth Programs, etc.)   |   | 187                               | 131                | 147                |
| <b>Total for Strategic Goal 1</b>   | <b>Two goals achieved, one substantially achieved and two not achieved.</b> | <b>\$3,211</b>                    | <b>\$3,360</b>     | <b>\$3,103</b>     |

The net cost dedicated to Strategic Goal 1 in FY 2007 was \$3.103 billion. The first chart below is based on total Departmental costs of \$47.872 billion; the second is based on an adjusted net cost of \$12.771 billion that excludes the major non-discretionary program costs associated with Strategic Goal 4.<sup>24</sup> Net cost dedicated to Strategic Goal 1 in FY 2006 (restated to reflect current goal structure) was \$3.360 billion.

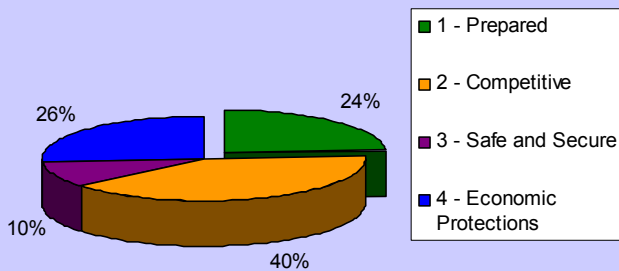
<sup>23</sup> Net cost as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis.

<sup>24</sup> The excluded costs are referred to as Income Maintenance – unemployment benefit payments to individuals who are laid off or out of work and seeking employment (\$32.051 billion) plus disability benefit payments to individuals who suffered injury or illness on the job (\$3.050 billion).

**Strategic Goal 1 - Percent of Net Cost of DOL Budget**



**Percent of Net Cost Excluding Income Maintenance**



## Timely, Accurate, and Relevant Economic Information

### Performance Goal 07-1A (BLS) – FY 2007

*Improve information available to decision-makers on labor market conditions, and price and productivity changes.*

| Indicators, Targets and Results   |        |  |                                 |                             |
|---|--------|--|---------------------------------|-----------------------------|
| *Indicator target reached (Y), substantially reached (S), improved (I), or not reached (N)<br>Some indicators not shown for FY 2005 – see Legacy Data note below  |        | FY 2005<br>Goal Sub-<br>stantially<br>Achieved | FY 2006<br>Goal Not<br>Achieved | FY 2007<br>Goal<br>Achieved |
| Percent of output, timeliness, accuracy, and long-term improvement targets achieved for labor force statistics  | Target | —  | 85%                             | <b>80%</b>                  |
|   | Result | —  | 79%                             | <b>92%</b>                  |
|   | *      | —  | N                               | <b>Y</b>                    |
|   | Cost   | —  | —                               | 268                         |
| Percent of output, timeliness, accuracy, and long-term improvement targets achieved for prices and living conditions  | Target | —  | 85%                             | <b>90%</b>                  |
|   | Result | —  | 94%                             | <b>90%</b>                  |
|   | *      | —  | Y                               | <b>Y</b>                    |
|   | Cost   | —  | —                               | 198                         |
| Percent of output, timeliness, accuracy, and long-term improvement targets achieved for compensation and working conditions   | Target | —  | 85%                             | <b>86%</b>                  |
|   | Result | —  | 77%                             | <b>96%</b>                  |
|   | *      | —  | N                               | <b>Y</b>                    |
|   | Cost   | —  | —                               | 95                          |
| Percent of output, timeliness, accuracy, and long-term improvement targets achieved for productivity and technology   | Target | —  | 85%                             | <b>86%</b>                  |
|   | Result | —  | 100%                            | <b>100%</b>                 |
|   | *      | —  | Y                               | <b>Y</b>                    |
|   | Cost   | —  | —                               | 12                          |
| Customer satisfaction with BLS products and services per the American Customer Satisfaction Index   | Target | 75%  | 75%                             | <b>79%</b>                  |
|   | Result | 74%  | 79%                             | <b>79%</b>                  |
|   | *      | S  | Y                               | <b>Y</b>                    |
|   | Cost   | —  | —                               | 0                           |
| Cost per transaction of the Internet Data Collection Facility   | Target | \$3.32   | \$2.58                          | <b>\$1.79</b>               |
|   | Result | \$2.44   | \$1.82                          | <b>\$1.12</b>               |
|   | *      | Y  | Y                               | <b>Y</b>                    |
|   | Cost   | —  | —                               | 1                           |
| Goal Net Cost (millions)  |        | \$536  | \$573                           | <b>\$574</b>                |
| Source(s): Office of Publications and Special Studies report of release dates against OMB release schedule for BLS Principal Federal Economic Indicators; News releases for each Principal Federal Economic Indicator; BLS budget submissions and Quarterly Review and Analysis System; ACSI Quarterly E-Government scores. |        |  |                                 |                             |
| Legacy Data: Complete indicators, targets and results for FY 2004-05 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-1.2A.   |        |  |                                 |                             |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis.   |        |  |                                 |                             |

### Program Perspective and Logic

BLS is the principal fact-finding agency in the Federal government in the broad field of labor economics. As an independent national statistical agency within the Department of Labor, BLS collects, processes, analyzes, and disseminates essential statistical data to the American public, the U.S. Congress, other Federal agencies, State and local governments, business, and labor. BLS provides information that supports the formulation of economic and social policy, and decisions that affect virtually all Americans.

BLS reports performance for this goal by producing timely and accurate data, as well as by improving its products and services. BLS evaluates new economic and statistical methodologies; technologies; and survey design, collection, and dissemination approaches. Keeping abreast of improvements and using them to deliver data in a more timely and useful manner, while still maintaining cost effectiveness, are essential ingredients to meeting DOL goals and providing the quality of service BLS customers expect. In 2007, BLS began publishing information on employee hours and earnings, which will enhance understanding of wage growth and provide improved input for other major economic indicators. BLS also developed new measures of labor productivity and unit labor costs for three additional service-producing industries. In addition, BLS added new Business Employment Dynamics data at the State level, which are particularly useful in highlighting the forces behind the net changes in employment.

### Analysis and Future Plans

BLS reached the targets for all six of its indicators, achieving its goal. Performance indicators for this goal include quality indicators for four categories of statistical surveys, a customer satisfaction index, and an efficiency measure. Each of the four survey quality indicators – for prices and living condition surveys, productivity and technology surveys, labor force statistics, and compensation and working conditions surveys – consist of output, timeliness, accuracy, and long-term improvement targets. BLS measures its survey quality by percent of these targets achieved, and in FY 2007 results exceeded targeted levels for all four categories. Cost per transaction of the Internet Data Collection Facility, the agency's efficiency measure improved to \$1.12 and also reached its target. The Occupational Outlook Handbook (OOH) is the Bureau's nationally recognized source of career information. Using the American Customer Satisfaction Index, the OOH Web site reached its target score of 79 percent. See the PART, Program Evaluations and Audits section on the next page for more information on the recommendations DOL will implement to improve customer satisfaction with the BLS Website.

The Department of Energy's Office of Science operates 10 national laboratories (including Argonne, Fermi, and Oak Ridge) employing about 25,000 people. Since 2002, the Acting Director has set a priority on workplace safety. He stated, "To be world class in science, we must be best-in-class in our safety performance." Using tabulations from the BLS Survey of Occupational Injuries and Illnesses, the office set 'Best-in-Class' safety goals for its laboratories. As a result, between 2002 and 2006, the Office of Science reduced its annual injury and illness cases from 593 to 283 – over 50 percent. During that same period, the days away from work, restricted activity, and transfer (DART) cases decreased 71 percent from 301 to 87. The Acting Director credits BLS data for "helping the Office of Science set safety goals and improve our laboratories."



Photo Credit: Fermilab  
(home to the world's highest-energy particle accelerator)

Under the labor force statistics indicator, BLS will improve its products by increasing the number of establishments surveyed by the Quarterly Census of Employment and Wages program, which is used to help

guide the allocation of tens of billions of dollars in Federal assistance programs. As part of the prices and living conditions indicator, the Producer Prices and Price Indexes (PPI) program is continuing work to upgrade two of its systems. PPI releases the Finished Goods Price Index, one of the Nation's most closely watched indicators of economic health. PPI data are also used by the Bureau of Economic Analysis to calculate the gross domestic product (GDP) deflator. Within the compensation and working conditions indicator, BLS will publish data from a redesigned, more efficient Survey of Occupational Injuries and Illnesses sample. Under the productivity and technology indicator, the International Comparisons program will be enhanced. International Comparisons data are used to evaluate the competitive position of the U.S. in global markets.

In FY 2007, for the first time, BLS is reporting on its costs at the performance indicator level. BLS will report on cost trends in future performance reports. The cost increase for this performance goal between FY 2005 and FY 2006 was primarily due to budgeted increases in personnel compensation and benefits and other services and small differences in the timing of certain expenditures. Costs were virtually unchanged from FY 2006 to FY 2007.

**PART, Program Evaluations and Audits**

BLS programs and services underwent a Program Assessment Rating Tool (PART) review in 2003 and received a rating of *Effective*, the highest rating category. BLS completed the three original PART recommendations in 2005. In 2006, DOL started work on new recommendations that will ensure continuous improvement: BLS is conducting an independent evaluation of agency effectiveness, developing additional efficiency and cost-effectiveness measures, and establishing more ambitious targets. In addition, in 2007, BLS made upward revisions to its long-term performance indicator targets. BLS programs are evaluated both internally and externally to ensure that they provide taxpayer value. As required by OMB, the seven BLS statistical reports that are designated as Principal Federal Economic Indicators are evaluated on a three-year schedule. In FY 2007, BLS completed a performance evaluation for the Current Population Survey.

| <b>“Customer Satisfaction with the BLS Occupational Outlook Handbook (OOH) Website,” September 2007<br/>(Federal Consulting Group)</b>  |
|---|
| <b>Purpose:</b> As BLS continues to provide more information to customers on its Web site, it is important to know how satisfied customers are with the delivery of BLS products and services.  |
| <b>Major Findings:</b> BLS received a customer satisfaction score of 79% for 2007. Better search, navigation, and site performance could improve overall customer satisfaction. An architectural scan of the OOH Web site found that the OOH site has excellent page accessibility, very few broken internal or external links, and no duplicate images or documents, but that some pages are too large and that improvements can be made in the area of metadata coverage. (Metadata are descriptive tags or keywords that search engines use to index pages.) |
| <b>Recommendations:</b> Architectural scan results recommend that BLS improve its metadata coverage.  |
| <b>Actions Taken and Remaining:</b> BLS may establish an internal standard for meta keywords and descriptions.  |
| <b>Additional Information:</b> A copy of the quarterly news release can be found at <a href="http://www.foreseeresults.com/">http://www.foreseeresults.com/</a> .   |

**Data Quality and Major Management Challenges**

BLS has instituted rigorous, systematic, and comprehensive controls to ensure that its data are of *Excellent* quality. For example, the BLS executive team meets with program management on a quarterly basis to discuss progress toward meeting performance indicators. BLS also conducts its own program reviews and contracts for external reviews, as necessary. These assessments ensure that survey data are accurate, reliable, and released in a timely fashion; systems and procedures are documented adequately; program performance meets or exceeds standards; and pre-release data are kept confidential.



## Increase Placements and Educational Attainments of Youth

### Performance Goal 06-1B (OJC) – PY 2006

*Improve educational achievements of Job Corps students and increase participation of Job Corps graduates in employment and education.*

| Indicators, Targets and Results  |        |                                 |                                 |                                 |
|--|--------|---------------------------------|---------------------------------|---------------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>Some indicators not shown for PY 2004 – see Legacy Data note below  |        | PY 2004<br>Goal Not<br>Achieved | PY 2005<br>Goal Not<br>Achieved | PY 2006<br>Goal Not<br>Achieved |
| Percent of participants entering employment or enrolling in post-secondary education or advanced training/occupational skills training in the first quarter after exit   | Target | 85%                             | 85%                             | <b>87%</b>                      |
|  | Result | 84%                             | 80%                             | <b>74%</b>                      |
|  | *      | N                               | N                               | <b>N</b>                        |
| Percent of students who attain a GED, high school diploma or certificate by the end of the third quarter after exit  | Target | 64%                             | 64%                             | <b>65%</b>                      |
|  | Result | 64%                             | 60%                             | <b>57%</b>                      |
|  | *      | Y                               | N                               | <b>N</b>                        |
| Percent of students who will achieve literacy or numeracy gains of one Adult Basic Education (ABE) level (approximately equivalent to two grade levels)  | Target | 45%                             | 45%                             | <b>58%</b>                      |
|  | Result | 47%                             | 58%                             | <b>58%</b>                      |
|  | *      | Y                               | Y                               | <b>Y</b>                        |
| Goal Net Cost (millions)   |        | \$1,309                         | \$1,402                         | <b>\$1,238</b>                  |
| Source(s): Job Corps Management Information System   |        |                                 |                                 |                                 |
| Legacy Data: Complete indicators, targets and results for PY 2001-04 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 05-1.1B.  |        |                                 |                                 |                                 |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. Participants included in the calculation of the placement rate (first indicator) will continue to include graduates and former enrollees, not all students, until complete and reliable data are available. Costs are not allocated to the indicator level for placement, credential and literacy/numeracy measures because program activities are not separable into categories associated with one or another of them. |        |                                 |                                 |                                 |

### Program Perspective and Logic

Job Corps is an intensive educational and vocational training program (primarily residential) for economically disadvantaged youth ages 16 through 24 who often face multiple barriers to gainful employment. This program provides career counseling, technical skills and academic training, social education, and other support services, such as housing, transportation and family support resources to more than 60,000 individuals at 126 centers – including four satellite centers – nationwide. Job Corps centers, ranging in size from 200 to 2000 students, are located in both urban and rural communities. Job Corps centers provide individually tailored services to help students achieve the skills and credentials required to be successful, productive citizens and to obtain work opportunities that lead to long-term employment.

Job Corps' performance can be influenced by external factors such as local labor market conditions and national economic trends. In recent years, an increasingly knowledge-based labor market has challenged Job Corps to redirect both academic and technical career training approaches.

Performance of the Job Corps program is assessed using the Federal job training program common measures for youth – placement in employment or education, attainment of a degree or certificate, and literacy or numeracy gains – as indicators of student achievement in improving their long-term employability.

### Analysis and Future Plans

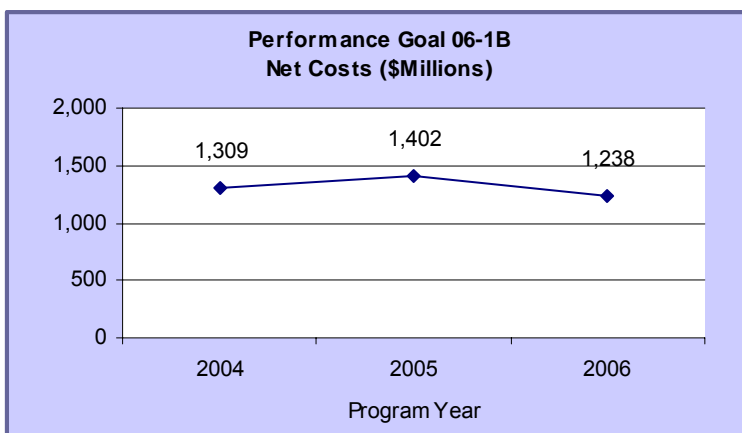
The Job Corps program did not achieve its goal for PY 2006; only one of its three indicator targets was reached. In PY 2006, Job Corps met its target for learning gains; literacy or numeracy skills increased by one Adult Basic Education (ABE) level for 58 percent of all students who were deficient in basic skills when they entered the program. Certificate attainment – students achieving a high school diploma (HSD), General Equivalency Diploma (GED) or vocational certificate while enrolled in Job Corps – fell for the second year in a row. In fact, the PY 2006 result of 57 percent was lower than PY 2005’s result of 60 percent. After data integrity reviews revealed that in past years misreporting of certificate attainments may have occurred, DOL implemented more stringent documentation requirements. The Department believes the correction of data integrity deficiencies, rather than a decline in actual performance, contributed to the reported drop in HSD, GED and vocational certificate attainments.



From January 15 through February 22, 2007, more than 500 Job Corps students from 26 centers traveled to Lafayette, Louisiana, to participate in the Blitz Build project and build 11 Habitat for Humanity homes for victims of the 2005 hurricanes that devastated the Gulf Coast region. The Blitz Build project, a partnership of Habitat for Humanity, Major League Baseball and the Dallas Region of Job Corps, gave students a chance to demonstrate leadership skills and use their career technical training in a real-world setting. Students from a variety of construction trades, including plumbing, electricity, and building maintenance received valuable hands-on experience while logging more than 20,000 hours of community service. This project and its positive impact on victims’ lives serve as testimony to the character of our students. [Photo Credit: Meghan Umphres]

DOL also attributes the second consecutive decline in placement results to changes in data collection and reporting. The pool of students has grown over the past few years due to the addition of former enrollees (students who did not complete their programs but were enrolled in Job Corps for more than 60 days). PY 2004 was the first year that former enrollees were included, producing a modest impact on the results; by PY 2005, the full effect was apparent and the negative impact continued through PY 2006.

To improve performance, DOL is implementing an ambitious New Vision, which will include: strengthening placement services and post-center support; shifting to a standards-based approach centering on industry and occupational clustering; utilizing applied academics in career technical areas supported by career success standards; establishing a comprehensive admissions process that prepares students for life and ensures students are ready and committed; and increasing and strengthening industry, education and workforce partnerships to enhance and expand delivery of student services. While these changes will not happen all at once or improve results overnight, the cumulative effect is expected to improve program performance.



Costs associated with this performance goal have trended downward over the last two years because of changes in cost allocations to Job Corps.

## PART, Program Evaluations and Audits

The Job Corps program underwent a PART review in 2007 and received a rating of *Adequate*. This is a decline from the *Moderately Effective* rating Job Corps received in a 2004 PART review. This decline is primarily attributable to a reduced score in the Results and Accountability section of the Job Corps PART. In response to findings that suggest changes to Job Corps' financial management practices, DOL is adopting efficiency measures that are linked to performance outcomes, account for all costs, and facilitate comparisons across Department of Labor training and employment programs. DOL is also improving cost effectiveness by transitioning to a center career clustering approach, improving the tracking and reporting of real property, and using the real property data to make informed resource allocation decisions.

### "Oconaluftee Job Corps Center Performance Audit," March 2007 (OIG)

**Purpose:** This audit was conducted to determine whether the National Park Service (NPS) properly recorded and reported student accomplishments and attendance and whether NPS followed applicable laws, regulations, policies, and requirements in reporting on the Oconaluftee Job Corps Center's (the Center) financial activities.

#### Major Findings:

- 1) NPS did not properly record and report student attendance.
- 2) NPS did not follow laws, regulations, policies and requirements in reporting the Center's financial activities.
- 3) NPS and Job Corps had not completed actions on the health and safety issues previously reported by the Office of Inspector General.

#### Recommendations:

- 1) Ensure training is provided on applicable Job Corps Policy and Requirements Handbook and NPS requirements for all personnel with responsibility for recording and reporting absences without leave (AWOL), separating students who exceed AWOL limitations, and documenting leave requests and approvals.
- 2) Monitor to ensure that the NPS and the Center accurately record and report the students' accomplishments and attendance, and the Center's financial activity.
- 3) Collect the cost underrun of \$190,367 and obtain a refund of \$124,608 from NPS for the EEO claim improperly charged as Center operating costs.
- 4) Require an annual reconciliation of program year funds provided to and expenditures reported by federally operated centers.

**Actions Taken and Remaining:** The Job Corps National Director temporarily closed the Oconaluftee Job Corps Center on March 22, 2007, citing as reasons conditions that threatened students' health and safety.

**Additional Information:** A copy of the complete report can be obtained at <http://www.oig.dol.gov/public/reports/oa/2007/26-07-001-01-370.pdf>.

### "Job Corps Director's Authority as Contracting Officer Raises Concerns," March 2007 (OIG)

**Purpose:** This audit responded to an anonymous hotline complaint alleging improper actions by the former Regional Director (RD) of the Atlanta Regional Office of Job Corps (AROJC).

#### Major Findings:

- 1) The former AROJC Regional Director abused his contracting authority by violating procurement regulations to acquire personal services.

#### Recommendations:

- 1) Assign Contracting Officer and Regional Director responsibilities to two individuals in each region, to strengthen controls and provide for greater independence in the selection and award of future Job Corps contracts.
- 2) Update the Program Assessment Guide (official guidance) to incorporate the Regional Office Assessment Team pre-brief out meeting process. This process includes the discussion, concurrence, and documentation of quality assessment scores prior to the Team providing Job Corps contractors results of their performance evaluation.
- 3) Ensure adherence to Federal Acquisition Regulation of personal service contracts and conflicts of interest.

#### Actions Taken and Remaining:

- 1) Job Corps has separated the duties of the Regional Director and the Contracting Officer by placing those functions in two different reporting structures, which ensures adherence to Federal Acquisition Regulations.
- 2) The Program Assessment Guide is being updated to reflect these changes.

**Additional Information:** A copy of the complete report can be obtained at <http://www.oig.dol.gov/public/reports/oa/2007/04-07-002-01-370.pdf>.

### **Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Very Good*. The data are accurate, relevant, complete, reliable, timely, and valid. When the OIG cited insufficient management controls over performance data in 2004, DOL designed and implemented new data integrity procedures. These procedures required regional offices to utilize targeted samples (that highlight the most likely cases where error or manipulation has occurred) for audit reviews to be conducted in conjunction with on-site assessments. Regional offices were also required to develop procedures for identification and collection of liquidated damages, as necessary. Since that time, regional offices have recovered \$315,739 in liquidated damages. Trends in performance data show that these audits, and resulting penalties, have affected performance reporting and results; the Office of Job Corps is confident that the new data integrity strategy is producing more reliable student outcome data from Job Corps centers and career transition service providers.

*Ensuring the Effectiveness of the Job Corps Program* is listed as a Departmental Major Management Challenge (see item II in the challenges table located in Management's Discussion and Analysis). To address this challenge, DOL is improving the way Regional Offices monitor the performance of contractors that operate 98 of its Job Corps centers. In FY 2007, a new process that included both a fiscal and a performance review was implemented. The Office of Job Corps conducted training for three of six Regional Offices on monitoring contractor performance of financial management and cost reporting, data integrity, and asset management. The staff at the three remaining Offices will be trained in October of 2007. The Departments of Interior and Agriculture operate 28 Job Corps centers via Interagency Agreements with DOL. DOL is negotiating revisions to the Interagency Agreements with these Departments to provide for more accountability on financial and property management by the agencies and greater oversight by the Office of Job Corps. Finalized agreements are expected to become effective in FY 2008.

Additionally, in FY 2008, the Office of Job Corps will be implementing rigorous safety and occupational health standards and requirements for all Job Corps centers, and will be completing training for Job Corps center staff to ensure that students with cognitive disabilities are identified and assessed. Also, Regional Disability Coordinators hired on a part-time basis in FY 2007 – to aid in minimizing or removing barriers to success for students with cognitive disabilities – will be converted to full-time staff in FY 2008.

## Assist Youth in Making a Successful Transition to Work

### Performance Goal 06-1C (ETA) – PY 2006

*Increase placements and educational attainments for youth served through the WIA youth program.*

| Indicators, Targets and Results   |        |                       |                                     |
|---|--------|-----------------------|-------------------------------------|
|   |        | PY 2005 Goal Achieved | PY 2006 Goal Substantially Achieved |
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated  |        |                       |                                     |
| Percent of participants entering employment or enrolling in post-secondary education or advanced training/occupational skills training in the first quarter after exit  | Target | baseline              | <b>60%</b>                          |
|   | Result | 57.8%                 | <b>58.2%**</b>                      |
|   | *      | Y                     | <b>I</b>                            |
| Percent of students who attain a GED, high school diploma or certificate by the end of the third quarter after exit   | Target | baseline              | <b>40%</b>                          |
|   | Result | 36%                   | <b>43.4%**</b>                      |
|   | *      | Y                     | <b>Y</b>                            |
| Percent of students who will achieve literacy or numeracy gains of one Adult Basic Education (ABE) level (approximately equivalent to two grade levels)   | Target | —                     | <b>baseline</b>                     |
|   | Result | —                     | —                                   |
| Goal Net Cost (millions)  |        | \$1,017               | <b>\$908</b>                        |
| Source(s): Annual State WIA performance reports (ETA-9091)  |        |                       |                                     |
| Legacy Data: Complete indicators, targets and results for PY 2001-04 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 05-1.1A.   |        |                       |                                     |
| Note: Net costs are defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. Costs are not allocated to the indicator level for placement, credential and literacy/numeracy measures because program activities are not separable into categories associated with one or another. |        |                       |                                     |

#### Program Perspective and Logic

The Workforce Investment Act (WIA) authorizes services to low-income youth (age 14-21) with barriers to employment. The program serves both in- and out-of-school youth, including youth with disabilities and other youth who may require specialized assistance to complete an educational program or to secure and hold employment. Through this program, youth are prepared for employment and post-secondary education by stressing linkages between academic and occupational learning. Additional services available to youth include tutoring, alternative schools, summer employment, occupational training, work experience, supportive services, leadership development, mentoring, counseling, and follow-up services.

DOL collects data for three performance indicators, all common measures for youth and lifelong learning aspects of Federal employment and training programs. The first, percent of youth entering employment, advanced training or education after leaving the program, indicates whether DOL is transitioning youth into the workforce or post-secondary education – a key to successful careers. The second, percent of participants earning educational credentials, is a proxy for the preparedness of participants to compete in the 21st century knowledge-based economy. The third indicator measures literacy/numeracy gains by basic skills deficient out-of-school participants in the WIA Youth Program. Data on literacy/numeracy gains were collected but are insufficient to report at this time; DOL will establish a baseline in PY 2007 and then targets for PY 2008.

#### Analysis and Future Plans

The goal for the WIA youth program was substantially achieved. In PY 2006, the program reached its target for attainment of a degree or certificate. Results for placement in employment or education fell slightly below the target; however, the result is an improvement over the PY 2005 result. DOL is in the process of collecting data to establish a baseline for literacy/numeracy gains. Increased emphasis on serving out-of-school and the

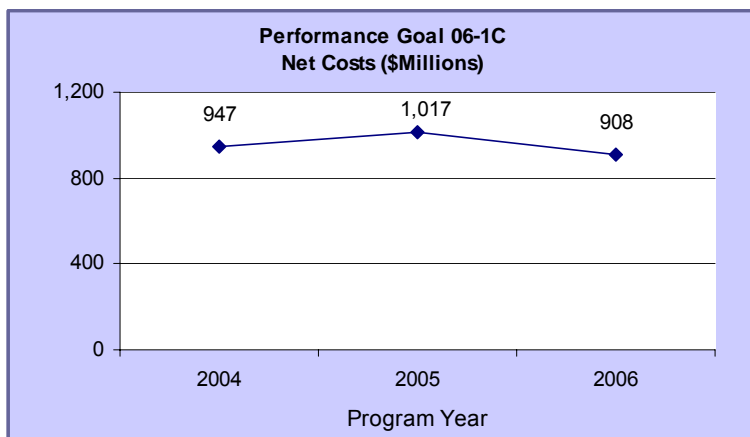
neediest youth likely impacted the program’s ability to meet the target for the entered employment or education indicator. These populations are the most difficult to serve, and they historically have lower performance outcomes. Results should improve as WIA-funded youth programs become more effective in serving out-of-school youth and continue to increase coordination with other youth-serving agencies and systems such as juvenile justice and education.



Suzzie is a teen parent attending the Carver-Scott Educational Cooperative (CSEC) in Shakopee, Minnesota. She took the Medical Careers class which allows students to explore the health field. Park Nicollet Clinic, CSEC and Scott County developed a 10-week work experience program with academic credits. Suzzie was one of three parenting/pregnant teens enrolled in job shadowing a variety of high growth medical occupations at the clinic. Suzzie felt that the WIA youth program helped her with teamwork, communication and mathematics. She enjoys math now and understands how important it is in a medical profession. With this inspiration, Suzzie achieved straight A's and is now attending Crown College as a Post Secondary Education Option student, taking classes that are applicable for her enrollment next year in their two-year nursing program. Suzzie is the first in her family to go to college and she hopes to inspire others to follow. [Photo Credit: Kay Tracy]

Collection of baseline data on literacy/numeracy gains will continue in PY 2007 to enable the program to set a valid target for PY 2008. The Department will continue strategies that recognize out-of-school and at-risk youth as an important part of the new workforce “supply pipeline” needed by businesses to fill job vacancies in the knowledge economy. WIA-funded youth programs connect these youth with quality secondary and post-secondary educational opportunities, and high-growth and other employment opportunities. To support these strategies, DOL formed a Shared Youth Vision (SYV) Federal partnership with the Departments of Health and Human Services, Education, Justice, Housing and Urban Development and Transportation, and the Social Security Administration and the Corporation for National and Community Service. The focus of the Federal partnership is to assist States in coordinating resources and program delivery strategies to achieve positive outcomes for the neediest youth. In conjunction with the SYV Federal partnership, DOL awarded grants to 16 States for the development and implementation of pilot projects to provide integrated services to a specific population of the neediest youth.

Costs associated with this performance goal rose by seven percent between PY 2004 and PY 2005 and then



fell eleven percent between PY 2005 and PY 2006, reflecting fluctuation in the timing of expenditures; States have three years to expend obligated funds. The decrease in costs for PY 2006 is also attributable to a twelve percent decline in the number of participants served. The number of participants served fluctuates from year to year. Costs are not allocated at the indicator level since funds provided to the States support all the measured outcomes – entering employment or education, attaining a degree or certificate, and demonstrating gains in literacy or numeracy – and many of the youth who exit the program experience all three.

### PART, Program Evaluations and Audits

The program underwent a PART review in 2003 and received a rating of *Ineffective*. After the review, DOL implemented the improvement plan recommendations: In PY 2006, the Department began collecting data from WIA grantees on all three common performance measures for Federal job training programs. DOL is also contracting an independent study of program effectiveness – using administrative data – to be completed in 2008. Also in 2008, a more rigorous, seven-year evaluation will begin to determine WIA

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services' impact on employment and earnings outcomes for participants. The Government Accountability Office conducted an evaluation titled, "Workforce Investment Act: Additional Actions Would Further Improve the Workforce System." To view a summary of the findings, recommendations, and a link to the study, please see Performance Goal 06-2A.

**Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Very Good*. Strengths of the data included its relevance, reliability, and routine verification. While verification remains an area for improvement, extensive effort has been directed toward improving data quality through the use of DOL's data validation system and monitoring at both the national and regional levels (see item IX, *Improving Performance Accountability of Grants* in the Major Management Challenges section of Management's Discussion and Analysis). In particular, ETA drafted a revised Monitoring Guide for data validation in PY 2006 and will implement a streamlined performance reporting system in 2008. To support the new reporting system, benchmarks for data validation results will be established once baseline studies are completed.

## Satisfy High-Growth Industry Labor Needs via Apprenticeships

### Performance Goal 07-1D (ETA) – FY 2007

*Improve the registered apprenticeship system to meet the training needs of business and workers in the 21<sup>st</sup> Century.*

| Indicators, Targets and Results  |        |                             |                             |                             |
|--|--------|-----------------------------|-----------------------------|-----------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated<br>Some indicators not shown for FY 2005 – see Legacy Data note below   |        | FY 2005<br>Goal<br>Achieved | FY 2006<br>Goal<br>Achieved | FY 2007<br>Goal<br>Achieved |
| Percent of those employed nine months after registration as an apprentice  | Target | Baseline                    | 78%                         | <b>79%</b>                  |
|  | Result | 78%                         | 82%                         | <b>83%**</b>                |
|  | *      | Y                           | Y                           | Y                           |
| Average hourly wage gain for tracked entrants employed in the first quarter after registration and still employed nine months later  | Target | Baseline                    | \$1.26                      | <b>\$1.33</b>               |
|  | Result | \$1.26                      | \$1.32                      | <b>\$1.50**</b>             |
|  | *      | Y                           | Y                           | Y                           |
| Goal Net Cost (millions)   |        | \$23                        | \$25                        | <b>\$24</b>                 |
| Sources: Registered Apprenticeship Information System (RAIS) and Apprenticeship Information Management System (AIMS)   |        |                             |                             |                             |
| Legacy Data: Complete indicators, targets and results for FY 2002-05 are available in the FY 2006 report at <a href="http://www.dol.gov/_sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/_sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-1.1A.  |        |                             |                             |                             |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. "Tracked entrants" is defined as the cohort of apprentices registered and entered into RAIS during a given reporting period. Twenty-five States have federally registered apprenticeship programs and enter data on individuals into the system. Costs are not allocated to the indicator level for retention and earnings measures because program activities are not separable into categories associated with one or the other. |        |                             |                             |                             |

### Program Perspective and Logic

The National Registered Apprenticeship System is a partnership of the Department of Labor, State agencies, sponsors, industry leaders, employers, employer associations, labor and management organizations, and educational institutions. It was established in 1937 to provide opportunities for jobseekers to find jobs with career paths, earn competitive wages, and obtain nationally-recognized industry credentials. The system promotes and registers programs and apprentices, certifies standards, safeguards the welfare of the apprentices, and provides a nationally recognized system for skilled and technical occupational training programs throughout the U.S.



The CVS Career Prescriptions for Success (CAPS) program addresses projected shortfalls of Pharmacy Technicians and Pharmacists through a multifaceted career path strategy, which includes building community interest in pharmaceutical jobs, targeting recruitment in high unemployment neighborhoods in Detroit, providing apprenticeships, and assisting current workers with career advancement through academic and training programs. As a result of this program, several successful apprentices have emerged, including Teresa. Teresa learned of the CVS CAPS program through Goodwill Industries, a faith-based and community partner. The mother of two young sons, Teresa was looking for a challenging job in a new field with advancement opportunities. She joined CVS in August 2006. Since then, she has excelled as a Pharmacy Service Associate and is now training to become an Assistant Manager. [Photo Credit: Darnell Jones]



The Department promotes the apprenticeship training system to potential sponsors and participants and registers and monitors these partners' apprenticeship programs, in some cases via State Apprenticeship Council/Agencies (SAA). Registration and oversight officials certify that standards are met for quality, fairness, and opportunity, and that apprenticeship programs incorporate appropriately supervised on-the-job learning and occupation-related technical instruction.

The apprenticeship model has demonstrated success in providing employers in numerous industries with resources to develop new occupations and train a skilled workforce to remain globally competitive. As a system based on voluntary industry participation, apprenticeship program performance is directly impacted by external factors such as wage rates determined by local apprenticeship sponsors and by the demand for skilled and technical labor in local markets.

### Analysis and Future Plans

Apprenticeship continues to demonstrate positive results as it reached FY 2007 targets for both indicators; therefore, the Department achieved its performance goal. In fact, the target for the employment retention of registered apprentices was exceeded by four percentage points. Nationally, there was modest wage gain reported from all apprenticeship programs. However, due to an unusually high demand for skilled workers in southern Nevada, there was a substantial increase in wages in that area that affected the national average for the wage gain indicator. The average cost per registered apprentice was \$74, or \$23 less than the FY 2006 result of \$97, because the number of registered apprentices increased from 220,000 in FY 2006 to 304,500 in FY 2007. This 38 percent increase was likely due to a large, one-time influx of registered apprentices from California into the Department's Registered Apprenticeship database.<sup>25</sup> In summary, the program's continued positive results demonstrate that Apprenticeship is an efficient and effective approach to training America's workers.

The Office of Apprenticeship is working with YouthBuild programs at various sites in Massachusetts to link with construction trades apprenticeship programs throughout the Commonwealth. The academic and hands-on training in construction safety and building techniques that participants receive is a natural lead into apprenticeship for program graduates interested in pursuing construction careers. YWCA YouthBuild Springfield is noteworthy because it graduated one of the first two Youth Development Practitioner journey workers in Massachusetts. [Photo Credit: DOL/ETA]



YWCA YouthBuild participant Mercedes adjusts her hard hat before beginning work on new housing.

The Department continues to re-engineer its database for registered apprenticeship programs. The new system coming online in FY 2008, to be renamed Registered Apprenticeship Partnership Information Data System (RAPIDS), will improve program quality and efficiency by using electronic processes to manage program data. The system's new and enhanced reporting capabilities will also reduce staff time necessary to generate management reports, which will improve program efficiency. Additionally, a survey of employer sponsors conducted in the spring of 2007 portrays their views on apprenticeship and integration with the workforce investment system. Findings from the survey will be published in FY 2008 and will help shape future improvements to the National Apprenticeship System.

<sup>25</sup> SAA programs are not required to submit performance data. The Department's assumption of registration duties in California in FY 2007 had a dramatic impact on the size of the national database.

Costs associated with this performance goal remained fairly constant between FY 2005 and FY 2007. Costs are not allocated to the performance indicator level since funding supports both measured outcomes for apprentices served by the federally administered programs.

#### **PART, Program Evaluations and Audits**

The program underwent a PART review in 2005 and received a rating of *Results Not Demonstrated* – reflecting lack of data on the common measures at that time. The resulting improvements DOL implemented include adopting the common measures for retention and earnings, and redesigning the Registered Apprenticeship Information System (RAIS) to capture post-training outcomes. Additionally, the Department continued efforts to expand the numbers of women in apprenticeship by awarding three Women in Apprenticeship and Nontraditional Occupations (WANTO) grants to a consortium of apprenticeship sponsors, and community- and faith-based organizations to recruit, train, employ and retain women in apprenticeship and nontraditional occupations.

#### **Data Quality and Major Management Challenges**

Data quality for this performance indicator was rated *Fair*. Strengths of the data include its accuracy, but room for improvement remains in verifiability, completeness, timeliness, and validity. The primary data source is RAIS, an automated system that operates independently from State workforce information systems. For the 25 States in which SAAs register apprentices, participation in RAIS is voluntary; therefore, complete nationwide data are not available and the collection of retention and earnings data remains challenging. Recent implementation of the common measures will affect the ability to compare performance trends in the short term. As indicated in the footnote on the first page of this narrative, wage gain data are limited to Federal efforts. RAPIDS (which will replace RAIS) includes trend analysis capability and offers features to encourage SAAs to utilize this data collection system. The system also has greater quality controls to ensure the accuracy of data collected from the federally administered programs. Efforts continue to determine how Unemployment Insurance wage record information may be accessed to verify employment outcomes of registered apprentices. It is anticipated that RAPIDS will considerably reduce the estimated staff hours needed to report the earnings indicator.

Implementation of RAPIDS will address a Major Management Challenge (MMC), *Improve Apprenticeship Data Quality* – included in item IX of the MMC table in Management's Discussion and Analysis – by making better use of performance data for program oversight and developing a cost-effective strategy for collecting data from SAAs. Expansion of the Apprentice Electronic Registration (AER) project in RAIS reduces application processing time, improves data quality, increases cost-effectiveness, and improves the program's ability to track data. AER's utilization rate increased from nine percent of participating States in FY 2005 to 50 percent in FY 2007.

The Department continues efforts that began in FY 2005 to review apprenticeship activities in SAA States. All 25 SAA States are complying with the Department's SAA review recommendations. DOL anticipates that the SAA States will continue to correct any deficiencies identified during the review process.

## Help Veterans Get and Keep Jobs

### Performance Goal 06-1E (VETS) – PY 2006

*Improve employment outcomes for veterans who receive One-Stop Career Center services and Homeless Veterans' Reintegration Program services.*

| Indicators, Targets and Results  |        |                             |                             |                             |                                 |
|--|--------|-----------------------------|-----------------------------|-----------------------------|---------------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated   |        | PY 2003<br>Goal<br>Achieved | PY 2004<br>Goal<br>Achieved | PY 2005<br>Goal<br>Achieved | PY 2006<br>Goal Not<br>Achieved |
| Percent of Veteran participants employed in the first quarter after exit   | Target | 58%                         | 58%                         | 59%                         | <b>60%</b>                      |
|  | Result | 58%                         | 60%                         | 62%                         | <b>60%</b>                      |
|  | *      | Y                           | Y                           | Y                           | <b>Y</b>                        |
| Percent of Veteran participants employed in the first quarter after exit still employed in the second and third quarters after exit  | Target | 72%                         | 80%                         | 81%                         | <b>81%</b>                      |
|  | Result | 79%                         | 81%                         | 81%                         | <b>79%</b>                      |
|  | *      | Y                           | Y                           | Y                           | <b>N</b>                        |
|  | Cost   | —                           | —                           | \$89                        | <b>\$91</b>                     |
| Percent of Disabled Veteran participants employed in the first quarter after exit  | Target | —                           | 54%                         | 55%                         | <b>55%</b>                      |
|  | Result | —                           | 56%                         | 57%                         | <b>55%</b>                      |
|  | *      | —                           | Y                           | Y                           | <b>Y</b>                        |
| Percent of Disabled Veteran participants employed in the first quarter after exit still employed in the second and third quarters after exit   | Target | —                           | 78%                         | 79%                         | <b>79%</b>                      |
|  | Result | —                           | 79%                         | 80%                         | <b>78%</b>                      |
|  | *      | —                           | Y                           | Y                           | <b>N</b>                        |
|  | Cost   | —                           | —                           | \$89                        | <b>\$91</b>                     |
| Entered employment rate for homeless veterans participating in the HVRP  | Target | 54.5%                       | 60%                         | 61%                         | <b>68%</b>                      |
|  | Result | 61%                         | 65%                         | 68%                         | <b>66%</b>                      |
|  | *      | Y                           | Y                           | Y                           | <b>N</b>                        |
| Employment retention rate after 6 months for homeless veteran HVRP participants  | Target | —                           | baseline                    | 58                          | <b>58.5%</b>                    |
|  | Result | —                           | 58%                         | 67%                         | <b>63%**</b>                    |
|  | *      | —                           | Y                           | Y                           | <b>Y</b>                        |
|  | Cost   | —                           | —                           | \$30                        | <b>\$30</b>                     |
| Goal Net Cost (millions)   |        | —                           | \$209                       | \$212                       | <b>\$211</b>                    |
| Source(s): State Workforce Agency administrative reports, State UI wage records and homeless veteran grantee reports.  |        |                             |                             |                             |                                 |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. Costs are not allocated to the indicator level for employment and retention measures because program activities are not separable into categories associated with one or another of them. However, this goal includes two programs with three distinct target populations. Costs for each group (all veterans, disabled and homeless veterans) are provided in the cost cell opposite the retention indicators, where available. |        |                             |                             |                             |                                 |

#### Program Perspective and Logic

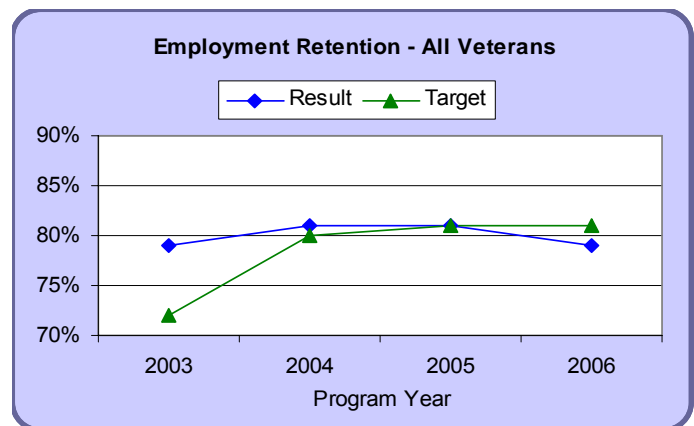
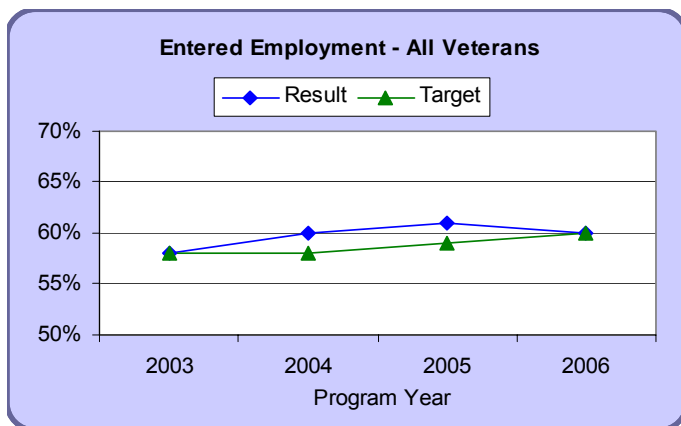
Jobs for Veterans State grants support the delivery of employment services needed by veterans and transitioning service members to promote their success in the civilian workforce. These grants support over 2,100 disabled veterans' outreach specialists and local employment representatives stationed at the

nationwide network of over 3,100 comprehensive and affiliate One-Stop Career Centers. These staff serve as experts on workforce resources available for veterans. The local representatives emphasize the provision of services for recently separated veterans and handle outreach to employers, while the outreach specialists focus their efforts on intensive services for disabled veterans and other veterans with significant barriers to employment. The Homeless Veterans' Reintegration Program (HVRP) is a competitive grant program emphasizing stable employment as the critical factor in mitigating homelessness among veterans. Program participants are served by community-based grantees that provide pre-employment services, establish linkages with service providers funded by other Federal agencies, and rely on the specialists to assist them in finding employment once they are job-ready.

One-Stop Career Centers serve younger, recently separated veterans who have limited civilian work experience and older veterans with civilian experience who have become unemployed. HVRP grantees serve homeless veterans who have minimal attachment to the workforce. DOL applies the Federal job training common measure definitions of entry to employment and retention in employment as the critical indicators of successful outcomes for all veterans and all disabled veterans who receive One-Stop services. For HVRP, DOL has used similar indicators; common measure definitions will be fully implemented in PY 2007. In setting performance targets, VETS seeks to improve service to veterans at a rate that is ambitious yet attainable.

**Analysis and Future Plans**

The goal was not achieved; only three of the six targets were reached. For all veterans served by One-Stop Career Centers, entered employment and employment retention rates declined by two percentage points from PY 2005. The employment rate target was reached while the retention rate target was not reached. For disabled veterans, the employment and retention rates also declined by two percentage points from PY 2005; as for all veterans, the employment rate target was reached while the retention rate target was not reached. The employment rate target for HVRP participants was not reached, and an estimate of the final retention result indicates it will exceed the target. Results in the charts below are for the first two indicators, which include disabled veterans but not HVRP participants.



During the past year, continued improvement in broad national economic indicators for unemployment, interest rates and productivity had a positive impact on VETS program performance. The decline between PY 2005 and PY 2006 of two percentage points across the results of all four indicators for veterans served by One-Stop Career Centers is attributable, at least in part, to a temporary disruption in interstate sharing of data on employment outcomes. That situation is expected to improve during PY 2007. While the employment rate attained by HVRP for PY 2006 was the second highest in the program's history, an increase in the proportion of new grantees may have contributed to the failure to reach the ambitious target. In response to these results, DOL intends to redouble its efforts to facilitate coordination among the VETS State offices, State Workforce Agencies and community based grantees, such as those responsible for implementing HVRP.

To improve employment outcomes for veterans, DOL is developing and implementing State Workforce Agency performance standards. Within the HVRP, VETS is implementing common measure reporting procedures to facilitate comparison of results across agency programs. Additionally, VETS will place increasing emphasis on serving those homeless veterans with significant barriers to employment or chronically homeless veterans by

extending the period grantees actively support and monitor employment retention. VETS also is expanding the Recovery and Employment Assistance Lifelines program by assigning additional program outreach staff at the major medical installations throughout the country. This program, which is complemented by efforts of the Departments of Defense and Veterans Affairs, provides individualized job training, counseling and re-employment services to seriously injured or wounded veterans of Operation Iraqi Freedom, Operation Enduring Freedom and other recent conflicts. In addition, VETS plans to enhance states' flexibility with the Jobs for Veterans Act of 2002 (JVA) Grant program by helping states to more effectively integrate DVOP specialists and LVER staff into the One-Stop Career Center System.

Net costs for this performance goal remained fairly constant between PY 2004 and PY 2006.

#### **PART, Program Evaluations and Audits**

The 2005 PART review of the Jobs for Veterans State Grants Program rated the program *Moderately Effective* and noted that it serves a large number of veterans, while focusing on those veterans requiring more intensive services by leveraging other resources within the workforce investment system. The improvement plan included setting more ambitious performance targets and conducting an independent evaluation to assess the effects of recent program changes on employment outcomes. VETS established ambitious targets in the DOL FY 2006-2011 Strategic Plan and completed the first phase of a two-year evaluation (see summary of SRA International study in table below).

HVRP was rated *Moderately Effective* in its 2006 PART review, which noted that it provides competitive grants to community-based organizations that coordinate the wide range of local services required to enable homeless veterans to achieve self-sufficiency. The improvement plan included conducting a rigorous evaluation, continuing to improve cost-effectiveness, and strengthening accountability. VETS has taken significant action on these items by conducting competitions for PY 2007 grants, fully implementing common measures for PY 2007, and launching an independent evaluation in September 2007.

#### **“Veterans’ Employment and Training Service: Labor Could Improve Information on Reemployment Services, Outcomes, and Program Impact (GAO-07-594),” May 2007 (GAO)**

**Purpose:** To identify the extent to which the reported performance results reflect the outcomes achieved by veterans as a result of services provided by One-Stop Career Centers and veterans’ employment representatives, and to identify improvements to be made in the performance information reported.

#### **Major Findings:**

- 1) Performance measures for Jobs for Veterans State Grants (JVSG) generally reflect services and outcomes, but are weakened by several factors.
- 2) Reported results do not fully capture veterans’ services and outcomes in One-Stop Career Centers.
- 3) DOL has taken steps to improve the quality of performance data and to better understand veterans’ services and outcomes.

#### **Recommendations:**

- 1) Consolidate all performance measures for the DVOP and LVER programs, including those for disabled and recently separated veterans.
- 2) Comply with the Jobs for Veterans Act’s (JVA) requirement to implement a weighted system for the DVOP and LVER performance measures that takes into account the difficulty of serving veterans with particular barriers to employment.
- 3) Develop legislative proposals for appropriate changes to the definition of veterans across employment and training program to ensure consistency.

#### **Actions Taken and Remaining:**

- 1) Performance measures for PY 2008 will address GAO recommendations on consolidation and weighting (April 2008).
- 2) Initiated dialogue within DOL on implications of a potential legislative initiative to standardize veteran definitions.

**Additional Information:** <http://www.gao.gov/new.items/d07594.pdf>

**“Disabled Veterans’ Employment: Additional Planning, Monitoring and Data Collection Efforts Would Improve Assistance,” September 2007 (GAO)**

**Purpose:** To assess recent results with respect to: a) improved coordination between VA and DOL in serving disabled veterans; b) progress in implementing VA’s Five-Track program; and c) the effectiveness and efficiency of VA’s employment coordinators and job resource labs.

**Major Findings:**

- 1) The implementation of joint planning, guidance and monitoring by VA and DOL has been inadequate.
- 2) Existing program resources may not be appropriate to the specific needs of veterans of current conflicts.
- 3) VA employment coordinators and job resource labs serve few veterans and duplicate other existing services.

**Recommendations:**

- 1) Improve the planning, guidance and monitoring of program operations that VA and DOL jointly provide.
- 2) Review the employment coordinator role and its relationship to other resources, and identify improvements.
- 3) Review the usage of job resource labs and their relation to other resources to improve their usefulness.

**Actions Taken and Remaining:** VA and DOL are jointly responsible for the first recommendation; VA is responsible for the second recommendation, in consultation with DOL; and VA is responsible for the third recommendation.

**Additional Information:** <http://www.gao.gov/new.items/d071020.pdf>

**“An Assessment of the Influence of the Jobs for Veterans Act and the Workforce Investment Act on the Employment Outcomes of Veterans,” August 2007 (SRA International)**

**Purpose:** Address recommendation from 2005 PART review of Jobs for Veterans State Grants program.

**Major Findings:**

- 1) The Jobs for Veterans Act in general and its priority of service provision in particular have improved the responsiveness of the workforce system to veterans’ needs for employment and training services.
- 2) The Workforce Investment Act’s emphasis on One-Stop Career Centers and the integration of services has improved the accessibility, breadth and coordination of employment and training services for veterans.

**Recommendations:**

- 1) Improve the guidance issued to the field on the provision and the monitoring of priority of service for veterans.
- 2) Promote scheduling options for half-time LVER staff consistent with the requirement to spend 50 percent of their time on employer outreach; assignment to business services for the non-VETS portion of their time is one option.
- 3) Promote scheduling options for half-time DVOP staff consistent with the emphasis on their responsibility for delivery of intensive services; assignment to WIA units for the non-VETS portion of their time is one option.

**Actions Taken and Remaining:** A follow-up study was awarded to analyze the factors associated with veteran participants who are reported to have not entered employment and the steps that could be taken to improve those reported outcomes.

**Additional Information:** Contact Ruth Samardick at (202) 693-4700 or [Samardick.Ruth@dol.gov](mailto:Samardick.Ruth@dol.gov).

**Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Good*. Strengths of the data include relevance, timeliness, and completeness. The four indicators addressing the outcomes of veterans and disabled veterans served by One-Stop Career Centers rely upon the reporting system for One-Stop Career Centers (Performance Goal 06-2C). Therefore, in general, the data quality assessment for that goal also applies to these indicators. The two indicators addressing outcomes for homeless veterans served by HVRP rely upon the Veterans’ Employment and Training Operations and Program Activity Report (VOPAR). VOPAR areas for improvement are reliability and verifiability. During 2007, DOL enhanced the system to accommodate common measures and added internal consistency checks. During 2008, DOL plans additional system upgrades and focused oversight of implementation and verification processes. Routine quality control measures include trouble-shooting by expert VETS field staff and workshops on reporting at the annual conference attended by all grantees’ representatives. VETS has no DOL major management challenges.

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## Strategic Goal 2: A Competitive Workforce

*Meet the competitive labor demands of the worldwide economy by enhancing the effectiveness and efficiency of the workforce development and regulatory systems that assist workers and employers in meeting the challenges of global competition.*

The nation's future economic success will largely depend on a workforce that meets employers' needs for new and skilled workers. Through partnerships with State and local workforce agencies, business and industry, education and training providers, faith-based and community organizations, and economic development agencies, DOL makes strategic investments in job training and increase accessibility and quality of information that helps match workers with employers. The current competitive economic environment requires a regulatory structure in which benefits of regulations exceed their costs. DOL conducts reviews to determine if regulations have or will have a significant economic impact on a substantial number of small businesses. These reviews examine the regulations' compliance costs and whether the regulatory burdens of all employers, both large and small, are reduced. In today's global economy, the well-being of American workers is increasingly tied to international stability, which is in part a function of broad-based economic prosperity. DOL-supported international technical assistance programs focus on raising living standards through workplace-related interventions, supporting the expansion of free and fair trade, eliminating exploitive child labor, and promoting the basic rights of workers. DOL agencies and offices supporting this goal are:

- Employment and Training Administration (ETA),
- Office of Disability Employment Policy (ODEP),
- Office of the Assistant Secretary for Policy (OASP), and
- Bureau of International Labor Affairs (ILAB).

To support expansion of Whirlpool manufacturing operations in Ohio, the Governor's office committed \$1.2 million in customized workforce services as part of an incentive package connected with the company's acquisition of Maytag. As operator of the local One-Stop Career Center, Marion Connections was charged with securing a workforce to support Whirlpool's implementation of a weekend production operation which would create 500 jobs within 90 days. This challenge involved recruiting, application screening, testing, interviewing and referring for hire. Results met project goals and greatly exceeded Whirlpool's expectations. Due to the success of this initial partnership, Whirlpool (the county's largest employer) has designated Marion Connections as its exclusive portal to employment. To date, over 3,000 interviews have been conducted and over 1,500 job seekers have been hired. [Photo credit: DOL/ETA]



Fostering a competitive workforce means providing workers with training that meets the rapidly evolving workforce needs of employers. By connecting workers with those needs, DOL can more effectively place those workers in better paying, long-term jobs. DOL supports training efforts that tie directly into local economies – where jobs are located. To achieve this goal, DOL relies on a mix of programs that deliver training focused on the skills employers need to succeed. DOL tailors its programs to specific situations and workers whose skills are no longer in demand, individuals with disabilities, and veterans. DOL primarily measures its success by the numbers of individuals who find and remain in those jobs. In FY 2007, DOL helped more workers find jobs, improved foreign worker application processing for employers, and improved workers protections internationally.

**For American Workers**

- Greater percentages of older workers were still employed several months after completing training programs. In addition to finding a job, staying employed is an important measure of success.
- More policies and effective practices were developed to assist workers with disabilities.

**For Employers**

- Almost 100 percent of H-1B applications were processed within seven days of filing. Workers with H-1B visas help fill critical skill gaps.
- The timeliness of permanent labor certification applications increased.

**For the International Community**

- More children were removed or kept out of exploitive child labor worldwide.
- The number of countries better prepared to address child labor increased.

These national results are realized by meeting the needs of one worker and one employer at a time. Vignettes throughout this section provide stories about the individuals who benefit from programs in Strategic Goal Two. For more program-specific information, please see the Performance Goal narratives.

The following table provides key information, goal statements, and achievement for DOL performance goals associated with this strategic goal. Those with labels that begin with "06" operate on a Program Year (PY) basis, and are reporting on the period from July 1, 2006 to June 30, 2007 due to the forward-funding authorized in the Workforce Investment Act of 1998 (WIA). Results for Performance Goal 06-2D (Community Based Job Training Grants) are not reported because data are considered inadequate for the purpose of determining goal achievement.

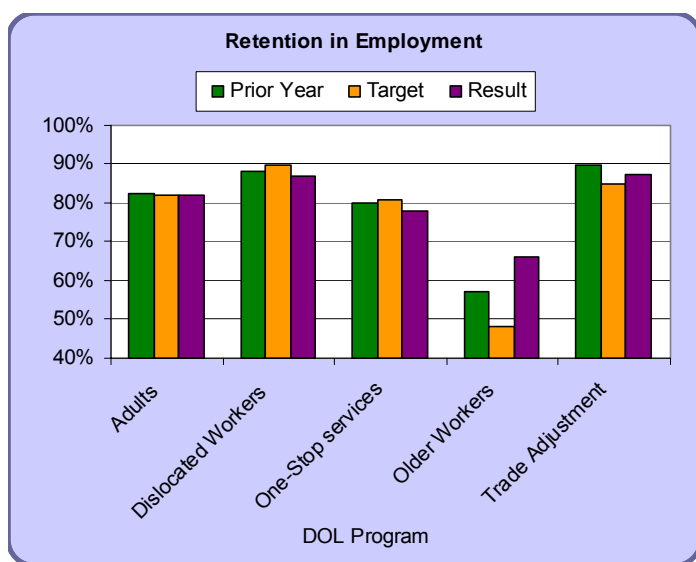
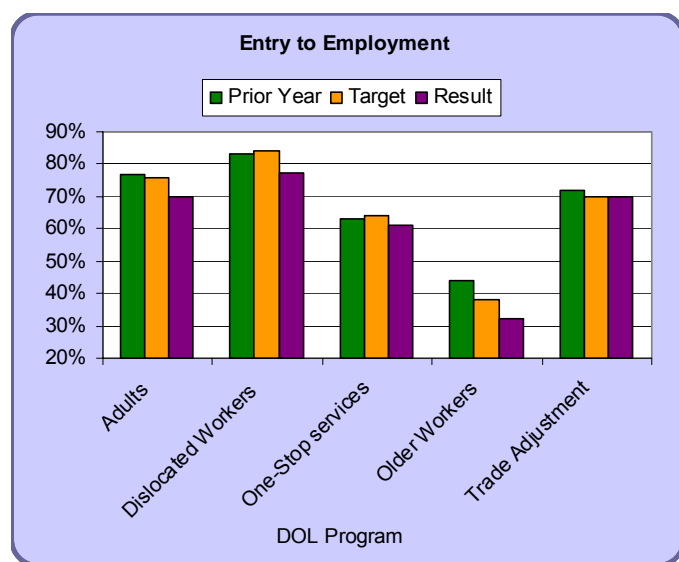
| Goal (Agency) and Statement  | Performance Summary   | Net Cost (millions) <sup>26</sup> |                    |                    |
|--|---|-----------------------------------|--------------------|--------------------|
|  |   | FY 2005<br>PY 2004                | FY 2006<br>PY 2005 | FY 2007<br>PY 2006 |
| <b>06-2A (ETA)</b> Increase the employment, retention, and earnings of individuals registered under the Workforce Investment Act (WIA) Adult program.      | Goal not achieved. Two targets reached and one not reached. | \$906                             | \$912              | \$864              |
| <b>06-2B (ETA)</b> Increase the employment, retention, and earnings replacement of individuals registered under the WIA Dislocated Worker program.         | Goal not achieved. One target reached and two not reached.  | 1,472                             | 1,543              | 1,443              |
| <b>06-2C (ETA)</b> Improve outcomes for job seekers and employers who receive One-Stop employment and workforce information services.                      | Goal not achieved. One target reached and two not reached.  | 831                               | 884                | 815                |
| <b>06-2E (ETA)</b> Increase accessibility of workforce information through the National Electronic Tools.  | Goal achieved. All three targets reached.                   | 26                                | 27                 | 25                 |
| <b>06-2F (ETA)</b> Assist older workers to participate in a demand-driven economy through the Senior Community Service Employment Program.                 | Goal not achieved. One target reached and one not reached.  | 426                               | 432                | 443                |
| <b>07-2G (ETA)</b> Assist workers impacted by international trade to better compete in the global economy through the Trade Adjustment Assistance Program. | Goal achieved. Both targets reached.                        | 846                               | 700                | 816                |

<sup>26</sup> Net cost as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis.



| Goal (Agency) and Statement  | Performance Summary  | Net Cost (millions) <sup>26</sup> |                    |                    |
|--|--|-----------------------------------|--------------------|--------------------|
|  |  | FY 2005<br>PY 2004                | FY 2006<br>PY 2005 | FY 2007<br>PY 2006 |
| <b>07-2H (ETA)</b> Address worker shortages through the Foreign Labor Certification Program.   | Goal not achieved. One target reached and three not reached. | 60                                | 46                 | 63                 |
| <b>07-2I (ODEP)</b> Build knowledge and advance disability employment policy that affects and promotes systems change.   | Goal achieved. All three targets reached.                    | 52                                | 50                 | 34                 |
| <b>07-2J (OASP)<sup>27</sup></b> Maximize regulatory flexibility and benefits and promote flexible workplace programs.   | Goal achieved. All three targets reached.                    | –                                 | –                  | –                  |
| <b>07-2K (ILAB)</b> Contribute to the elimination of the worst forms of child labor internationally.   | Goal achieved. Both targets reached.                         | 74                                | 95                 | 101                |
| Other (Indian and Native American Adult, National Farmworker, and Work Incentive Grants programs, Transition Assistance Program, Pilots, Demonstrations, Research and Evaluation, H-1B Technical Skills Training, and other ILAB programs) |  | 417                               | 375                | 424                |
| <b>Total for Strategic Goal 2</b>  | <b>Five goals achieved and five not achieved.</b>            | <b>\$5,110</b>                    | <b>\$5,064</b>     | <b>\$5,027</b>     |

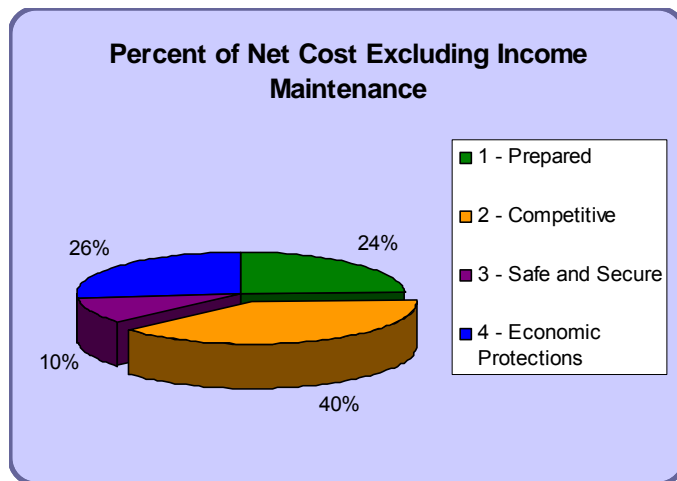
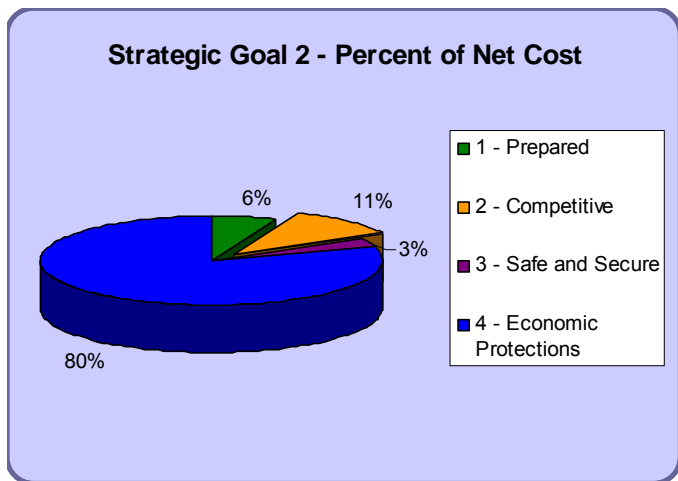
Five of the ten performance goals in Strategic Goal 2 are for employment and training programs whose results are measured by entered employment rate (percent of participants who obtain jobs subsequent to receipt of services) and by employment retention rate (percent of those who obtained jobs who are still employed six months later). The charts below indicate these programs' current and previous year results. Earnings results are not included because the programs that measure earnings used different indicators prior to this year. Average earnings will be reported in FY 2008, when we expect to have comparable data for these programs. Significant differences in results between programs are generally explained by differences in types of services offered and populations served.



The net cost dedicated to Strategic Goal 2 in FY 2007 was \$5.027 billion. The first pie chart below is based on total Departmental costs of \$47.872 billion; the second is based on an adjusted net cost of \$12.771 billion

<sup>27</sup> Costs associated with Performance Goal 07-2J (OASP) are included in costs allocated to other performance goals.

that excludes the major non-discretionary program costs associated with Strategic Goal 4.<sup>28</sup> Net cost dedicated to Strategic Goal 2 in FY 2006 (restated to reflect current goal structure) was \$5.064 billion.



Samson thought he knew everything about cars since his father had opened an auto repair shop in his native Ethiopia. But when he entered the General Service Technician (GST) program at Shoreline Community College, Samson realized how challenging modern car repair had become. The program, funded through the President’s High Growth Job Training Initiative, provides industry-certified automotive technician training. In addition to learning about automotive repair, Samson also says he has become a better listener and communicator. He graduated from the program in 2006 and is now working full-time. Samson aspires to become a National Institute for Automotive Service Excellence-certified repairman. Samson believes, “My goal of having my own repair shop is in sight. The sacrifice has been worth it. I’m on my way to achieving my dream.” [Photo credit: Mark Cutshall]

<sup>28</sup> The excluded costs are referred to as Income Maintenance – unemployment benefit payments to individuals who are laid off or out of work and seeking employment (\$32.051 billion) plus disability benefit payments to individuals who suffered injury or illness on the job (\$3.050 billion).

## Increase Employment, Retention, and Earnings for Qualified Adults

### Performance Goal 06-2A (ETA) – PY 2006

*Increase the employment, retention, and earnings of individuals registered under the Workforce Investment Act Adult Program.*

| Indicators, Targets and Results   |        |                             |                                 |                             |                             |                             |                                 |
|---|--------|-----------------------------|---------------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated<br>Some indicators not shown for PY 2001-05 – see Legacy Data note below   |        | PY 2001<br>Goal<br>Achieved | PY 2002<br>Goal Not<br>Achieved | PY 2003<br>Goal<br>Achieved | PY 2004<br>Goal<br>Achieved | PY 2005<br>Goal<br>Achieved | PY 2006<br>Goal Not<br>Achieved |
| Percent of participants employed in the first quarter after exit  | Target | —                           | 70%                             | 71%                         | 75%                         | 76%                         | <b>76%</b>                      |
|   | Result | —                           | 74%                             | 74%                         | 77%                         | 77%                         | <b>69.7%**</b>                  |
|   | *      | —                           | Y                               | Y                           | Y                           | Y                           | <b>N</b>                        |
| Percent of participants employed in the first quarter after exit still employed in the second and third quarters after exit   | Target | 78%                         | 80%                             | 82%                         | 85%                         | 81%                         | <b>82%</b>                      |
|   | Result | 79%                         | 84%                             | 85%                         | 86%                         | 82.5%                       | <b>82.2%**</b>                  |
|   | *      | Y                           | Y                               | Y                           | Y                           | Y                           | <b>Y</b>                        |
| Average earnings in the second and third quarters after exit  | Target | —                           | —                               | —                           | —                           | —                           | <b>\$11,000</b>                 |
|   | Result | —                           | —                               | —                           | —                           | —                           | <b>\$11,850**</b>               |
|   | *      | —                           | —                               | —                           | —                           | —                           | <b>Y</b>                        |
| Goal Net Cost (millions)  |        | —                           | —                               | —                           | \$906                       | \$912                       | <b>\$864</b>                    |
| Source(s): Annual State WIA performance reports (ETA-9091)  |        |                             |                                 |                             |                             |                             |                                 |
| Legacy Data: Complete indicators, targets and results for PY 2001-05 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 05-4.1A.   |        |                             |                                 |                             |                             |                             |                                 |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. Costs are not allocated to the indicator level for employment, retention and earnings measures because program activities are not separable into categories associated with one or another. |        |                             |                                 |                             |                             |                             |                                 |

### Program Perspective and Logic

The Workforce Investment Act (WIA) Adult Program helps adult workers (unemployed and employed) acquire the skills they need to compete in a global economy. Funds are provided by formula to States, which operate statewide networks of One-Stop Career Centers to provide comprehensive services to workers and employers. Services include assessments of skills needs, individual career planning, occupational skills training, on-the-job training, skills upgrading, entrepreneurial training, and adult literacy activities. States also use the WIA Adult Program to leverage additional, non-Federal resources to increase the quality and variety of assistance. Through collaboration with program partners, the WIA Adult Program seeks to assist individuals in their career goals, reduce welfare dependency, and improve the quality, productivity and competitiveness of the nation's workforce.

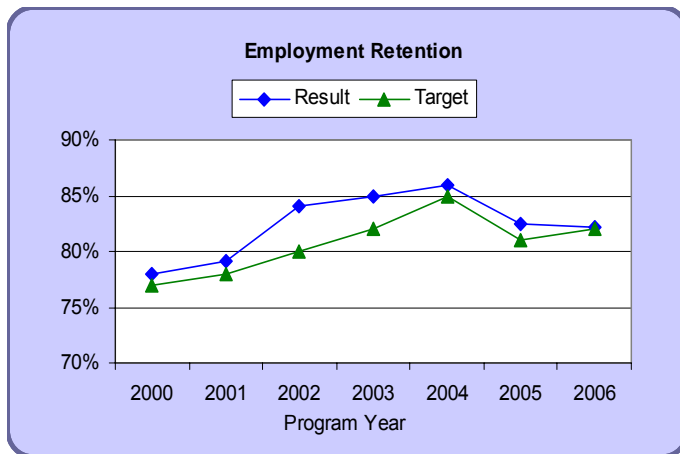
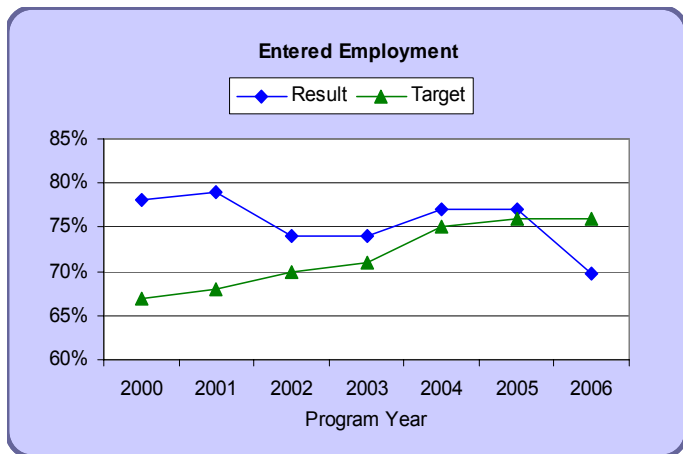
The Department evaluates this program's success using the Federal job training program common measures: entered employment and employment retention rates, and average earnings. A high entered employment rate indicates that participants have improved financial opportunity. A high retention rate indicates stability of participants' new positions. Increased average earnings indicate that participants are getting better jobs. Future performance targets will reflect performance information and data analysis.



Jamie, a single mother of a 22-month old girl, entered the Starke County WorkOne Office in February seeking help to attain marketable skills. Within three weeks of her initial appointment at WorkOne, Jamie was enrolled in high-growth occupational training to become a Certified Nurses Aide (CNA), her first step toward self-sufficiency. Using Workforce Investment Act funds to pay for her tuition and supportive services, Jamie was able to complete her CNA training and certification in April. She began working the next day at Wintersong Village, a local nursing facility in Knox, Indiana. With the assistance of a local faith-based organization, Jamie acquired her own home. Jamie is continuing her education at IVY Tech. [Photo Credit: Dean Corey]

### Analysis and Future Plans

The performance goal for the WIA Adult Program was not achieved. However, DOL reached two of the program's three performance indicator targets. The exception was the entered employment rate of 69.7 percent, which fell six percentage points below the target. As the workforce investment system moves to an integrated service delivery model with broader reach through co-enrollment efforts involving those with lower statistical success such as traditional Wagner-Peyser Act employment services recipients, some drop-off in the entered employment rate was expected. Thus, program performance must be viewed in the context of strategic approaches such as program integration and co-enrollment. The employment retention rate of 82.2 percent reached the target; this means people who find a job are staying employed. Six month average earnings of \$11,850 also reached the target. Continued progress in this indicator will help show the workforce investment system's effectiveness in preparing and placing workers in high growth, high wage industries.



Key strategies to improve services to WIA participants include strengthening strategic partnerships (through strategic planning and grant application requirements) with business and industry, and the education community to develop workforce solutions in the context of State and regional economies. These partnerships promote the use of WIA resources to prepare workers for jobs with career pathways in high demand occupations and industries. Also, the Department expects its grantees to leverage a wide array of non-WIA resources to maximize the impact of WIA investments and prepare more workers with the skills they need to be successful in today's global economy. For example, many States and regions are align WIA funds with other economic development, education, and foundation dollars to transform their regions' talent development approach. The WIA Adult program plays a critical role in this process by preparing workers in new high-growth industries and occupations. Funds may also be dedicated to new talent development models. For example, many areas are placing additional emphasis on entrepreneurship training and lifelong learning.

In order to address employees' need to work and upgrade skills simultaneously, DOL encourages States to implement educational strategies for adult learners that are flexible and offer multiple entry and exit points. As part of the State planning process for PY 2007, many States emphasized their efforts to transform WIA and Wagner-Peyser Act formula funds to provide increased support for postsecondary education and lifelong



learning opportunities that are aligned with State and regional talent development strategies.

Costs associated with this goal decreased five percent from PY 2005 to PY 2006. This partly reflects normal spending fluctuations since States have three years to expend obligated funds. Costs are allocated to the performance goal rather than at the indicator level, as funding supports all the outcomes for the Adult program.

### **PART, Program Evaluations and Audits**

The WIA Adult program underwent a PART review in 2005 and received a rating of *Adequate*. As required in the PART improvement plan, DOL is working with Congress to reform the WIA and consolidate funding for related programs to reduce administrative overhead and increase States' flexibility to tailor services. Common performance measures, allowing for comparison between various job training programs, have already been instituted. In addition, DOL is contracting an independent study of program effectiveness – using administrative data – to be completed in 2008. Also in 2008, a more rigorous, seven-year evaluation will begin to determine WIA services' impact on employment and earnings outcomes for participants. In the FY 2008 Budget, the Department is proposing to implement Career Advancement Accounts (CAAs). These personal \$3,000 accounts are designed to help workers more efficiently access education and training options, and successfully transition to the global market place.

### **“Workforce Investment Act: Additional Actions Would Further Improve the Workforce System,” June 2007 (GAO)**

**Purpose:** This Congressional testimony summarizes earlier reports issued between 2000 and 2007 on WIA.

**Major Findings:** GAO made several recommendations that do not require legislative action:

- 1) To help reduce the incentive to serve only those who will help meet performance levels, DOL should systematically adjust expected performance levels to account for different populations and local economic conditions when negotiating performance.
- 2) DOL issued guidance to standardize the reporting of obligations. However, DOL has not taken steps to more accurately estimate States' available funding by considering obligations as well as expenditures.
- 3) DOL needs to consider alternative approaches that involve ongoing consultation with key stakeholders as the agency seeks to implement new initiatives. Ongoing consultation and collaboration would ensure that, for example, States have the time and resources to implement a new reporting system.
- 4) DOL has not improved policymakers' understanding of what employment and training programs achieve by conducting important program evaluations, including an impact study on WIA, and releasing those findings in a timely manner.

**Recommendations:** See above.

**Actions Taken and Remaining:** Some of the issues raised by GAO are being addressed in policy and legislative proposals, such as WIA reauthorization. To address performance level adjustments, DOL has instructed States to provide data and other evidence to demonstrate how economic conditions and other variables are expected to impact outcomes during the performance level negotiation process. For example, DOL takes into account significant new efforts by States aimed at increasing access to services for special populations who may face barriers to employment. It will be necessary to document how outcomes are impacted by changes in the mix of participants served. DOL will review those States with targeted strategies to determine the extent to which outcomes were impacted by changes in the mix of participants served.

In an effort to improve collaboration on new initiatives, DOL has held discussions with States and conducted a series of conferences in August-September 2007 to provide States with an update on the proposed WISPR reporting system and obtain their feedback. Also, beginning in PY 2007, DOL will be conducting a rigorous, five-year evaluation to determine WIA services' impact on employment and earnings outcomes for participants.

**Additional Information:** The complete Congressional testimony (GAO-07-1051T) is accessible at <http://www.gao.gov/cgi-bin/getrpt?GAO-07-1051T>.

**“Managing Customers’ Training Choices: Findings from the Individual Training Account Experiment (Final Report),” December 2006 (Mathematica Policy Research, Inc.)**

**Purpose:** This final report provides policymakers with information on the effectiveness of, and trade-offs inherent in, three approaches to managing customer choice of training programs (structured customer choice, guided customer choice and maximum customer choice).

**Major Findings:**

- 1) More people can access training with Individual Training Accounts (ITAs) when given individual choice and flexibility. When counseling was voluntary and individual choice maximized, few requested counseling, but the take-up rate of ITAs was highest. Individual choice expedited the start of training and customers were more likely to attend training programs at community colleges.
- 2) Staff counseling had little effect on customers’ employment-related outcomes or on customers’ occupational choices, but may broaden the training options considered by the customer. Individuals are capable, on their own, of choosing an appropriate training path that leads to sustainable employment.
- 3) Available evidence does not indicate that one approach is preferable to others, but cost savings could be achieved through the elimination of bureaucratic inefficiencies and certain unnecessary eligibility screening activities.

**Recommendations:** None

**Actions Taken and Remaining:** Career Advancement Accounts (CAAs), which are similar to the maximum customer choice approach under the ITA experiment, are proposed in the FY 2008 President’s Budget. In addition, ETA is piloting the CAA model in eight States to further test the maximum customer choice approach and increase individuals’ access to postsecondary education and training. If the CAA budget proposal is approved, ETA will use the findings in this report, as well as lessons from the eight-State demonstration, to better structure the CAA program.

**Additional Information:** A copy of the report is available at [http://wdr.doleta.gov/research/keyword.cfm?fuseaction=dsp\\_resultDetails&pub\\_id=2331&mp=y](http://wdr.doleta.gov/research/keyword.cfm?fuseaction=dsp_resultDetails&pub_id=2331&mp=y).

**Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Very Good*. Strengths of the data include its validity, accuracy and completeness. While verification remains an area for improvement, extensive effort has been directed at improving data quality through the use of ETA’s data validation system and monitoring at both the national and regional levels (see item IX, *Improving Performance Accountability of Grants* in the Major Management Challenges section of Management’s Discussion and Analysis). ETA drafted a revised Monitoring Guide for data validation in PY 2006 and is working to implement a streamlined performance reporting system in 2008.

## Assist Dislocated Workers

### Performance Goal 06-2B (ETA) – PY 2006

*Increase the employment, retention, and earnings of individuals registered under the Workforce Investment Act Dislocated Worker Program.*

| Indicators, Targets and Results   |        |                             |                                 |                                 |                                 |                                 |                                 |
|---|--------|-----------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated<br>Some indicators not shown for PY 2001-05 – see Legacy Data note below   |        | PY 2001<br>Goal<br>Achieved | PY 2002<br>Goal Not<br>Achieved | PY 2003<br>Goal Not<br>Achieved | PY 2004<br>Goal Not<br>Achieved | PY 2005<br>Goal Not<br>Achieved | PY 2006<br>Goal Not<br>Achieved |
| Percent of participants employed in the first quarter after exit  | Target | 73%                         | 78%                             | 78%                             | 82%                             | 83%                             | <b>84%</b>                      |
|   | Result | 79%                         | 82%                             | 82%                             | 84%                             | 83%                             | <b>77.3%**</b>                  |
|   | *      | Y                           | Y                               | Y                               | Y                               | Y                               | <b>N</b>                        |
| Percent of participants employed in the first quarter after exit still employed in the second and third quarters after exit   | Target | 83%                         | 88%                             | 88%                             | 91%                             | 89%                             | <b>90%</b>                      |
|   | Result | 87%                         | 90%                             | 90%                             | 91%                             | 88%                             | <b>87.5%**</b>                  |
|   | *      | Y                           | Y                               | Y                               | Y                               | N                               | <b>N</b>                        |
| Average earnings in the second and third quarters after exit  | Target | —                           | —                               | —                               | —                               | —                               | <b>\$13,800</b>                 |
|   | Result | —                           | —                               | —                               | —                               | —                               | <b>\$14,212**</b>               |
|   | *      | —                           | —                               | —                               | —                               | —                               | <b>Y</b>                        |
| Goal Net Cost (millions)  |        | —                           | —                               | —                               | \$1,472                         | \$1,543                         | <b>\$1,443</b>                  |
| Source(s): Annual State WIA performance reports (ETA-9091)  |        |                             |                                 |                                 |                                 |                                 |                                 |
| Legacy Data: Complete indicators, targets and results for PY 2001-05 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 05-4.1C.   |        |                             |                                 |                                 |                                 |                                 |                                 |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. Costs are not allocated to the indicator level for employment, retention and earnings measures because program activities are not separable into categories associated with one or another. |        |                             |                                 |                                 |                                 |                                 |                                 |

### Program Perspective and Logic

The Workforce Investment Act (WIA) Dislocated Worker Program aims to quickly reemploy laid-off workers and to enhance their employability and earnings by increasing occupational skills. The Department allocates 80 percent of funds by formula to the States. The Secretary of Labor may use the remaining 20 percent for discretionary activities specified under WIA, including assistance to localities that suffer plant closings, mass layoffs or job losses due to natural disasters, and military base realignment and closures. The types of training services available to dislocated workers are occupational skills training, on-the-job training, skills upgrading, entrepreneurial training, job readiness training, adult literacy activities, and customized training for employers who commit to hiring. The Federal job training common measures assess this program's success. The entered employment rate measures the success of participants returning to work. The retention rate demonstrates if a participant has employment stability. Average earnings is a measure of salary after program intervention.

### Analysis and Future Plans

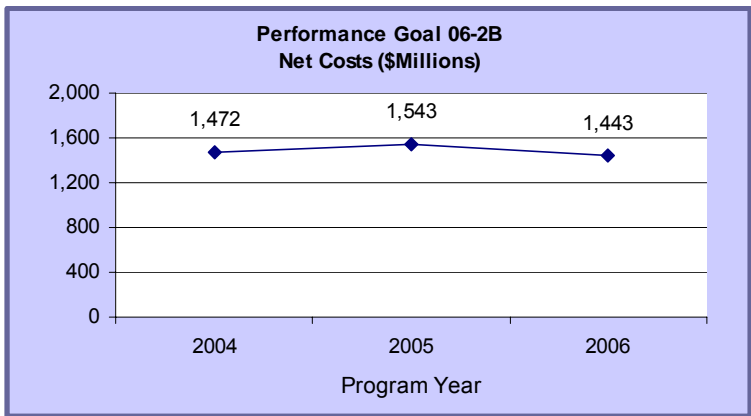
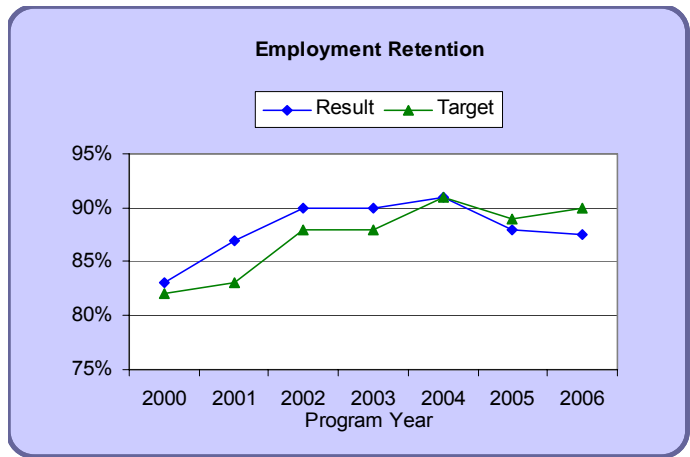
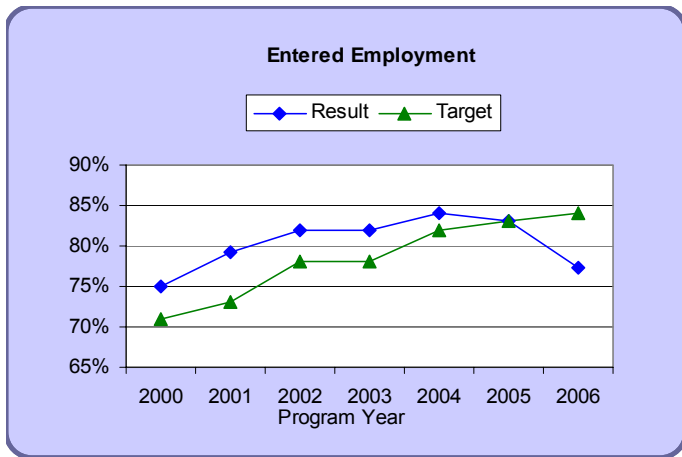
The performance goal for the WIA Dislocated Worker Program was not achieved. The entered employment rate indicator result of 77.3 percent missed the target by seven percentage points. The Department is investigating the impacts of co-enrollment strategies (simultaneous participation in multiple employment and training programs) on performance. Lower outcomes for entered employment is likely a consequence of the broader reach of the program through co-enrollment efforts that include new customers such as trade impacted workers, whose entered employment rates have historically been lower than other dislocated

workers. Thus, program performance must be viewed in the context of this strategic approach. The employment retention rate for dislocated workers nearly equaled last year's result, but missed the target by two percentage points. This may be due to residual impacts of the controlled participant pool. In the first year of recording results for the average earnings measure, the program posted a result of \$14,212, reaching the target. Continued experience with this indicator will help show the workforce investment system's effectiveness in preparing and placing people in high growth, high wage industries.



Many paper mills in Maine are closing due to foreign competition. Many of these displaced workers have specialized job skills that are not transferable to other industries. However, with the assistance of the WIA Dislocated Worker Program, Brian was able to receive the training to successfully compete in a changing economic environment. Brian was selected for the Radiological Technologist program, graduated with honors and was hired by the office where he completed his practicum. Today, Brian is a Certified Medical Assistant at the Family Medicine Institute. As a testament to his success, Brian states, "I love my job, and I work with great people." Brian will attend Kennebec Valley Community College to complete that degree and his employer will pay for tuition. Great work Brian! [Photo Credit: Edward Upham]

DOL encourages and supports States and local areas to eliminate duplicative systems, to develop integrated service delivery strategies for dislocated workers, and to focus education and training investments on skills and occupations in demand. The Department is also developing strategies for a regional approach to workforce and economic development, and education. In instances of worker dislocations in PY 2007, DOL expects States and regions to provide increased support for postsecondary education and lifelong learning opportunities, and place additional emphasis on connecting dislocated worker populations to high growth occupations consistent with the region's talent development plans.



Costs associated with this goal dropped six percent from PY 2005 to PY 2006, likely due to normal spending fluctuations since States have three years to expend obligated funds. Costs are allocated to the performance goal rather than at the indicator level, as funding supports all the outcomes for dislocated workers.



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**PART, Program Evaluations and Audits**

The Dislocated Worker Program underwent a PART review in 2002 and received a rating of *Adequate*. The program has generally met its goals for increasing participants' reemployment and earnings after getting a new job, and program accountability has improved with the adoption of the new common measures (a PART recommendation), allowing for comparisons between various job training programs. However, the review found that States and local communities have insufficient flexibility to help dislocated workers. DOL has been working with Congress to reform the Workforce Investment Act to further consolidate funding for related programs to reduce administrative overhead and increase States' flexibility to tailor services. In addition, DOL is contracting an independent study of program effectiveness – using administrative data – to be completed in 2008. Also in 2008, DOL will sponsor a more rigorous, seven-year evaluation that will begin to determine WIA services' impact on employment and earnings outcomes for participants.

The Government Accountability Office conducted an evaluation titled, “Workforce Investment Act: Additional Actions Would Further Improve the Workforce System.” To view a summary of findings, recommendations, and a link to the study, please refer to Performance Goal 06-2A.

**Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Very Good*. Strengths of the data include its validity, accuracy and completeness. While verification remains an area for improvement, extensive effort has been directed toward improving data quality through the use of DOL's data validation system and monitoring at both the national and regional levels (see item IX, *Improving Performance Accountability of Grants* in the Major Management Challenges section of Management's Discussion and Analysis). DOL drafted a revised Monitoring Guide for data validation in PY 2006 and is working to implement a streamlined performance reporting system in 2008.

## Improve Employment Outcomes for One-Stop System Users

### Performance Goal 06-2C (ETA) – PY 2006

*Improve outcomes for job seekers and employers who receive One-Stop employment and workforce information services.*

| Indicators, Targets and Results   |        |                                 |                             |                                 |                             |                                 |
|---|--------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated<br>Some indicators not shown for PY 2002-05 – see Legacy Data note below   |        | PY 2002<br>Goal Not<br>Achieved | PY 2003<br>Goal<br>Achieved | PY 2004<br>Goal Not<br>Achieved | PY 2005<br>Goal<br>Achieved | PY 2006<br>Goal Not<br>Achieved |
| Percent of participants employed in the first quarter after exit  | Target | 55%                             | 58%                         | 58%                             | 61%                         | <b>64%</b>                      |
|   | Result | 63%                             | 61%                         | 64%                             | 63%                         | <b>61.0%**</b>                  |
|   | *      | Y                               | Y                           | Y                               | Y                           | <b>N</b>                        |
| Percent of participants employed in the first quarter after exit still employed in the second and third quarters after exit   | Target | —                               | 72%                         | 72%                             | 78%                         | <b>81%</b>                      |
|   | Result | —                               | 80%                         | 81%                             | 80%                         | <b>78.0%**</b>                  |
|   | *      | —                               | Y                           | Y                               | Y                           | <b>N</b>                        |
| Average earnings in the second and third quarters after exit  | Target | —                               | —                           | —                               | —                           | <b>\$10,500</b>                 |
|   | Result | —                               | —                           | —                               | —                           | <b>\$11,576**</b>               |
|   | *      | —                               | —                           | —                               | —                           | <b>Y</b>                        |
| Goal Net Cost (millions)  |        | —                               | —                           | \$831                           | \$884                       | <b>\$815</b>                    |
| Source(s): Quarterly State WIA performance reports (ETA-9090)   |        |                                 |                             |                                 |                             |                                 |
| Legacy Data: Complete indicators, targets and results for PY 2002-05 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 05-4.1B.   |        |                                 |                             |                                 |                             |                                 |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. Costs are not allocated to the indicator level for employment, retention and earnings measures because program activities are not separable into categories associated with one or another. |        |                                 |                             |                                 |                             |                                 |

### Program Perspective and Logic

A fundamental underpinning of the nation's One-Stop Career Centers is the delivery of core employment and workforce information services to both businesses and job seekers. Core services include job matching, referral, assessments, and a wide array of workforce and labor market information, career guidance products and tools. Funded principally through the Wagner-Peyser Act, as amended by the Workforce Investment Act (WIA) of 1998, these services are designed to help both employed and unemployed workers obtain jobs and give employers access to skilled workers who will help them compete in the global economy. In addition to core services, the One-Stop Career Centers provide customized services to clients with special needs such as Unemployment Insurance claimants, veterans, and migrant and seasonal farm workers.

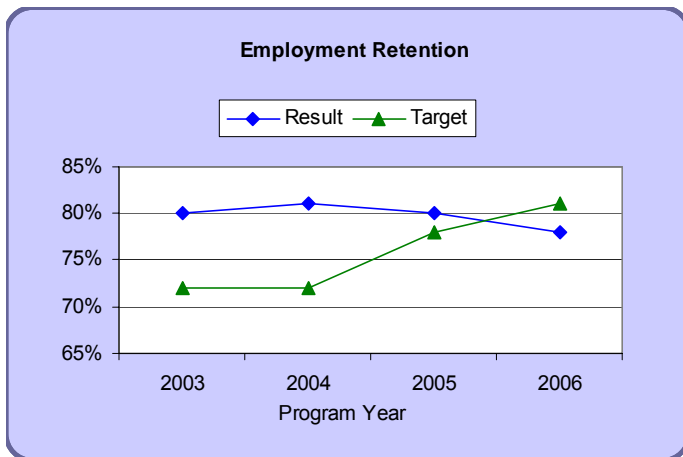
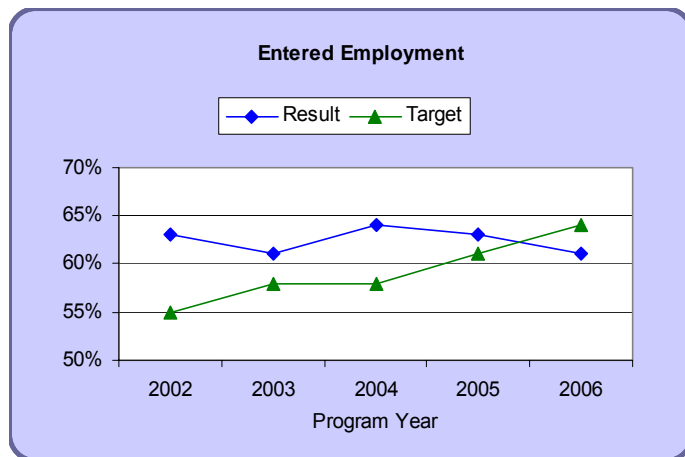
Providing employment and workforce information services that account for the uniqueness of local/regional labor market conditions and the needs of workers is the key to achieving successful outcomes for job seekers and employers. Services are provided in collaboration with a wide array of One-Stop partners and are coordinated with other services available through One-Stop Career Centers, such as training, child care, and transportation.

The Department uses the common measures for Federal employment and job training programs to evaluate its core employment and workforce information services: the entered employment rate, the employment retention rate, and average earnings. A high entered employment rate indicates that participants have

improved financial opportunity. A high retention rate indicates stability of participants' new positions. Increased average earnings indicate that participants are getting better jobs.

### Analysis and Future Plans

The performance goal for the Wagner-Peyser Act funded Employment Service system was not achieved. The entered employment rate of 61.0 percent and employment retention rate of 78.0 percent were both three percentage points below targets and two percentage points below PY 2005 performance. These measures gauge the workforce system's ability to bring together individuals who are seeking employment and employers who are seeking workers. The Employment Service system registers roughly 13 million participants a year, far more than other employment and training programs. Therefore, the lower results are driven, in part, by the system's universal approach for jobseekers and workers with a diverse range of skills and employment needs.



This year marks the first time six months average earnings data was collected. The program posted a result of \$11,576, which is lower than WIA Adult and Dislocated Worker Program results. Unlike the WIA programs, the Employment Service system does not provide training services and instead delivers core and intensive services to meet the needs of the customers. If additional services are required, these participants are referred to and co-enrolled in WIA programs.

Nicole came to the MontgomeryWorks One-Stop Career Center looking for a job. She had a limited work history and low self-esteem; her goal was to be able to “look someone in the eye.” Nicole had four children under the age of 5 and was receiving food stamps/housing from a program for battered women. Her school Individual Education Plan diagnosed her with learning disabilities. With services coordinated by the Disability Program Navigator (DPN), Nicole enrolled in the WIA Adult program and received occupational training related to computers and customer service, both high growth industries. Upon completion, Nicole's skills were a match for a recipe consultant. In less than a year, she was promoted to a management position. The One-Stop DPN helped Nicole receive assistance with child care, transportation, occupational skills training and employment. Today, in her new career, Nicole can confidently look people in the eye! [Photo credit: Maggie Leedy]

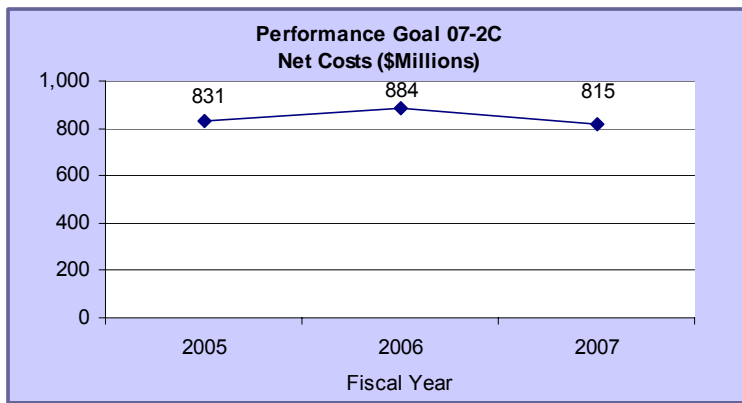


To continually improve performance, DOL has aggressively expanded its work with employers in high growth, high demand industries through its Business Relations Group (BRG). In partnership with States, the BRG has

collaborated with large multi-State employers as well as industry associations to broker their connection to the One-Stop delivery system. This partnership has helped identify the workforce needs of high growth industries and provides a forum for improved communication between industry and the workforce investment system.

In addition to working toward integrating the Wagner-Peyser Act funded employment services and WIA services, DOL strengthened its focus on the role of workforce information in the design and delivery of core, intensive and training services in the One-Stop delivery system. The Department will continue to provide direction and technical assistance in order to achieve a fully integrated workforce investment system focused on building the critical talent pool required for the 21st Century. The Department continues to work with States, regions and local areas to eliminate duplication of services provided through the One-Stop delivery

system, and to focus on training investments on skills in demand to facilitate access to successful career pathways to individuals utilizing the services.



Costs associated with this goal decreased eight percent from PY 2005 to PY 2006. This reflects normal spending fluctuations since States have three years to expend obligated funds. Costs are allocated to the performance goal rather than at the indicator level, as funding supports all measured outcomes for participants.

**PART, Program Evaluations and Audits**

The Employment Service underwent a PART review in 2004 and received a rating of *Adequate*. The review found that grantees' accountability for performance results was insufficient, and that the program duplicates some services offered by the WIA Adult and Dislocated Worker programs. To address the first finding, DOL accelerated implementation of the common measures for Federal job training and employment programs. As a step toward reducing unnecessary duplication of services, the Department will integrate reporting for the training programs and the provision of core services it oversees through the new Workforce Investment Streamlined Performance Reporting System (WISPR). Finally, DOL's proposed legislation to reauthorize the WIA combines the Wagner-Peyser Act funding for core services with those of WIA Adult, Dislocated Worker and Youth programs to minimize duplication of services and administration costs.

**“Workforce Investment Act: Employers Found One-Stop Centers Useful in Hiring Low-Skilled Workers; Performance Information Could Help Gauge Employer Involvement,” December 2006 (GAO)**

**Purpose:** In this report, GAO addressed the extent to which employers hire their employees through One-Stops and the extent to which these employers view one-stop services as useful, and the factors that may affect one-stop service to employers.

**Major Findings:**

- 1) Regardless of business size, employers completing the GAO survey hired a small percentage of their employees through one-stops, and two-thirds of the employees were low-skilled.
- 2) Employers primarily used only one of the seven services available through the one-stop, usually the job posting service, but also viewed other services as helpful. When a particular service was not used, employers indicated that they were not aware that the one-stop provided the service—they either obtained it elsewhere or carried it through on their own.
- 3) At least three factors may affect one-stop services to employers: skills set of the labor pool, limited staff available to serve employers, and lack of data on employers' use of the One-Stop system.

**Recommendations:** DOL should collect information on employers' use of one-stop services, and develop a way to measure employer engagement in the workforce investment system as part of the department's performance reporting system.

**Actions Taken and Remaining:** At the time the GAO study was published in December 2006, DOL planned to

implement a new data reporting system, WISPR, by July 2007 to collect data on how employers were using the system. However, due to external factors, implementation has been delayed until FY 2008. To better address the needs of employers for workers trained in high growth industries, Career Advancement Accounts were proposed in the FY 2008 President's Budget, and the Administration continues to engage Congress on reauthorization of the Workforce Investment Act.

**Additional Information:** A copy of the report can be accessed at <http://www.gao.gov/cgi-bin/getrpt?GAO-07-167>.

#### **Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Very Good*. Strengths of the data include completeness and validity. While verification remains an area for improvement, extensive effort has been directed towards improving data quality through the use of DOL's data validation system and monitoring at both the national and regional levels (see item IX, *Improving Performance Accountability of Grants* in the Major Management Challenges section of Management's Discussion and Analysis). ETA drafted a revised Monitoring Guide for data validation in PY 2006 and is working to implement a streamlined performance reporting system in 2008.

## Better Decision-making through Workforce Information

### Performance Goal 06-2E (ETA) – PY 2006

*Increase accessibility of workforce information through the National Electronic Tools.*

| Indicators, Targets and Results   |        |   |                             |                             |
|---|--------|---|-----------------------------|-----------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>Some indicators not shown for PY 2004 – see Legacy Data note below   |        | PY 2004<br>Goal<br>Sub-<br>stantially<br>Achieved | PY 2005<br>Goal<br>Achieved | PY 2006<br>Goal<br>Achieved |
| Number of page views on America's Career InfoNet (millions)   | Target | —   | baseline                    | <b>62.0</b>                 |
|   | Result | —   | 61.4                        | <b>87.2</b>                 |
|   | *      | —   | Y                           | <b>Y</b>                    |
| Number of O*NET site visits (millions)  | Target | 2.77  | 3.87                        | <b>7.5</b>                  |
|   | Result | 3.91  | 7.0                         | <b>9.7</b>                  |
|   | *      | Y   | Y                           | <b>Y</b>                    |
| Number of page views on Career Voyages (millions)   | Target | —   | baseline                    | <b>8.5</b>                  |
|   | Result | —   | 7.9                         | <b>10.9</b>                 |
|   | *      | —   | Y                           | <b>Y</b>                    |
| Goal Net Cost (millions)  |        | \$26  | \$27                        | <b>\$25</b>                 |
| Source(s): Web statistics provided by the State grantees for O*NET and CareerOneStop using AWStats and WebTrends software, respectively.  |        |   |                             |                             |
| Legacy Data: Complete indicators, targets and results for PY 2001-04 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 05-4.1E. |        |   |                             |                             |
| Note: Net costs are defined in a footnote to the Cost of Results section of Management's Discussion and Analysis.   |        |   |                             |                             |

#### Program Perspective and Logic

The State and national workforce information system supports the goal of increased accessibility of workforce information through the National Electronic Tools by integrating and broadly disseminating current, local information on high growth industries and occupations that is critical for planning and delivering demand-driven workforce services. Customers include employers, State and local partner organizations, and job seekers who find these information services useful for business and economic development, education, and individual career decision-making. The workforce information system consists of:

- Occupational Information Network (O\*NET) – a database of occupational competency requirements (tasks, knowledge, skills, abilities, work activities, and other characteristics);
- Core products and services that describe State and local labor market dynamics, e.g., employment, wages, and skills in demand by industry and occupation;
- CareerOneStop national electronic tools that allow universal access to workforce information, including data on wages, occupations in demand, skills held and needed, and growth industries; and
- Workforce information services provided through the nationwide network of over 3100 comprehensive and affiliate One-Stop Career Centers.

The CareerOneStop electronic tools, Career Voyages, and the O\*NET OnLine Web sites are designed to improve self-service options for customers of the public workforce investment system. Resources supporting these systems are used for technical assistance and emerging occupation research, to operate the Web sites, and to keep the databases current. Performance indicators gauge usefulness of the occupational information to the wide-ranging user community – business, educators, students, parents, and job seekers. Goal

attainment over the last two years indicates more customers are using the self-service options to assist them in finding employment. Performance targets are based on past results and other external factors, such as changes in public demand for workforce information or in public participation in the data collection efforts.

The *Key to Career Success* campaign connects veterans and separating military service members to assistance and resources of One-Stop Career Centers nationwide. In November 2006, a Military Transition Portal was launched at [www.careeronestop.org/militarytransition](http://www.careeronestop.org/militarytransition). The portal provides career information and links to services that help veterans and military service members successfully transition to civilian careers in high growth industries, including the wealth of resources available on CareerOneStop Web sites. [Photo Credit: DOL/ETA]



### Analysis and Future Plans

The performance goal was achieved. Results for increased dissemination of O\*NET data as measured by site visits reached the target, and future targets have been adjusted upward accordingly. Career Voyages and America's Career InfoNet reached targets for number of page views, reflecting increased public use of workforce information through the National Electronic Tools. These results indicate that workforce system partners, employers, career counselors, and the public recognize the usefulness and accessibility of the national electronic tools.

It has not yet been determined whether these are sufficient indicators to measure the performance of this activity in PY 2007 and beyond. Since the goal is to increase accessibility of workforce information, increasing usage of the information sites is one measure of performance indicating that there is demand for the data and information provided. To better gauge usability, the Career InfoNet Web site now includes a "Rate this Page" link in the header on all pages. This link provides users visiting the site an opportunity to give feedback on the usefulness of the information.

A significant component of the National Electronic Tools, America's Job Bank (AJB), was discontinued on June 30, 2007 because it duplicated services provided by private sector firms. Due to the uncertainty inherent in attempting to predict the impact of this closure on usage, a baseline for the efficiency measure (cost per page view) and a new baseline for America's Career InfoNet will be developed based on PY 2007 data.

Costs are allocated to the overall performance goal rather than at the indicator level, as funding supports all the outcomes for usage of Career InfoNet, O\*Net, and Career Voyages. Although performance is no longer reported for AJB, the site was in operation for the full program year. The decline in costs due to actual cessation of AJB activities should be reflected in PY 2007.

### PART, Program Evaluations and Audits

The workforce information system was included in the 2004 PART review of the Wagner-Peyser Act funded Employment Service grants, which received a rating of *Adequate*. None of the PART findings and recommendations addressed electronic tools specifically.

### Data Quality and Major Management Challenges

Data quality for this performance goal was rated *Very Good*. Strengths of the data include completeness, accuracy, and reliability. Data for the O\*NET, Career InfoNet, and Career Voyages indicators are gathered and validated by internal management information systems, which comply with industry standards and norms. However, the validity of Web site hits as a measure of impact is limited. While the usability of the Web sites may be inferred from increasing use, the data do not sufficiently link the use of the tools to employment outcomes. As discussed before, the Career InfoNet Web site now includes a "Rate this Page" link on all pages to provide users visiting the site an opportunity to give feedback on the usefulness of the information.

## Provide Older Americans Service and Employment Opportunities

### Performance Goal 06-2F (ETA) – PY 2006

*Assist older workers to participate in a demand-driven economy through the Senior Community Service Employment Program.*

| Indicators, Targets and Results   |        |                                 |                                 |
|---|--------|---------------------------------|---------------------------------|
|   |        | PY 2005<br>Goal Not<br>Achieved | PY 2006<br>Goal Not<br>Achieved |
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated  |        |                                 |                                 |
| Percent of participants employed in the first quarter after exit  | Target | 55%                             | <b>38%</b>                      |
|   | Result | 44%                             | <b>32%**</b>                    |
|   | *      | N                               | <b>N</b>                        |
| Percent of participants employed in the first quarter after exit still employed in the second and third quarters after exit   | Target | 65%                             | <b>48%</b>                      |
|   | Result | 57%                             | <b>66%**</b>                    |
|   | *      | N                               | <b>Y</b>                        |
| Average earnings in the second and third quarters after exit  | Target | baseline                        | <b>baseline</b>                 |
|   | Result | —                               | <b>\$6,704**</b>                |
|   | *      | N                               | <b>—</b>                        |
| Goal Net Cost (millions)  |        | \$432                           | <b>\$443</b>                    |
| Source(s): SCSEP Quarterly Reports from SPARQ data collection system  |        |                                 |                                 |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. Costs are not allocated to the indicator level for employment, retention and earnings measures because program activities are not separable into categories associated with one or another of them. |        |                                 |                                 |

#### Program Perspective and Logic

The aging of the baby boomer generation presents both challenges and opportunities to the workplace. The Senior Community Service Employment Program (SCSEP) serves low income workers age 55 and older through formula grants to States and competitively awarded grants to public and private non-profit organizations. These funds provide part-time, minimum wage employment and job training services. The goal of the program is to promote self-sufficiency for older persons by placing them in unsubsidized employment. SCSEP grantees and their affiliates coordinate delivery of placement and training services through 3,100 comprehensive and affiliate One-Stop Career Centers nationwide. The program has served over 100,000 individuals each year for the last four years.

DOL uses the Federal job training program common measures – entered employment rate, employment retention rate and average earnings – to evaluate the success of SCSEP. These indicators measure participants' improved financial opportunity, stability of their new positions in unsubsidized employment, and effectiveness of training services, respectively. Targets for these measures are negotiated with each grantee based on past and projected outcomes, improvements in program design, and external economic factors.

#### Analysis and Future Plans

The performance goal for SCSEP was not achieved. The entered employment rate was six percentage points below the target and five percentage points below the PY2005 result. However, the employment retention rate was significantly higher than both the PY 2005 result and PY 2006 target. Targeting difficulties are largely due to incremental implementation of common measures among grantees. As indicated in more detailed discussion below, a new data collection and validation system is expected to resolve this issue. The new six month average earnings measure shows a result of \$6,704.



To continually improve performance, the SCSEP program, through its partnership with the One-Stop delivery system, continues to identify occupational skills that are most in demand and aggressively expand its linkages to high growth industries and employers, in order to place its participants in unsubsidized jobs.

Connie was a SCSEP participant prior to being hired in March 2007 by the Northwest Regional Workforce Investment Board (NRWIB) to be the Payroll Clerk for *MaturityWorks*. NRWIB is a partner of The WorkPlace Inc. in *MaturityWorks*' western Connecticut SCSEP program. Connie is responsible for making sure participants' timesheets are accurate and submitted timely. Connie also tracks program performance data. NRWIB management stated, "We were more than willing to hire Connie when she came to us after the transition. She is an excellent asset to the organization, early to work and late to leave. Every pay period her payroll is on the money." Connie celebrated her 90<sup>th</sup> birthday on June 2. [Photo Credit: Janiese Void]



Beginning July 1, 2004, SCSEP implemented a uniform database reporting system using client-based individual electronic records. While this has created complex operational requirements, it has also allowed the program to make strides in reporting timely, accurate, and reliable data. As more outcome data are received through the new reporting system, DOL will continue analyzing available data to negotiate ambitious and achievable targets for this population pool with the State and national agencies administering the program.

In addition to implementing the common measures for Federal employment and training programs, the SCSEP program has a set of statutorily defined indicators. These additional indicators measure the program's service level and service to those most-in-need; and the customer satisfaction of participants, host agencies, and employers. SCSEP achieved an exceptional response rate and very high scores on the American Customer Satisfaction Index (ACSI) for its customer satisfaction indicator.

Costs are allocated to the performance goal rather than at the indicator level, as funding supports all the measured outcomes for older workers. Costs associated with this goal rose primarily due to the transfer of \$7.5 million of PY 2004 recaptured funds into PY 2006, to help grantees with transition expenses resulting from a new grant competition.

#### **PART, Program Evaluations and Audits**

The SCSEP underwent a PART review in 2005 and received a rating of *Ineffective*. In response to the PART, SCSEP launched the Performance and Results Quarterly (SPARQ) performance reporting system software in May 2006, which allows reporting of individual outcomes and integration of grantee reporting systems. The Department continues to work with Congress to update and strengthen the competitive grant process. For example, DOL increased the number of grantees and consolidated service delivery areas. DOL continues to implement the common measures for Federal employment and job training programs and adjust future performance targets to be ambitious but also more realistic. Common measures have replaced the former SCSEP placement and retention measures for PY 2007 and beyond.

#### **Data Quality and Major Management Challenges**

The data quality for this performance goal was rated *Data Quality Not Determined*, which represents a downgrade from the baseline rating of *Good* in FY 2006. Data are linked to program purpose and collected quarterly; however, they are not yet available from all grantees<sup>29</sup> and there are unresolved issues with verification. In PY 2006, SCSEP implemented an Internet-based version of the SPARQ data collection system and in early PY 2007 the program began to implement a new data validation system. These efforts are expected to improve data reporting and overall quality.

<sup>29</sup> Results for PY 2006 reflect outcomes reported by State agency grantees, which account for 16.3 percent of total exiters from the program.

## Help Trade-Affected Workers Find New Jobs

### Performance Goal 07-2G (ETA) – FY 2007

*Assist workers impacted by international trade to better compete in the global economy through the Trade Adjustment Assistance Program.*

| Indicators, Targets and Results   |        |                                 |                                 |                                 |                                 |                             |                             |
|---|--------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|-----------------------------|-----------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated<br>Some indicators not shown for FY 2002-06 – see Legacy Data note below   |        | FY 2002<br>Goal Not<br>Achieved | FY 2003<br>Goal Not<br>Achieved | FY 2004<br>Goal Not<br>Achieved | FY 2005<br>Goal Not<br>Achieved | FY 2006<br>Goal<br>Achieved | FY 2007<br>Goal<br>Achieved |
| Percent of participants employed in the first quarter after exit  | Target | 78%                             | 78%                             | 70%                             | 70%                             | 70%                         | <b>70%</b>                  |
|   | Result | 66%                             | 62%                             | 63%                             | 70%                             | 72%                         | <b>70%**</b>                |
|   | *      | N                               | N                               | N                               | Y                               | Y                           | <b>Y</b>                    |
| Percent of participants employed in the first quarter after exit still employed in the second and third quarters after exit   | Target | 88%                             | 90%                             | 88%                             | 89%                             | 85%                         | <b>85%</b>                  |
|   | Result | 89%                             | 86%                             | 89%                             | 91%                             | 90%                         | <b>88%**</b>                |
|   | *      | Y                               | N                               | Y                               | Y                               | Y                           | <b>Y</b>                    |
| Average earnings in the second and third quarters after exit  | Target | —                               | —                               | —                               | —                               | —                           | <b>Baseline</b>             |
|   | Result | —                               | —                               | —                               | —                               | —                           | <b>\$13,700**</b>           |
| Goal Net Cost (millions)  |        | —                               | —                               | —                               | \$846                           | \$700                       | <b>\$816</b>                |
| Source(s): Trade Act Participant Report (TAPR) included in the Enterprise Business Support System (EBSS)  |        |                                 |                                 |                                 |                                 |                             |                             |
| Legacy Data: Complete indicators, targets and results for FY 2002-06 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-4.1B.   |        |                                 |                                 |                                 |                                 |                             |                             |
| Note: Net costs, which are defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis, are not allocated to the indicator level for employment, retention and earnings measures because program activities are not separable into categories associated with one or another. The goal was reported as not achieved in the FY 2006 report; corrections to data for two of the three indicators changed this result. |        |                                 |                                 |                                 |                                 |                             |                             |

#### Program Perspective and Logic

DOL's Trade Adjustment Assistance (TAA) Program provides training, income support, and related assistance to workers who lose their jobs due to increased imports or shifts in production to foreign countries. TAA's goal is to return workers to suitable employment. The TAA Program is one component of integrated products and services available through the nationwide network of One-Stop Career Centers, including those funded under the WIA Adult and Dislocated Worker Programs and the Wagner-Peyser Act. The comprehensive readjustment services and benefits offered by the TAA Program include job search and relocation assistance; training that can include occupational, on-the-job and remedial training; income support, and access to Health Coverage Tax Credit benefits. The One-Stop system provides counseling, assessment, and placement services for TAA participants.

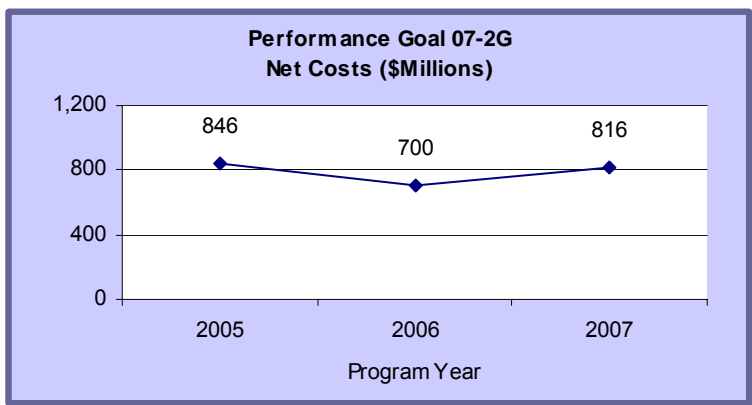
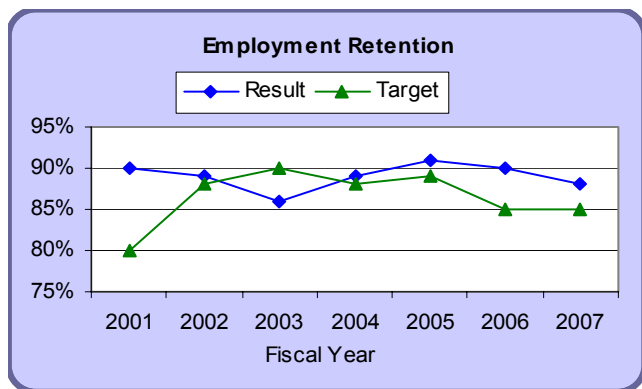
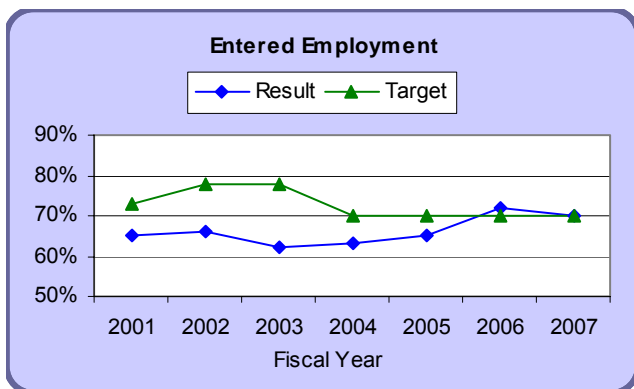
The TAA Program's success in an expanding, global economy is measured by the extent to which it helps individuals regain economic self-sufficiency by quickly securing and maintaining employment. Economic factors such as available labor and the ability to adapt that human capital to new uses appear to contribute importantly to reemployment; therefore, the TAA program is pursuing a regional workforce investment strategy designed to reach more workers and improve their access to training. Performance indicators are the Federal job training program common measures. The entered employment indicator tracks the program's progress in quickly returning participants to employment. The retention rate indicates whether participants who quickly obtain jobs are able to sustain employment, and average earnings serves as a measure of job quality.

Ryan and his fellow Alaskan fishermen suffered economic hardship when imported and farmed salmon began taking a heavy toll on the market. Because of the excellent partnerships available in Alaska, the training plan developed for Ryan was supported by multiple resources, including funds from the Trade Adjustment Assistance (TAA), National Emergency Grants for displaced salmon fishermen, and Dislocated Worker Program. TAA funded Ryan's training at Kenai Peninsula College, where he earned his degree in Instrumentation and Process Technology. Today, Ryan is an Oilfield Operations Specialist; he has advanced quickly in his new career, increasing his income to about four times what he earned as a fisherman – more than \$100,000 annually. Another successful story thanks to the Trade Act! [Photo Credit: Thomas Nelson, Alaska Department of Labor and Workforce Development]



### Analysis and Future Plans

As indicated in the table and charts, the TAA Program reached targets for both of its indicators in FY 2007, achieving its goal. Results for the entered employment and the employment retention rates decreased following the 2001–2002 recession, then turned upward with the economic recovery. However, FY 2007 results for both indicators were below FY 2006 results. For average earnings, a baseline was established.



DOL has made great strides in improving administrative efficiency as measured by average days to process petitions for determination of eligibility for TAA benefits. Average processing time has been reduced from 96 days to 31 days between FY 2003-2007. In FY 2003, the program completed just 60 percent of determinations within the 40 day statutory limit; in FY 2006, the TAA program completed over 78 percent of determinations within the limit – a 30 percent increase in efficiency.

Costs associated with this performance goal decreased by 19 percent between FY 2005-06 due primarily to a reduction in demand for Trade Readjustment Allowances (TRA) – which are the weekly cash benefits payable to allow trade-displaced workers to enroll in long-term TAA training. Participation, reflected by the number of individuals who received additional TRA benefits (which can be paid only when the individual is actually

receiving training), decreased by almost one-third in FY 2006. This change appears to be an anomaly, and access to income support for training has returned to previous levels for FY 2007.

### **PART, Program Evaluations and Audits**

The TAA Program underwent a PART review in 2007 and received a rating of *Ineffective*. Areas in need of improvement include reemployment assistance and procedures to measure and improve efficiency. The TAA Program is expected to be reauthorized by Congress; any adjustments in administration of the program will reflect the requirements of the reauthorized statute. ETA is studying how best to implement an efficiency measure tied to performance outcomes for all ETA programs.

In 2007, GAO completed studies on TAA funding allocation and eligibility requirements, industry wide certification, and program administration in preparation for Congressional hearings on reauthorization of the program, as described in the table below. As recommended, DOL is reviewing the training fund allocation methodology for opportunities to improve program effectiveness.

| “Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States’ Ability to Provide Benefits and Services,” May 2007 (GAO)   |
|--|
| <b>Purpose:</b> Report issued in preparation for TAA reauthorization to Senate Finance Committee.  |
| <b>Major Findings:</b><br>1) Labor’s process for allocating training funds does not accurately reflect States’ prior year spending.<br>2) Few TAA participants take advantage of the health coverage benefits due to high out-of-pocket costs.<br>3) Few TAA participants take advantage of the Wage Insurance benefit due to the requirements that reemployment be obtained within 26 weeks and to choose either training or wage insurance.<br>4) About 40 percent of the total denials of petitions were because workers were not involved in producing an article. |
| <b>Recommendations:</b><br>1) Congress may wish to review and modify the Wage Insurance and Health Care Tax Credit programs to address disincentives.<br>2) DOL should review the funding allocation formula, especially the 85% hold harmless provision which over-allocates funds to States.   |
| <b>Actions Taken and Remaining:</b> In its FY 2008 allocation, the 85% hold harmless provision has been removed, and State funding will be based more on actual spending history.  |
| <b>Additional Information:</b> Access the report (GAO-07-701) at <a href="http://www.gao.gov/cgi-bin/getrpt?GAO-07-701">http://www.gao.gov/cgi-bin/getrpt?GAO-07-701</a> .   |
| “Trade Adjustment Assistance: Industry Certification Would Likely Make More Workers Eligible, but Design and Implementation Challenges Exist,” June 2007 (GAO)   |
| <b>Purpose:</b> Report issued in preparation for TAA reauthorization.  |
| <b>Major Findings:</b><br>1) During the past three years, DOL certified about two-thirds of the TAA petitions it investigated and generally processed petitions in a timely manner. DOL took on average 32 days to make a certification decision and processed 77% of petitions within the required 40-day time frame.<br>2) An industry wide certification approach based on three petitions certified in 180 days could double the number of workers eligible for TAA but presents some design and implementation challenges.  |
| <b>Recommendations:</b> GAO made no recommendations at this time.  |
| <b>Actions Taken and Remaining:</b> None   |
| <b>Additional Information:</b> View the report (GAO-07-919) at <a href="http://www.gao.gov/cgi-bin/getrpt?GAO-07-919">http://www.gao.gov/cgi-bin/getrpt?GAO-07-919</a> .   |

### **Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Fair*. Strengths of the data are its accuracy and relevance; however, TAA can further improve timeliness, completeness, validity, reliability, and verifiability. An improvement plan includes 1) updating guidance to regional office staff on monitoring TAA data collection, quality control and reporting methods, and 2) implementing the new Workforce Investment Streamlined Performance Reporting System (WISPR), providing standards for all ETA-administered training and employment service programs.

## Address Worker Shortages

### Performance Goal 07-2H (ETA) – FY 2007

*Address worker shortages through Foreign Labor Certification Programs.*

| Indicators, Targets and Results  |        |                                 |                                 |                                 |
|--|--------|---------------------------------|---------------------------------|---------------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated<br>Some indicators not shown for FY 2005 – see Legacy Data note below   |        | FY 2005<br>Goal Not<br>Achieved | FY 2006<br>Goal Not<br>Achieved | FY 2007<br>Goal Not<br>Achieved |
| Percent of H-1B applications processed within seven days of the filing date for which no prevailing wage issues are identified   | Target | 100%                            | 100%                            | <b>100%</b>                     |
|  | Result | 100%                            | 100%                            | <b>98.4%**</b>                  |
|  | *      | Y                               | Y                               | <b>N</b>                        |
|  | Cost   | —                               | —                               | —                               |
| Percent of employer applications for permanent labor certification under the streamlined system that are resolved within six months of filing  | Target | baseline                        | 60%                             | <b>65%</b>                      |
|  | Result | 57%                             | 86%                             | <b>73.8%</b>                    |
|  | *      | Y                               | Y                               | <b>Y</b>                        |
|  | Cost   | —                               | —                               | —                               |
| Percent of accepted H-2A applications with no pending State actions processed within 15 days of receipt and 30 days from the date of need  | Target | —                               | 95%                             | <b>95%<sup>30</sup></b>         |
|  | Result | —                               | 53%                             | <b>57.4%**</b>                  |
|  | *      | —                               | N                               | <b>N</b>                        |
|  | Cost   | —                               | —                               | —                               |
| Percent of the H-2B applications processed within 60 days of receipt   | Target | 90%                             | 90%                             | <b>90%</b>                      |
|  | Result | 85%                             | 82%                             | <b>56.2%**</b>                  |
|  | *      | N                               | N                               | <b>N</b>                        |
|  | Cost   | —                               | —                               | —                               |
| Goal Net Cost (millions)   |        | \$60                            | \$46                            | <b>\$63</b>                     |
| Source(s): Program Electronic Review Management (PERM) system, Case Management System (CMS), H-1B Electronic Processing System   |        |                                 |                                 |                                 |
| Legacy Data: Complete indicators, targets and results for FY 2005 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-4.1A. |        |                                 |                                 |                                 |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis.  |        |                                 |                                 |                                 |

#### Program Perspective and Logic

The Office of Foreign Labor Certification (OFLC) reviews requests for Department of Labor certification from U.S. employers seeking to hire foreign workers on a temporary or permanent basis when qualified American workers are unavailable and there will be no adverse impact on similarly employed U.S. workers if certified. Labor certifications issued by the Department support employers' petitions, filed with the U.S. Citizenship and Immigration Services, to authorize employment of foreign workers under temporary visas (like H-2A and H-2B) or under permanent, employment-based visas which may lead to lawful permanent residency.

<sup>30</sup> In FY 2006, ETA inadvertently reported an incorrect and significantly higher result for the H-2A processing indicator than the actual result, which was confirmed through a more recent data query.

Performance indicators are tied to statutory, regulatory, or internal processing requirements for OFLC programs. The indicator for the permanent (PERM) program, the percent of employer applications for labor certification under the streamlined system that are resolved within six months of filing, reflects automation enhancements and measures improvement in timeliness and cost-effectiveness over pre-PERM processes. Targets are based on performance information, data analysis, and anticipated application caseloads.

### Analysis and Future Plans

The goal was not achieved, with only one of the four indicator targets reached. The H-1B Specialty Occupations Program for highly skilled professionals (specialty workers) processed 98.4 percent of applications — now almost always filed electronically — within the statutory seven-day timeframe. This was almost 2 percentage points lower than the target of 100 percent.

The target for the PERM program was reached. The Department has eliminated the backlog in the permanent program (see vignette). Further, 73.8 percent of new PERM applications were processed within six months, exceeding the target of 65 percent, though performance declined from the prior year. PERM performance was affected by the reallocation of resources to eliminate an applications backlog in the H-2B Temporary Non-agricultural Program. In FY 2008, the Department will closely monitor implementation of the Fraud Rule for impact upon PERM processing and redirect resources that were used to eliminate the H-2B backlog to the PERM program as needed.



In FY 2007, DOL eliminated the backlog of permanent foreign labor certification applications, with nearly 99 percent of cases completed and the remainder awaiting responses from employers. In three years, processing centers reviewed approximately 363,000 pending labor applications. Statutory changes to the Immigration and Nationality Act in 1997 and 2000 led to a dramatic increase in applications to this employment-based program. As a result, processing times rose, and applications sometimes languished for several years. In 2004, the Department opened temporary facilities in Dallas and Philadelphia dedicated solely to eliminating the backlog. From the outset, the department pledged that the backlog would be eliminated by September 30, 2007, when both of the Backlog

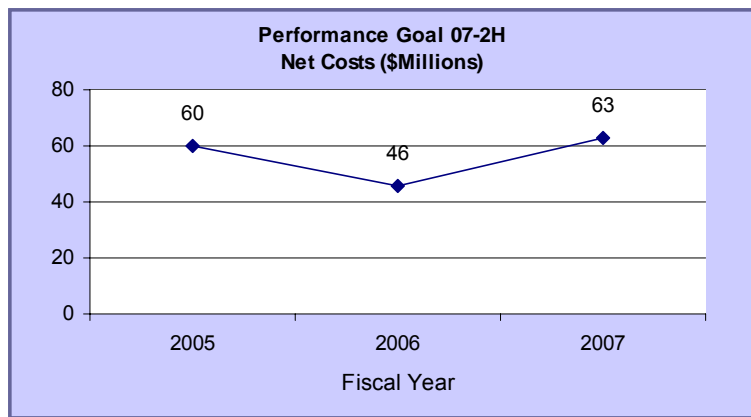
Elimination Centers began shutting down. "Clearing up the Permanent Labor Certification backlog has been a Presidential Management Agenda priority and the job was completed on time, as promised," said Secretary of Labor Elaine L. Chao. "Thousands of people are no longer left waiting and wondering, and the Department is moving ahead with reforms to streamline existing foreign worker certification programs." [Photo credit: DOL/ETA]

Results for the H-2A Temporary Agricultural Program were far below the target. OFLC is meeting the statutory processing timeframe to accept or request a modification of applications within seven days of receipt, but is experiencing delays in obtaining recruitment reports and housing inspections from employers and State Workforce Agencies (SWAs). The number of H-2A applications increased by 19 percent during this period. OFLC conducted training for the SWAs to provide guidance and clarification of the requirements for the H-2A program, including how to conduct housing inspections. The President has directed DOL to review regulations implementing the H-2A program and institute changes providing farmers with an orderly and timely flow of foreign legal workers, while protecting the rights of American laborers.

H-2B Temporary Non-agricultural Program results were also far below the target. Employer demand for H-2B workers increased by over 20 percent; this reflected a disproportionate increase in applications at one National Processing Center. The spike in applications also delayed SWAs' processing and forwarding of

applications to DOL. Some employers seeking to hire H-2B foreign workers experienced delays. The Department conducted employer briefings, issued revised guidance, posted employer application filing tips on the OFLC Web site, redirected other program resources, and provided additional training to State staff. The Department intends to issue regulations streamlining the process for non-agricultural seasonal workers. DOL's proposed rule will speed processing by moving from a government-certified system to an employer-attestation system akin to the PERM system that has reduced backlogs in that program.

The decrease in costs in FY 2006 largely reflects a temporary drop in staff costs in the transition from



processing foreign labor certification applications in ten regions to the new electronic processing system for PERM in two new National Processing Centers coupled with the Backlog Elimination Initiative undertaken in two Backlog Processing Centers. The subsequent increase in FY 2007 costs reflects the staffing up of the National Processing Centers as well as staffing of the Backlog Elimination Centers. From 2005 to 2007, grant related costs trended downward as the responsibilities of the states were reduced with the implementation of the PERM system.

### PART, Program Evaluations and Audits

In 2004, the H-1B and PERM programs underwent a PART review and received ratings of *Moderately Effective* and *Adequate*, respectively. Findings included fraud concerns related to both programs and a need for measures of application backlogs for the PERM program. In response to H-1B program findings, DOL implemented a fraud detection module; streamlined the automated process developed for employers to submit Labor Certification Applications; and collaborated with the Departments of Homeland Security and State in a multi-agency effort to identify, address, and deter H-1B and other visa fraud. In response to PERM program findings, DOL developed a new data entry and application processing system; dedicated two facilities to the task of processing PERM applications; and is reporting on new performance and efficiency measures that are directly related to the new PERM process.

### Data Quality and Major Management Challenges

Data quality for this performance goal was rated *Very Good*. Strengths of the data include its timeliness and completeness. OFLC efforts to improve accuracy of reported wages and Employer Identification Numbers include expansion of the data validation checks built into the H-1B application system. See "Labor Could Improve its Oversight and Increase Information Sharing with Homeland Security" (GAO-06-720) for an explanation of key data quality issues. In addition, DOL continually assesses the quality of data, collection methods, and the Web-based case management systems to ensure that data are reliable, appropriate, and useful to management.

Integrity of the foreign labor certification program and the ability to process applications in a timely manner remain among DOL's top management challenges (see item VIII, *Maintaining the Integrity of the Foreign Labor Certification Program*, in the Major Management Challenges section of the Management's Discussion and Analysis). Since FY 2005, DOL has worked aggressively on the backlog of older permanent cases; as of September 30, 2007, it was virtually eliminated.

Fraud cases contribute to inefficiency by tying up resources that could help process the large volume of legitimate applications. Fraud cases involve applications filed on behalf of fictitious companies, the fraudulent use of legitimate companies without their knowledge, the collection of fees from fraudulent applications filed on behalf of foreign workers, and the substitution of aliens for named applicants. Employer compliance is improving as a result of actions such as the PERM Fraud Rule, which DOL published in the Federal Register on May 17, 2007. The new rule limits the certification period to 180 days, prohibits substitution and certain improper payments, and provides for debarment for prohibited practices.

## Increase Employment Opportunities for Youth and Adults with Disabilities

### Performance Goal 07-2I (ODEP) – FY 2007

*Build knowledge and advance disability employment policy that affects and promotes systems change.*

| Indicators, Targets and Results   |        |                             |                             |                             |                             |
|---|--------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>Some indicators not shown for FY 2004-05 – see Legacy Data note below  |        | FY 2004<br>Goal<br>Achieved | FY 2005<br>Goal<br>Achieved | FY 2006<br>Goal<br>Achieved | FY 2007<br>Goal<br>Achieved |
| Number of policy related documents  | Target | —                           | —                           | baseline                    | 20                          |
|   | Result | —                           | —                           | 20                          | 34                          |
|   | *      | —                           | —                           | Y                           | Y                           |
| Number of formal agreements   | Target | —                           | —                           | baseline                    | 20                          |
|   | Result | —                           | —                           | 20                          | 23                          |
|   | *      | —                           | —                           | Y                           | Y                           |
| Number of effective practices   | Target | baseline                    | 11                          | 21                          | 20                          |
|   | Result | 10                          | 19                          | 26                          | 24                          |
|   | *      | Y                           | Y                           | Y                           | Y                           |
| Goal Net Cost (millions)  |        | —                           | \$52                        | \$50                        | \$34                        |
| Source(s): ODEP Division of Program Management and Research & Evaluation Team   |        |                             |                             |                             |                             |
| Legacy Data: Complete indicators, targets and results for FY 2002-05 are available in the FY 2006 report at <a href="http://www.dol.gov/_sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/_sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-1.1B.               |        |                             |                             |                             |                             |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. Costs are not allocated to the indicator level because program activities are not separable into categories associated with one or the other. |        |                             |                             |                             |                             |

#### Program Perspective and Logic

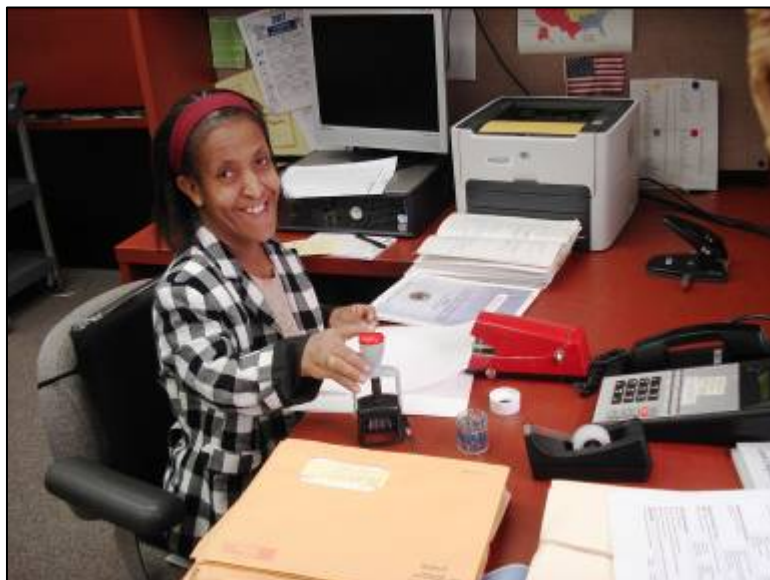
The Department's Office of Disability Employment Policy (ODEP) develops and influences the implementation of policy to reduce barriers to employment for people with disabilities. Increasing workforce participation of people with disabilities requires the removal of barriers experienced by employers and employees. ODEP develops policy on and for workforce systems, employers and the workplace, and employment-related support services. Key components include fostering the implementation of effective policies and practices; conducting research and analysis that validates and identifies effective disability-employment strategies; and providing technical assistance on implementing policy and effective practices.

ODEP's response to the traditionally low employment rates among people with disabilities is comprehensive and aggressive. Success requires active involvement and cooperation of stakeholders including Federal, State, and local agencies; non-governmental organizations; and private and public sector employers. Collaboration with these stakeholders results in policy development and implementation that expands access to systems (such as employment and training, education, and vocational rehabilitation), and increases the availability and accessibility of employment-related supports (such as health care, transportation and technology).

ODEP's investments in research and technical assistance activities provide employers with the information they need to increase the recruitment, retention, and promotion of people with disabilities. The results of these initiatives and their activities – in the form of policy related documents, formal agreements, and effective practice identification – are reflected in the indicators and targets used to measure ODEP's performance.

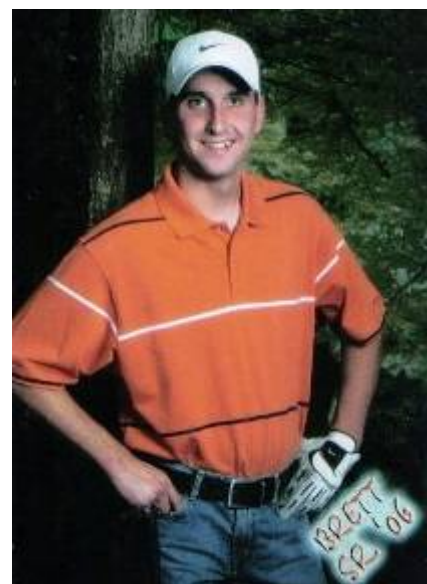


M.W., a shy woman of short stature with significant physical challenges, had 8 years' experience as a baker's helper. When her position was eliminated, she came to a One-Stop Career Center for assistance. M.W. had always wanted to work in an office environment, but she did not have the resources necessary to explore this career field on her own. A Career Center assessment of M.W.'s clerical skills/abilities found that she had solid basic skills and was very good with numbers. She participated in a paid work experience to strengthen her skills and – more importantly, her self-confidence – while mobility accommodations were identified. Using the universal principles of Customized Employment developed by ODEP, Career Center staff customized a clerical position meeting the specific needs of an employer seeking administrative staff for M.W. Today, M.W. works part-time with benefits in the “job of her dreams.” [Photo credit: DOL/ODEP]



Major external factors that influence performance outcomes include the trend of working beyond the traditional retirement age, projected workforce shortages, turn-over, and retirement. Many of these workers may experience disabling conditions, increasing pressure on the employer to keep workers on the job and to have employees who are temporarily disabled return to work quickly. Additionally, small businesses – which employ half of all private sector employees and are expected to generate the majority of new jobs – face unique challenges in hiring and retaining disabled workers.

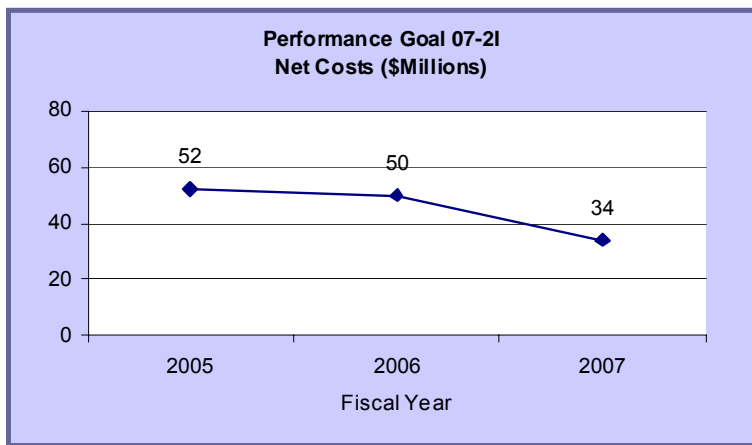
Brett, a young man with cerebral palsy, was shy and insecure when he entered Tech-Now, Oklahoma's High School/High Tech program. Using the framework of the *Guideposts for Success*, developed by ODEP, Tech-Now provided Brett with opportunities to function outside of his comfort zone—something that ODEP's pilot projects have shown is necessary to gain the confidence needed to successfully transition to adulthood. Naturally, Brett was apprehensive when, after a year in the program, he was asked to work in his school's front office. After two difficult weeks, he came to love the job and his confidence increased. In 2005, Brett attended Oklahoma's Youth Leadership Forum for Students with Disabilities. In 2006, he spoke at a Governor's Conference and three statewide competitions. Brett graduated in 2006 receiving two scholarships for college. Brett attends Oklahoma City Community College majoring in Political Science and plans to transfer to the University of Oklahoma. [Photo credit: DOL/ODEP]



### Analysis and Future Plans

The goal was achieved; all three targets were reached. Since FY 2004, ODEP has been tracking the number of effective practices identified. ODEP identified 24 in FY 2007, exceeding its target of 20. For its two new indicators, the number of policy-related documents and the number of formal agreements, the agency set baselines at the close of FY 2006 – both at 20 – which also served as targets for FY 2007. Both targets were exceeded, with results of 34 and 23, respectively.

In FY 2007, ODEP emphasized different strategies to continue its core mission activities of developing and influencing the implementation of policy to reduce barriers to employment for people with disabilities. ODEP moved away from reliance on pilot projects to a greater emphasis on using its internal staff to conduct policy analysis and research to influence the development and implementation of policy. ODEP entered into several cooperative agreements. These cooperative agreements, which require ongoing collaboration between ODEP and the other entity, fund national technical assistance efforts, disability and employment research, and the dissemination of effective practices.



ODEP net costs dropped from \$50 million in FY 2006 to \$34 million in FY 2007. Costs for both years reflect funds awarded in prior fiscal years. The impact of reduced funding was a significant reduction in pilot projects. In FY 2008, some efficiencies are expected to result from staff experts' assumption of work previously performed by grantees, including lower development and operation costs associated with pilot projects. ODEP expects that more effectively utilizing a variety of strategies, including entering into new cooperative agreements, will ensure continued achievement of its goal.

### **PART, Program Evaluations and Audits**

ODEP underwent a PART review in 2006 and received a rating of *Results Not Demonstrated*. ODEP is acting on the three PART recommendations: maintain a consistent set of performance indicators to measure progress toward achieving long-term goals and developing a valid performance management tracking system for collecting data; collect baseline data and out-year data to measure program efficiency and effectiveness; and conduct a rigorous evaluation to assess the impact and effectiveness of the program's policy and coordination functions.

In FY 2007, DOL initiated a program evaluation focused on performance measurement processes. Specifically, this study dealt with definitions of ODEP's annual performance (output) measures, long-term measures and collection of data, including identification of data sources to generate the measures and development of a methodology to obtain the data identified. ODEP worked with a contractor to systematically address the effectiveness and feasibility of ODEP's performance measures, whether other Federal agency data systems can inform ODEP's performance measures, and what types of data collection instruments are necessary and cost effective. The contractor found that in general, ODEP has established annual performance (output) measures that are relevant to ODEP's critical strategies and reflect ODEP activities. Refinements to the measures, such as clarification of the definitions and creation of sub-measures to facilitate linkages between outputs and long-term outcome measures, were recommended. ODEP will continue working with this contractor to make these refinements, improving the agency's performance measurement system.

#### **"Review of ODEP's Performance Measures and Development of Information Gathering Methods," August 2007 (ERG)**

**Purpose:** Evaluate ODEP's performance systems and design a methodology that will enable the Agency to capture information that is essential for analyzing the impact of policies and initiatives.

#### **Major Findings:**

- 1) Question: How effective are ODEP's annual output measures? Strengths include: relevant to current program focus; apply to multiple critical strategies and cut across ODEP's efforts; can be quantified and verified. Weaknesses include: Overlap across the three output measures; aggregated across efforts; cannot easily be linked to intermediate outcome measures.
- 2) Question: How feasible are ODEP's annual output measures? Strengths include: data readily available within ODEP; low resource requirements for data collection and documentation. Weaknesses include: data collection not automated or integrated with other program information.
- 3) Question: How effective and feasible are ODEP's current intermediate measures? Intermediate measures are not effective because they link to prior activities and are not relevant to current ODEP focus. Feasibility is not applicable.
- 4) Question: How effective and feasible are ODEP's current systems outcome measures? Systems outcome measures are not effective because they do not link to ODEP's outputs and intermediate outcomes but might be adaptable to assess cumulative changes in service delivery systems based on revised intermediate outcomes.

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|--|
| Feasibility is not applicable.   |
| <b>Recommendations:</b> Recommendations included keeping established output measures, with refinements; starting to formulate new intermediate outcome measures that address extent of increased awareness/knowledge transfer and adoption/implementation of ODEP-related policies and practices; considering the types of internal data that can be generated for measures as part of ODEP's ongoing activities and interactions; establishing an internal data system for performance measurement. |
| <b>Actions Taken and Remaining:</b> ODEP is working to implement recommendations. Actions currently being undertaken include advancing the process of linking outputs to outcomes and providing a systematic, building block approach to identify effective and feasible long-term service delivery systems outcome measures.  |
| <b>Additional Information:</b> Please contact Lisa Lahrman or Richard Horne at 202-693-7880.   |

### Data Quality and Major Management Challenges

Data quality for this goal was rated *Good*. Strengths of the data include timeliness, verifiability, and completeness. ODEP relies on contracted external independent evaluators to validate the data collection systems that support ODEP's performance measures. As ODEP continues to implement its strategic and performance plan, data quality can be improved to ensure uniform guidelines for collecting and reporting data as well as increasing their validity in measuring program performance. ODEP continues to refine performance measurement and data systems in an effort to raise the bar on the quality and nature of performance information reported.

## Promote Flexible Workplace Programs

### Performance Goal 07-2J (OASP) – FY 2007

*Maximize regulatory flexibility and benefits and promote flexible workplace programs.*

| Indicators, Targets and Results   |        |                             |                             |
|---|--------|-----------------------------|-----------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>For Legacy Data see note below   |        | FY 2006<br>Goal<br>Achieved | FY 2007<br>Goal<br>Achieved |
| Percent of identified significant regulations that are reviewed   | Target | 90%                         | <b>92%</b>                  |
|   | Result | 92%                         | <b>95%</b>                  |
|   | *      | Y                           | <b>Y</b>                    |
| Percent of regulations identified for revision or withdrawal  | Target | 85%                         | <b>88%</b>                  |
|   | Result | 93%                         | <b>100%</b>                 |
|   | *      | Y                           | <b>Y</b>                    |
| Percent of participating employers who created or enhanced a flexible workplace practice  | Target | —                           | <b>62%</b>                  |
|   | Result | —                           | <b>65%</b>                  |
|   | *      | —                           | <b>Y</b>                    |
| Source(s): DOL's Spring 2007 Regulatory Agenda - Initiatives supplied by DOL agencies to OASP. Women's Bureau: Best Practice intake forms   |        |                             |                             |
| Legacy Data: Complete indicators, targets and results for FY 2004-06 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-4.2A. |        |                             |                             |
| Note: Costs of achieving DOL's results in maximizing regulatory flexibility are distributed throughout the department's regulatory agencies, as it is part of their costs of operations.  |        |                             |                             |

#### Program Perspective and Logic

The Office of the Assistant Secretary for Policy (OASP) coordinates and tracks DOL's achievement of this goal in part through its role in directing the compilation and publication of the Department's Annual Regulatory Plan and Semi-Annual Regulatory Agenda. The Agenda delineates all the regulations DOL expects to have under consideration for publication, proposal, or review during the coming 1-year period. The focus of Departmental regulatory activity will be on the development of effective rules that advance the Department's goals and that are understandable and usable to the employers and employees in all affected workplaces.

With OASP's assistance, DOL regulatory agencies established plans and procedures to prioritize their regulatory initiatives to ensure they support this goal. It is important to note, however, that most of the items on the Agenda are required in order to implement new statutory requirements or court decisions or to implement policy and program priorities related to the Department's other strategic goals.

Each indicator for this performance goal measures DOL's progress in promoting flexibility in ways that are crucial to a competitive workforce: regulatory flexibility and workplace flexibility. The regulatory flexibility indicators ensure that DOL's regulation review plan emphasizes flexibility. It is based on meaningful criteria that, where feasible, reflect public input and correct current regulatory practices that are duplicative, obsolete, or not cost-effective. The workplace flexibility indicators ensure that DOL highlights and publicizes best practices of flexible workplaces and model flexibility practices.

External factors impacting performance for this goal include court decisions and legislation that mandate regulatory changes or that require drafting new regulations within certain time frames. These unexpected regulatory projects must be given priority and, therefore, can disrupt the progress of other regulatory projects already underway. In FY 2007, the Deficit Reduction Act of 2005, the Pension Protection Act of 2006, and

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the MINER Act were regulatory actions completed in response to statutory requirements to complete within tight timeframes.

### **Analysis and Future Plans**

This goal was achieved. DOL agencies continue to apply their regulatory review methodologies in order to make decisions about what should be on their regulatory agendas. Their review processes allow opportunities for public input, where appropriate, on both the selection of regulations for review and the outcomes of reviews. In the course of promulgating revised regulations, agencies conduct regulatory analyses to help assure that the major regulatory changes maximize net benefits.

OASP, in its role as coordinator of agency efforts under this strategic goal, continued its regulatory review and clean-up project that began in the 4<sup>th</sup> quarter of FY 2005 to ensure that the Department's regulatory structure promotes compliance flexibility and reduces regulatory burden. During the reporting period, the Department had 37 items on its regulatory agenda that were relevant to this performance goal and took action on 35 of them (95 percent), reaching the target of 92 percent. Actions included publishing notices of proposed rulemaking, final rules, interim final rules, etc. In each case, DOL agencies pursued actions that maximized net benefits, promoted regulatory flexibility, and/or replaced obsolete provisions with regulations that reflect current technology and market conditions and address current business practices. In addition, this initiative focuses on identifying routine, obsolete non-technical, or nomenclature changes to DOL regulatory text that could be accomplished without using public notice and comment procedures. In FY 2007, the Department published a direct final rule that affected 10 parts of the Code of Federal Regulations and made over 300 discrete regulatory changes. OASP reached its target, taking action on 100 percent of these items.

The Flex-Options for Women project, sponsored by the Women's Bureau, encourages business owners to develop workplace flexibility policies and procedures such as telecommuting, job sharing, and compressed work week schedules to respond to growing demand for such options by workers. Small businesses learn how to establish workplace flexibility practices for their employees through one-to-one mentorship relationships with corporate executives who have succeeded in establishing these practices in their own companies and from others who have years of experience in designing workplace flexibility practices. The audience includes all businesses, regardless of gender of ownership. In FY 2007, the Womens Bureau reached its target with 65 percent of participating employers creating or enhancing their workplace practices.

### **PART, Program Evaluations and Audits**

OASP is not subject to PART reviews.

### **Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Good*. Data and results are not estimated, but are based on reporting from public actions taken as part of the rulemaking process. Strengths of the data include its accuracy and relevance. Regulatory data are taken directly from the Department of Labor's Semi-Annual Regulatory Agenda. Items are added to the Regulatory Agenda through a transparent process that begins with the agency identifying provisions on which they propose to focus. After a rigorous Departmental review and clearance process, the approved items are added to the Department's Regulatory Agenda, which is published in the *Federal Register* each Spring and Fall. Data for the flexible workplaces measure is reported by the regions based on the number of programs or policies created or enhanced by participant companies. Data are cross checked and verified at the regional and national level.

One area for improvement is to identify performance data that better represent the desired outcomes, particularly with respect to the Department's regulatory agenda. As noted by a GAO Report on retrospective reviews of regulations (<http://www.gao.gov/new.items/d07791.pdf>), agencies can incorporate various elements into their policies and procedures in order to improve the effectiveness and transparency of retrospective regulatory reviews. This includes high-level management support, pre-planning to identify data needed to conduct effective reviews, and a prioritization process to address time and resource barriers.

## Reduce Child Labor in Developing Countries

### Performance Goal 07-2K (ILAB) – FY 2007

*Contribute to the elimination of the worst forms of child labor internationally.*

| Indicators, Targets and Results   |        |                             |                                 |                             |                             |                             |                             |
|---|--------|-----------------------------|---------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>Some indicators not shown for FY 2002-05 – see Legacy Data note below  |        | FY 2002<br>Goal<br>Achieved | FY 2003<br>Goal Not<br>Achieved | FY 2004<br>Goal<br>Achieved | FY 2005<br>Goal<br>Achieved | FY 2006<br>Goal<br>Achieved | FY 2007<br>Goal<br>Achieved |
| Number of children prevented or withdrawn from exploitive child labor and provided education and/or training opportunities as a result of DOL-funded child labor elimination projects   | Target | 50,000                      | 60,000                          | 70,000                      | 116,000                     | 178,000                     | <b>139,000</b>              |
|   | Result | 51,927                      | 69,915                          | 91,724                      | 161,821                     | 238,733                     | <b>228,966</b>              |
|   | *      | Y                           | Y                               | Y                           | Y                           | Y                           | Y                           |
| Number of countries with increased capacities to address child labor as a result of DOL-funded child labor elimination projects   | Target | —                           | —                               | 15                          | 20                          | 39                          | <b>31</b>                   |
|   | Result | —                           | —                               | 26                          | 39                          | 55                          | <b>48</b>                   |
|   | *      | —                           | —                               | Y                           | Y                           | Y                           | Y                           |
| Goal Net Cost (millions)  |        | —                           | —                               | —                           | \$74                        | \$95                        | <b>\$101</b>                |
| Source(s): Grantee progress reports and other project monitoring sources.   |        |                             |                                 |                             |                             |                             |                             |
| Legacy Data: Complete indicators, targets and results for FY 2002-05 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-3.3A.   |        |                             |                                 |                             |                             |                             |                             |
| Note: In FY 2002-05, the first indicator reflected children withdrawn or prevented from the worst forms of child labor for USDOL-funded ILO-IPEC programs only. Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. Costs are not allocated to the indicator level because program activities are not separable into categories associated with one or the other. |        |                             |                                 |                             |                             |                             |                             |

#### Program Perspective and Logic

Through activities implemented by the Bureau of International Labor Affairs (ILAB), the Department has worked to reduce exploitive child labor worldwide since 1993. ILAB conducts Congressionally-mandated research on international child labor, works to increase public awareness of the issue, and funds and oversees projects in over 75 countries to eliminate exploitive child labor and increase access to quality basic education. DOL's international child labor technical assistance programs are implemented through cooperative agreements with a broad array of non-governmental, faith-based and international organizations as well as private firms. Through ILAB's Child Labor Education Initiative, DOL has provided funds for projects focusing specifically on access to and quality of basic education as a means of reducing exploitive child labor. The Department continues to increasingly direct its funds toward large-scale national programs to eliminate the worst forms of child labor. This approach integrates action to eliminate child labor with national policies and programs relating to poverty reduction and education.

ILAB measures its success towards meeting this goal on two levels: first, through direct interventions made at the community level to withdraw or prevent children from exploitive labor; and second, through country-level actions that increase national capacity to eliminate exploitive child labor. ILAB establishes annual targets for its two indicators through analysis of baseline information, individual project targets, past performance, and external factors. ILAB's FY 2007 target is lower than its FY 2006 results due to a decline in funding levels over the past several years and the conclusion of some projects serving high numbers of children.

In FY 2007, Congress appropriated about \$60 million to DOL's child labor program. Ninety percent of the funds directly contributed to ILAB's two performance indicators described above. Remaining funds contributed to ILAB's performance goal indirectly through administration and oversight funds, including child

labor research and reporting, project monitoring, project evaluation, and examination level attestation engagements.

Various external factors influence ILAB's targeted outcomes, such as the implementing environment of developing countries. DOL-funded projects work in countries with diverse political, social, and economic environments. Civil unrest, natural disasters, economic shocks, frequent changes in governments, and poor infrastructure can also impact the progress of project implementation.

### Analysis and Future Plans

The goal was achieved. During FY 2007, DOL-supported international child labor projects prevented or withdrew 228,966 children from exploitive child labor by providing them with education and/or training opportunities. Since the beginning of DOL's international child labor technical cooperation program in 1995, DOL-funded projects have prevented or withdrawn close to 1.1 million children around the world from exploitive child labor. Children served by these projects were working or at risk of working in places such as mines, commercial plantations, and manufacturing workshops. Others were exploited or at risk of exploitation in the worst forms of child labor such as trafficking, forced labor, debt bondage, recruitment for use in armed conflict, and commercial sexual exploitation.

Apollo, an orphan, became part of a 20-year armed conflict in Northern Uganda when he was abducted by insurgents of the Lord's Resistance Army (LRA). Apollo was forced to carry weaponry and wounded soldiers in combat situations and served as an attendant to his brigade's commander. During this time, Apollo witnessed the murder of several fellow abductees by LRA soldiers. He says of those days, "I would cry within my heart for fear of being killed." When Apollo finally returned home, he had no family to support him through school. The International Rescue Committee offered him assistance via the DOL-funded ORACLE (Opportunities for Reducing Adolescent and Child Labor through Education) project, which paid his school fees and purchased a uniform, school books and materials. Now 16 years old, Apollo has passed his primary school exams and is enrolled in a secondary biology, chemistry, and math program. [Photo credit: DOL/ILAB]



Since eliminating the worst forms of child labor requires a sustained effort and institutional change, DOL-funded projects also aim to increase countries' capacity to address the issue. Increasing capacity to address child labor includes changes in a country's legal framework, development and implementation of national policies, strengthening enforcement mechanisms, and creation of systems for monitoring of child labor. During FY 2007, with technical support from DOL-funded projects, 48 countries around the world increased their capacity to eliminate the worst forms of child labor by adopting laws increasing the minimum age for employment, defining the worst forms of child labor, providing for increased enforcement and penalties, and establishing anti-trafficking provisions.

In FY 2007, costs for this performance goal rose to \$101 million from \$95 million in FY 2006 – an increase of six percent. The increase is a result of normal spending fluctuations by grantees that have five years to expend obligated funds.

In the coming year, ILAB plans to develop new evaluation methodologies that will improve its ability to assess program impact and effectiveness. In addition, ILAB will work with its grantees to identify specific project components and exit strategies that can lead to greater sustainability once DOL funding has ended.

### **PART, Program Evaluations and Audits**

ILAB underwent a PART review in 2004 and received a rating of *Adequate*. A principal finding was the need for more data to assess the impact of ILAB's technical cooperation programs. The PART found that ILAB's programs had not undergone a comprehensive evaluation. In response, ILAB conducted a project-level document review of its programs in 2005-2006 (see box below). Additionally, the Department funded a comprehensive program evaluation of its international child labor technical cooperation program in 2007. Also, in response to the PART assessment, ILAB implemented a cost efficiency measure.

#### **“Project-Level Review of the Bureau of International Labor Affairs Technical Cooperation Programs” October 2006 (SRA International)**

**Purpose:** To conduct a project-level review of ILAB's international child labor technical assistance programs to determine impact, effectiveness, and sustainability of those programs. This review compiled information on accomplishments, strengths, and weaknesses, lessons learned, and recommendations from project-related documents from a sample of 19 projects.

#### **Major Findings:**

- 1) ILAB projects have had some positive impacts, including increasing awareness of child labor; creating or strengthening legislation, policies and organizations seeking to eliminate child labor; increasing children's education and skills levels; and removing children from exploitive child labor.
- 2) In some cases, slow start-up, implementation delays, ambitious design or under-funding, and sometimes incomplete diagnosis of country conditions affected overall project implementation.

#### **Recommendations:**

- 1) ILAB should focus more attention on the front-end of the project cycle and make sure that project designs accurately reflect country conditions.
- 2) ILAB should not over-commit to too many overarching goals, and project objectives should align with project funding levels.

**Actions Taken and Remaining:** ILAB has taken actions to improve its collection of information about country conditions prior to funding projects, including conducting desk reviews prior to publishing solicitations for grant applications and requiring grant applicants to include needs assessments of target populations. In regard to aligning goals with funding, ILAB is working with project implementers to ensure they establish challenging but reasonable goals. In 2007, DOL will fund a program-level evaluation that will involve independent analysis and an expanded and more rigorous methodology, including site visits and interviews.

**Additional Information:** For additional information, please contact Marcia Eugenio, Director of the Office of Child Labor, Forced Labor, and Human Trafficking at 202-693-4849.

### **Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Excellent*. Strengths of the data include accuracy, relevance, and completeness. ILAB, which does not have an overseas presence, has developed a multi-pronged framework for monitoring data quality and project performance. DOL grantees submit semiannual project-level financial and technical progress reports including data for each ILAB indicator. In addition, DOL requires grantees to report on educational retention and completion. DOL also requires grantees to develop Performance Monitoring Plans specifying sources of data, methods and frequency of data collection, responsible personnel, and costs for monitoring project indicators. DOL requires independent mid-term and final evaluations of all projects. GAO noted DOL's monitoring efforts in "Human Trafficking: Monitoring and Evaluation of International Projects are Limited, but Experts Suggest Improvements" (GAO-07-1034). GAO researchers stated, "We believe the overall monitoring of anti-trafficking projects is limited because the projects funded by the other five agencies [that also grant US government-funded anti-trafficking projects] did not have the elements of monitoring we found in Labor's projects."

Furthermore, financial and performance-related examination-level attestation engagements are being conducted on many DOL-funded child labor projects. These attestation engagements review data to ensure that grantees are reporting data based on ILAB-established definitions, and that the data are supported by adequate records and observation. When issues in reporting are identified, grantees are required to provide a corrective action plan to revise the data as necessary.



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## Strategic Goal 3: Safe and Secure Workplaces

*Promote workplaces that are safe, healthful and fair; guarantee workers receive the wages due them; foster equal opportunity in employment; and protect veterans' employment and re-employment rights.*

All workers are entitled to safe, healthful, and fair workplaces – and several DOL agencies have this as their primary mission. The Department has committed to achieving this goal by promoting practices that minimize safety and health hazards and provide equal opportunities for workers. Rapid technological advances and dynamic workplace environments have changed the nature of work, leading to new challenges for our safety and health mission. DOL promotes equal employment opportunity by enforcing regulations that deal with Federal contracting practices and the reemployment rights of veterans. Agencies with programs supporting this goal are:

- Occupational Safety and Health Administration (OSHA)
- Mine Safety and Health Administration (MSHA)
- Employment Standards Administration (ESA), and
- Veterans' Employment and Training Service (VETS).

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On October 30, 2003, new construction on the Tropicana Casino in Atlantic City, New Jersey collapsed. In the Department's ensuing lawsuit against the employer, DOL successfully argued that a contractor may not rely on poorly drafted building plans if the contractor has reason to know the plans are erroneous. By clarifying this previously unclear area of the law, the Department continues its mission of vigorously enforcing the nation's labor laws and supporting a safe and secure workplace for every American. [Photo Credit: DOL/SOL]

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These Agencies provide a critical service to the American worker by ensuring that employers comply with major employment laws. These laws represent some of the most fundamental protections for workers, and ensure that workplaces are safe, healthful, and fair. The Agencies rely on a broad range of expertise – from front-line investigators to the strategic decision-makers – to administer these laws and to educate employers and the public. The performance goals and targets for this strategic goal focus on the effectiveness of these enforcement efforts and compliance programs. In FY 2007, DOL positively impacted the workplace by reducing injury and illness rates, improving working conditions, and by maintaining low rates of employment rights violations. The following results highlight some of DOL's successes in FY 2007.

### For American Workers

- The fatality rate decreased in OSHA covered sectors.
- The injury and illness rate decreased, which means fewer workers suffered from conditions caused or worsened by their work environment.

### For Miners

- The all injury and illness rate dropped for the fourth consecutive year.
- Silica dust and noise levels in mines were reduced.

### For Employees of Federal Contractors

- The discrimination rate among audited contractors remained at a low two percent.
- Federal contractors reached an 88 percent compliance rate, which means most audited contractors have affirmative action plans and comply with equal employment opportunity laws.

**For Returning Veterans**

- Claims under the Uniformed Services Employment and Reemployment Rights Act decreased by four percent, suggesting fewer Veterans faced unlawful barriers when returning to work after active duty.
- Employer violations decreased by eight percent from last year.
- Meritless claims decreased by 14 percent, meaning Veterans are better understanding their rights.

These national results are realized one worker and one employer at a time. The vignettes below and throughout this chapter tell some of the stories behind Strategic Goal Three. For more specific information, please see the Performance Goal narratives.



Within ESA, the Wage and Hour Division (WHD) administers standards for wages and working conditions – such as overtime, field sanitation standards in the agricultural industries, prevailing wage requirements for government contracts, and child labor protections. In 2007, the Wilkes-Barre District Office investigated five fatalities involving Amish and Mennonite minors during an eighteen month period that began in the summer of 2005. Shaken by the rash of tragedies, the Amish and Mennonite communities agreed to meet with staff of the Wilkes-Barre District Office for the purpose of learning about the youth employment provisions of the Fair Labor Standards Act to protect an estimated 13,770 to 18,360 Amish minors of working age.

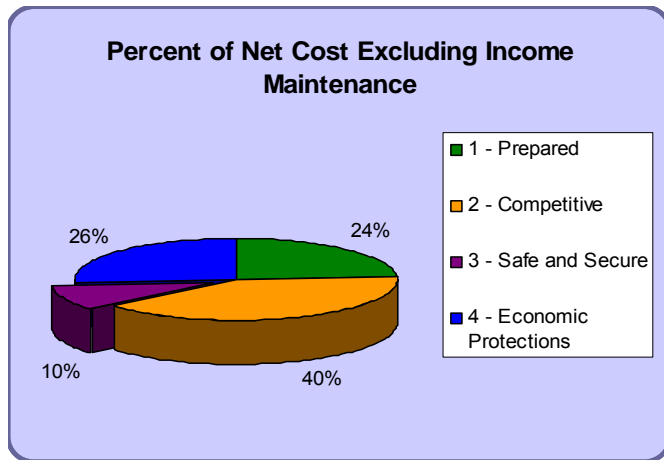
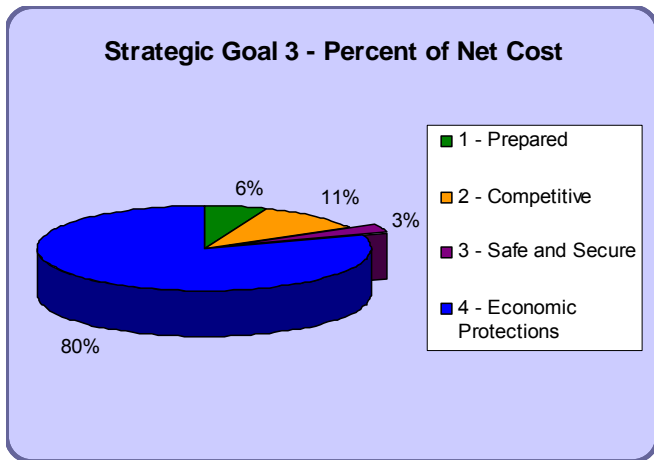
WHD conducted youth employment outreach events directed at Mennonite business owners and the newly formed Safety Committee as well as the Mennonite Governing Board. Additionally, an article on youth employment, co-authored by the Wilkes-Barre District Office and the Amish Safety Committee appeared in the weekly Amish newspaper, *Die Botschaft*. [Photo Credit: DOL/ESA]

The following table provides key information, goal statements, and achievement for DOL performance goals associated with this strategic goal.

| Goal (Agency) and Statement  | Performance Summary  | Net Cost (millions) <sup>31</sup> |                |                |
|--|--|-----------------------------------|----------------|----------------|
|  |  | FY 2005                           | FY 2006        | FY 2007        |
| <b>07-3A (OSHA)</b> Improve workplace safety and health through compliance assistance and enforcement of occupational safety and health regulations and standards. | Goal achieved. Both targets reached.   | \$515                             | \$519          | \$547          |
| <b>07-3B (MSHA)</b> Reduce work-related fatalities, injuries, and illnesses in mines.  | Goal substantially achieved. Four targets reached, one improved and one not reached. | 307                               | 348            | 356            |
| <b>07-3C (ESA)</b> Ensure workers receive the wages due them.  | Goal not achieved. Two targets reached and two not reached.                          | 214                               | 214            | 221            |
| <b>07-3D (ESA)</b> Federal contractors achieve equal opportunity workplaces.   | Goal achieved. Both targets reached.   | 99                                | 97             | 103            |
| <b>07-3E (VETS)</b> Reduce employer-employee employment issues originating from service members' military obligations conflicting with their civilian employment.  | Goal achieved. One target reached.   | 12                                | 11             | 10             |
| <b>Total for Strategic Goal 3</b>  | <b>Three goals achieved, one substantially achieved and one not achieved.</b>        | <b>\$1,147</b>                    | <b>\$1,189</b> | <b>\$1,237</b> |

<sup>31</sup> Net cost as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis.

The net cost dedicated to Strategic Goal 3 in FY 2007 was \$1.237 billion. The first chart below is based on total Departmental costs of \$47.872 billion; the second is based on an adjusted net cost of \$12.771 billion that excludes the major non-discretionary program costs associated with Strategic Goal 4.<sup>32</sup> Net cost dedicated to Strategic Goal 3 in FY 2006 (restated to reflect current goal structure) was \$1.189 billion.



Simulating real events and emergencies is one of the most effective ways to train people. Recognizing this, MSHA created a Mine Simulation Laboratory at the National Mine Health and Safety Academy in Beckley, WV. This 48,000 square-foot facility is an above-ground simulated mine featuring a coal mine on the lower level and a metal/nonmetal mine on the second floor level. The simulated coal mine represents a room-and-pillar setup with four entries and nine crosscuts. The metal/nonmetal mine contains passageways, tunnels, stairways, and ladders to simulate different manways and other situations faced by mine rescue teams. Students are given simulated exercises to provide hands-on experience in mine ventilation, accident investigation, mine inspection, mine rescue and recovery, and mine emergency operations management. The training facility is unique and an internationally recognized center for practical training in mine safety and health. [Photo credit: DOL/MSHA]



<sup>32</sup> The excluded costs are referred to as Income Maintenance – unemployment benefit payments to individuals who are laid off or out of work and seeking employment (\$32.051 billion) plus disability benefit payments to individuals who suffered injury or illness on the job (\$3.050 billion).

## Reduce Occupational Fatalities

### Performance Goal 07-3A (OSHA) – FY 2007

*Improve workplace safety and health through compliance assistance and enforcement of occupational safety and health regulations and standards.*

| Indicators, Targets and Results  |        |                             |
|--|--------|-----------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated   |        | FY 2007<br>Goal<br>Achieved |
| Days away from work, job restriction and job transfer (DART) per 100 workers   | Target | 2.3                         |
|  | Result | 2.2**                       |
|  | *      | Y                           |
| Workplace fatalities per 100,000 workers (for sectors covered by the Occupational Safety and Health Act)   | Target | 1.73                        |
|  | Result | 1.64                        |
|  | *      | Y                           |
| Goal Net Cost (millions)   |        | \$547                       |
| Source(s): OSHA Integrated Management Information System (IMIS); Bureau of Labor Statistics (BLS) Current Employment Statistics (CES) and Annual Survey of Occupational Injuries and Illnesses (ASOII).  |        |                             |
| Legacy Data: Complete indicators, targets and results for FY 2003-06 are available in the FY 2006 report at <a href="http://www.dol.gov/_sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/_sec/media/reports/annual2006/PGD.htm</a> . See Performance Goals 06-3.1C and 06-3.1D.   |        |                             |
| Note: A third indicator, "Rate of workplace injuries and illnesses in new worksites participating in VPP Programs," appeared in the DOL FY 2008 Performance Budget Overview. However, this indicator has been eliminated. In addition, baselines and targets for the first two indicators were updated from the FY 2008 Performance Budget to reflect the latest data. This year, the method of calculating the fatality indicator results has changed from a three-year average to an annual average, invalidating a comparison of FY 2007 to FY 2003-FY 2006 targets and results. Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. Costs are not allocated to OSHA's two performance indicators because the same activities contribute to reductions in fatality and injury/illness indicators, i.e., their costs are not separable. Calendar year is designated by "CY." |        |                             |

#### Program Perspective and Logic

For over 35 years, OSHA has promoted employee safety and health in the United States by collaborating with employers and employees to create safer working environments. A strong, fair, and effective enforcement program underpins OSHA's efforts to protect the safety and health of the nation's employees. Outreach, education and compliance assistance complement enforcement and enable OSHA to play a vital role in preventing on-the-job injuries, illnesses and fatalities.

Changes in the economy and employment, emerging and new technologies, and workforce characteristics affect OSHA's performance. The majority of working Americans fall under the jurisdiction of Federal OSHA or federally-approved State plans (with the exception of as miners, transportation workers, some public employees, and the self-employed). OSHA helps to reduce on-the-job deaths by intervening at workplaces where it has evidence that fatalities are more likely to occur and by responding to reports about potentially life-threatening workplace hazards.

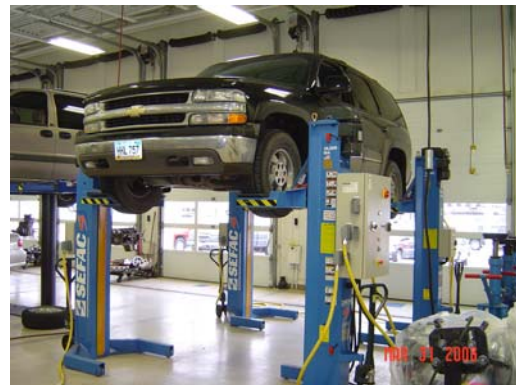
OSHA tracks fatalities to develop targeted national and local programs and to measure performance. OSHA is working to reduce the workplace fatality rate by five percent between FY 2006-2011 and the injury and illness rate by 15 percent between CY 2005-2011. OSHA uses data from its Integrated Management Information System to track fatalities, to develop national and local programs, and to measure performance. OSHA uses data from the Bureau of Labor Statistics Survey of Injuries and Illnesses to estimate the rate of injuries and illnesses involving days away from work, job restriction, or job transfer (DART).

## Analysis and Future Plans

This year, the injury and illness rate declined to an estimated 2.2 per 100 workers from the CY 2005 baseline of 2.4, and the fatality rate for sectors covered by the Occupational Safety and Health Act declined from the FY 2006 baseline of 1.75 to 1.64 deaths per 100,000 workers.



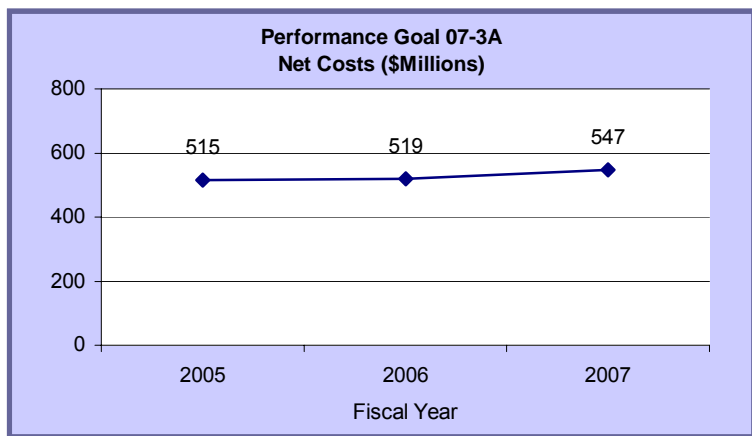
OSHA uses targeted enforcement strategies called Local Emphasis Programs (LEPs) to reduce or eliminate specific occupational hazards. LEPs address hazards or industries that pose a risk to workers in a particular locality, and are accompanied by outreach to help build awareness of the program and specific occupational hazards. In FY 2006, OSHA's



Bismarck, ND Area Office launched an LEP in response to six complaints involving three near-miss accidents where equipment failure could have resulted in crushing injuries to employees working with automotive lifts. Since inception, over 30 local establishments have been inspected through this LEP, and hazards such as inadequate automotive lifts and improper inspection protocol were identified and corrected. [Photo credits: DOL/OSHA]

OSHA emphasized the importance of timely input of fatality data from OSHA's field offices and from State plan partners operating their own OSHA programs. To work toward the targeted reductions in fatalities, OSHA identified and targeted sectors and hazards that required interventions and increased its compliance assistance efforts. For example, OSHA is addressing the growth in the construction field of immigrant and non-English speaking workers by translating more of the agency's safety and health materials into other languages, especially Spanish. The agency is creating compliance assistance materials that employers can use to effectively communicate safety and health issues, such as workplace hazards, to employees.

In June, the agency established a National Emphasis Program (NEP) to reduce or eliminate workplace hazards associated with the catastrophic release of highly hazardous chemicals at petroleum refineries. In July, OSHA established a separate NEP to identify and reduce or eliminate exposures to butter-flavoring chemicals used in facilities that manufacture microwave popcorn. To accomplish the goal of reduced exposures, OSHA's efforts in both NEPs include targeted inspections and extensive compliance assistance. OSHA's Site Specific Targeting (SST) Program uses establishment-specific injury and illness data collected through the OSHA Data Initiative (ODI) to identify and target for inspection worksites that experience high rates of injury and illness.



The costs associated with this performance goal increased by 5.4 percent between FY 2006 and FY 2007. The primary reasons for this change are budgetary increases to allocations for: pay adjustments and personnel benefits; development of the OSHA Information System to improve the agency's ability to identify cost-effective methods of collecting complete and comparable data on program outcomes; and a rise in agency and Department level indirect costs. Costs are allocated across the two performance indicators as reflected in the Indicators, Targets and Results table.

### PART, Program Evaluations and Audits

OSHA underwent a PART reassessment in 2007 and received a rating of *Adequate* – the same rating as in 2002. In response to the PART reassessment, OSHA will develop a cost efficiency measure that covers a substantial portion of its budget and will start regulatory reforms identified in GAO's 2005 Report to Congress on the Costs and Benefits of Federal Regulation. Finally, DOL is conducting rigorous, independent evaluations to examine the effectiveness and efficiency of OSHA's programmatic approaches.

#### “Disaster Preparedness: Better Planning Would Improve OSHA's Efforts to Protect Workers' Safety and Health in Disasters,” March 2007 (GAO)

**Purpose:** Assess how well OSHA carried out its responsibilities under the National Response Plan (NRP) in the aftermath of Hurricane Katrina and lessons learned that will enable OSHA to perform better in the future.

**Major Findings:** OSHA provided assistance to many agencies and workers, but its efforts to meet the safety and health needs of all workers were hampered by several factors, including the fact that not all agencies were cognizant of the assistance OSHA was providing and details of OSHA's and FEMA's roles were unclear.

**Recommendations:**

- 1) Clearly define the criteria to be used in deciding when OSHA will be responsible for carrying out its duties under the Worker Safety and Health Support Annex to the National Response Plan.
- 2) Clearly define OSHA's and FEMA's roles under the Worker Safety and Health Support Annex.
- 3) Proactively work to provide information to Federal, State, and local agencies about OSHA's role in a disaster and the assistance it can provide under the Worker Safety and Health Support Annex.

**Actions Taken and Remaining:**

- 1) In March 2006, OSHA began working with FEMA to develop a Standard Operating Procedure (SOP) that provides guidance on how and when OSHA should be activated.
- 2) The OSHA/FEMA SOP also addresses the roles and responsibilities of each Agency when the Annex is implemented.
- 3) OSHA continues to seek opportunities to acquaint all involved in emergency response with the importance of worker safety and health measures and how OSHA can help protect responders in the aftermath of a disaster.

**Additional Information:** The report (GAO-07-193) is available at <http://www.gao.gov/new.items/d07193.pdf>.

### Data Quality and Major Management Challenges

Data quality for this performance goal was rated *Good*. Strengths of the data include accuracy and reliability. For the fatality goal, the agency relies on its Integrated Management Information System (IMIS) for fatality data and BLS Current Employment Statistics for employment data. IMIS data provides the best count of fatalities under OSHA jurisdiction. The IMIS and the BLS Current Employment Statistics data are complete, reliable, accurate, and verifiable. IMIS, which has numerous automated quality control and edit checks, uses a well-defined and tested protocol for counting. For the injury and illness goal, the agency uses data from the BLS Annual Survey of Occupational Injuries and Illnesses. While this survey provides the most comprehensive and reliable injury and illness data currently available on a national level, results are not available until nine and a half months after the end of the calendar survey year. Consequently, OSHA's estimate for the fiscal year is a projection based on available data from calendar year 2003 onward.

Collecting complete and comprehensive data on OSHA's Voluntary Programs is a Major Management Challenge (MMC) for the Department (see item I, *Protecting the Safety and Health of Workers*, in the MMC section of Management's Discussion and Analysis). While OSHA's voluntary compliance programs yield many positive outcomes, much of the agency's data is limited according to the OIG. GAO recommended that OSHA identify cost-effective methods of collecting complete and comparable data on program outcomes. In response, OSHA now collects more complete and sufficient data on voluntary programs as a result of program refinements and is developing a new OSHA Information System – to be completed in September 2009. Also, at the 2007 Annual Consultation Conference, OSHA clarified the conditions in which Consultation Program Officers may grant extensions to employers with serious workplace hazards. OSHA's new Information System will alert Consultation Program Officers to report these employers for enforcement action and will not allow program officers to grant extensions to employers to correct serious hazards unless they have the proper interim protections for their employees in place.

## Reduce Mine Fatalities and Injuries

### Performance Goal 07-3B (MSHA) – FY 2007

*Reduce work-related fatalities, injuries, and illnesses in mines.*

| Indicators, Targets and Results   |        |                                 |  |                                 |                                 |  |
|---|--------|---------------------------------|--|---------------------------------|---------------------------------|--|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated<br>Some indicators not shown for FY 2003-06 – see Legacy Data note below   |        | FY 2003<br>Goal Not<br>Achieved | FY 2004<br>Goal Sub-<br>stantially<br>Achieved | FY 2005<br>Goal Not<br>Achieved | FY 2006<br>Goal Not<br>Achieved | FY 2007<br>Goal Sub-<br>stantially<br>Achieved |
| Mine industry fatal injury incidence rate (per 200,000 hours worked)  | Target | .020                            | .022   | .022                            | .021                            | <b>.0201</b>                                   |
|   | Result | .023                            | .017   | .018                            | .022                            | <b>.0142**</b>                                 |
|   | *      | N                               | Y  | Y                               | N                               | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —                               | —                               | <b>\$121</b>                                   |
| Mine industry all-injury incidence rate (per 200,000 hours worked)  | Target | 3.79                            | 3.85   | 3.48                            | 3.13                            | <b>2.82</b>                                    |
|   | Result | 4.26                            | 4.07   | 3.90                            | 3.69                            | <b>3.43**</b>                                  |
|   | *      | N                               | N  | N                               | N                               | <b>I</b>                                       |
|   | Cost   | —                               | —  | —                               | —                               | <b>\$107</b>                                   |
| Percent of respirable coal dust samples exceeding the applicable standards for designated occupations   | Target | 14.2%                           | 11.1%  | 10.1%                           | 9.5%                            | <b>9.0%</b>                                    |
|   | Result | 11.7%                           | 10.2%  | 10.8%                           | 11.3%                           | <b>13.6%**</b>                                 |
|   | *      | Y                               | Y  | N                               | N                               | <b>N</b>                                       |
|   | Cost   | —                               | —  | —                               | —                               | <b>\$50</b>                                    |
| Percent of silica dust samples taken with a result that is less than half of the exposure limit in metal and nonmetal mines   | Target | —                               | —  | —                               | —                               | <b>75.5%</b>                                   |
|   | Result | —                               | —  | —                               | —                               | <b>32.0%**</b>                                 |
|   | *      | —                               | —  | —                               | —                               | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —                               | —                               | <b>\$35</b>                                    |
| Percent of noise samples taken with a result that is less than half of the exposure limit in metal and nonmetal mines   | Target | —                               | —  | —                               | —                               | <b>71.3%</b>                                   |
|   | Result | —                               | —  | —                               | —                               | <b>64%**</b>                                   |
|   | *      | —                               | —  | —                               | —                               | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —                               | —                               | <b>\$18</b>                                    |
| Percent of noise exposures above the citation level in coal mines   | Target | —                               | —  | baseline                        | 5.0%                            | <b>4.8%</b>                                    |
|   | Result | —                               | —  | 5.3%                            | 4.4%                            | <b>3.3%**</b>                                  |
|   | *      | —                               | —  | N                               | Y                               | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —                               | —                               | <b>\$25</b>                                    |
| Goal Net Cost (millions)  |        | —                               | —  | \$307                           | \$348                           | <b>\$356</b>                                   |
| Source(s): Mine Accident, Injury, and Employment information that mine operators and non-exempt contractors report to MSHA under Title 30 Code of Federal Regulations Part 50; dust samples collected by MSHA inspectors; Coal Mine Safety and Health MIS; and Metal and Non-Metal Mine Safety and Health MIS.                |        |                                 |  |                                 |                                 |  |
| Legacy Data: Complete indicators, targets and results for FY 2002-06 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goals 06-3.1A and 06-3.1B.  |        |                                 |  |                                 |                                 |  |
| Note: In FY 2003-06, MSHA had separate safety and health goals and in FY 2005, OSHA and MSHA shared performance goals. Achievement is restated as if there had been a single MSHA goal. Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. |        |                                 |  |                                 |                                 |  |

**Program Perspective and Logic**

MSHA ensures compliance with the Federal Mine Safety and Health Act (Mine Act) of 1977 and the Mine Improvement and New Emergency Response (MINER) Act of 2006, laws designed to prevent serious occupational injuries and illnesses in the mining industry. America’s mining industry has made significant strides over the last 30 years. In FY 1978, the first year that MSHA operated under the Mine Act, 242 miners died in mining accidents. In FY 2000-2005, fatalities in the mining industry and the fatal injury rate both declined by 35 percent. In FY 2006, 72 fatalities were reported.



**Remembering Gary Jensen**

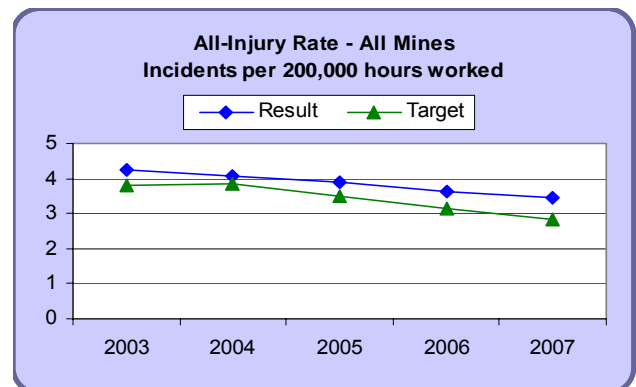
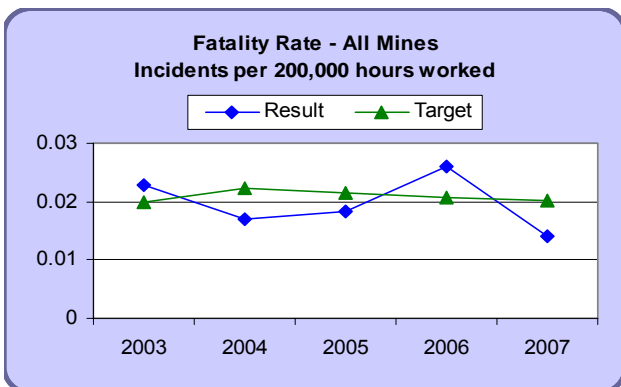
On August 16, 2007, Gary L. Jensen, a Coal Mine Safety and Health Inspector from MSHA District 9, lost his life while working as a member of a mine rescue team trying to save six miners who were trapped underground at the Crandall Canyon Mine in Utah. In his tribute to Gary, MSHA District Manager Allyn Davis, shared these sentiments: “Gary was one of our best and a member of our mine rescue team. He was the ultimate mining safety professional. He worked tirelessly in an attempt to ensure that the nation’s coal miners could return home after work to their loved ones.”

The mining workplace is hazardous. Methane gas and airborne particulates, unseen geologic instabilities, constantly changing terrain, and other environmental conditions inside the mines make mine safety and health a continuing challenge. MSHA’s performance indicators assess effectiveness of its efforts to protect the safety and health of the Nation’s miners. Incidence

rates, the number of fatalities and injuries per 200,000 hours worked by miners, are used by MSHA to measure its performance. These rates reflect not only the number of fatalities and injuries but also the amount of time miners are exposed to potential hazards. There are two sets of health indicators for this performance goal – two for coal mines and two for metal and non-metal mines.

**Analysis and Future Plans**

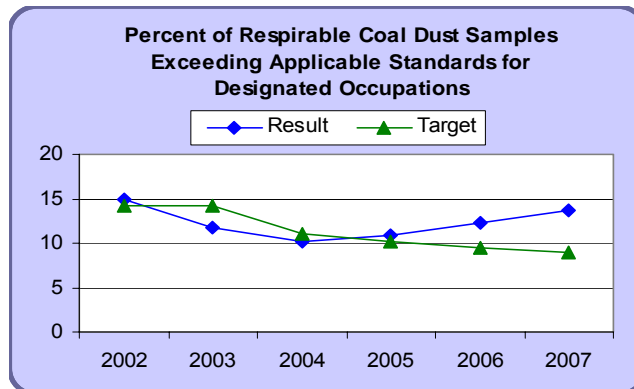
MSHA substantially achieved its performance goal, reaching four of six indicator targets, improving results for one and not reaching another. The fatality rate indicator target was reached, while the all-injury incidence rate dropped for the fourth consecutive year but did not reach the target. The coal dust exposure target was not reached, but the three targets for silica dust and noise were reached.



MSHA set an ambitious target to reduce the mine all-injury rate by over 25 percent from FY 2003 to FY 2007. The agency did not revise the target even though mining activity increased in response to heightened demand for mined resources, including coal. Although MSHA did not reach its ambitious target, the all-injury rate has decreased by over 20 percent since FY 2003. This significant accomplishment was in part attributable to MSHA’s ambitious target-setting which helped drive the agency’s performance to achieve the reduction.



MSHA did not meet its coal dust exposure reduction target. As was the case last year, attainment of the target was complicated by increased coal production, which is correlated with new mining entities that lack adequate dust control and more difficult mining processes that generate dust at a higher rate. To prevent overexposures, MSHA continues its targeted enforcement and compliance assistance efforts at problem mines. In FY 2008, MSHA will increase its technical assistance on the implementation of the MINER Act, which contains numerous provisions to enhance miner safety and health.



Between FY 2006 and FY 2007, costs for this performance goal increased by less than two percent, which is considered within normal variance connected with the timing of expenditures. The more significant increase from FY 2005-06 is partially attributed to higher compensation and rent expenses.

#### **PART, Program Evaluations and Audits**

The MSHA program underwent a PART review in 2003 received a rating of *Adequate*. The improvement plan includes continuing targeted enforcement and compliance assistance actions at high-risk mines beyond the requirements of the Mine Act with initiatives such as the Cooperative Accident Reduction Effort, analyzing the costs and benefits of major regulatory alternatives in the agency's Regulatory Impact Analyses for proposed regulations, and developing efficiency and cost-effectiveness measures for a larger percentage of MSHA's program activities. In FY 2007, MSHA targeted compliance assistance to the cement industry based on numerous explosions associated with the pulverized coal that is used to fuel kilns that heat crushed limestone to produce cement. MSHA issued a hazard alert and followed up with letters that described practices and asked each plant to perform a risk analysis and implement controls and process modifications. As a result, the incidence of explosions decreased.

#### **MSHA Revises Mine Evacuation and Safety Regulations**

On June 15, 2006, President Bush signed the MINER Act of 2006, which was designed to enhance mine safety training, improve safety and communications technology for miners, and provide more emergency supplies of breathable air along mine escape routes. In December 2006, MSHA adopted a revised Emergency Temporary Standard for Mine Evacuation, which requires increased availability of portable breathing devices in underground mines and training in the use of the breathing devices. The rule also requires improved emergency evacuation drills; installation and maintenance of ropes (lifelines) to guide miners to an escape route when smoke reduces visibility in underground coal mines; and mine operators to immediately notify MSHA once a mine operator knows or should have known a mine accident occurred. MSHA estimates that annual cost to the underground mining industry will be approximately \$44 million and that, if the final rule had been in effect, 45 fatalities might have been prevented in four previous mining accidents.

MSHA programs have been audited by both OIG and GAO over the past year. The audits have resulted in numerous recommendations, which MSHA is implementing. Recommendations include hiring of new mine inspectors, improving tracking systems to ensure that mine operators correct identified hazards, and improving miner training. More details regarding these recommendations are discussed in the audit report summaries below. Also, the Department, working through the National Science Foundation's Industry/University Cooperative Research Center enables Dr. Robin Murphy, a renowned robotics expert, to assist in mine research. The partnership, which focuses on underground communication devices and new mine rescue technologies, will provide MSHA with an independent appraisal of these cutting-edge technologies to assist in efforts to rescue miners.

#### **"Mine Safety: Better Oversight and Coordination by MSHA and Other Federal Agencies Could Improve Safety for Underground Coal Miners," May 2007 (GAO)**

**Purpose:** In Report No. GAO-07-622, GAO examined the challenges underground coal mines face in preparing for emergencies, how well MSHA oversees mine operators' training efforts, how well MSHA and National Institute for Occupational Safety and Health (NIOSH) coordinate to enhance the development and approval of mine

safety technology, and how MSHA assesses civil penalties.

**Major Findings:**

- 1) MSHA did not provide all mine operators with information for training under simulated emergency conditions and its oversight of miner training was hampered by inconsistent guidelines for approving new instructors and a lack of continuing education requirements.
- 2) MSHA did not adequately monitor instructors, evaluate training sessions, or assess how well miners learned skills being taught.
- 3) The MOU with NIOSH is out of date, and, while most penalties proposed by MSHA are paid by mine operators without opposition, a small percentage are appealed and reduced significantly.

**Recommendations:** Strengthen the efforts to improve mine operators' access to tools to train their workers, strengthen MSHA's oversight of training, improve the effectiveness of information sharing between MSHA and NIOSH, and ensure that there is transparency in penalty appeal determinations.

**Actions Taken and Remaining:**

- 1) MSHA has begun implementing GAO's recommendations to establish a "single-source" page identifying facilities for simulated mine rescue training and electronically track instructors and improve training reviews to ensure that information and objectives are met.
- 2) MSHA will conduct a sample survey of miners to determine if the training is adequate and beneficial. MSHA is also developing an instructor evaluation and feedback plan to determine the effectiveness of instruction.
- 3) MSHA renewed its efforts to develop an MOU with NIOSH and committed to ensuring that litigation representatives and attorneys are adequately documenting rationales for all civil penalty settlement agreements.

**Additional Information:** To view a copy of the report, please visit <http://www.gao.gov/new.items/d07622.pdf>.

**"MSHA's Revised Hiring Process Has Improved the Agency's Recruiting Efforts, but Its Human Capital Strategic Plan Does Not Adequately Project or Address Its Future Workforce Needs," May 2007 (GAO)**

**Purpose:** GAO conducted a follow-up evaluation (GAO-07-704R) to review MSHA's plan for addressing anticipated shortages in the number of qualified inspectors due to upcoming retirements.

**Major Findings:** In 2003, GAO recommended that MSHA develop a plan for addressing anticipated shortages in the number of qualified inspectors due to upcoming retirements, including streamlining the agency's hiring process. While MSHA has taken significant steps to improve its hiring process, the agency's human capital plan does not include a strategic approach for addressing the large number of retirements expected in the next five years. MSHA estimates that over 40 percent of its inspectors will be eligible for retirement by 2012. District officials expressed concerns about the impact that losing experienced inspectors may have on the agency's ability to achieve its goals, particularly completing required safety and health inspections on time.

**Recommendations:** GAO recommended that MSHA engage in a strategic planning effort that utilizes the data it collects on expected retirements and actual attrition to develop goals that can be monitored and evaluated.

**Actions Taken and Remaining:** In response to the GAO's recommendations, MSHA revised its Human Resources Strategic Plan so that it will serve as a strategy roadmap and a means to measure performance. The plan is available from David Meyer at (202) 693-9802.

**Additional Information:** A copy of the follow-up report is available at <http://www.gao.gov/new.items/d07704r.pdf>.

**"MSHA's Office of Coal Mine Safety and Health Needs to Strengthen its Accountability Program" August 2007 (OIG)**

**Purpose:** Because of the increase in coal mining accidents in 2006, the OIG audited MSHA's Accountability Program, which was established to evaluate the quality of MSHA enforcement activities.

**Major Findings:** MSHA's Accountability Program did not provide adequate assurance that Coal Mine Safety and Health oversight responsibilities were effectively and consistently performed and the results were not effectively used to improve operations timely and consistently.

**Recommendations:** The OIG made 14 recommendations to improve the accountability program. These included ensuring that the selection of enforcement activities is objective and includes on-site mine visits. Use of a standard format for reports and a centralized tracking system to ensure that identified common deficiencies, corrective actions, and best practices are communicated were also recommended.

**Actions Taken and Remaining:** Nine recommendations will be resolved pending MSHA revising its Accountability Program by January 2008. Three recommendations were unresolved pending MSHA's submission of specific corrective actions and milestone dates. For two recommendations, MSHA did not fully concur.

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|--|
| <b>Additional Information:</b> Please see: <a href="http://www.oig.dol.gov/public/reports/oa/2007/05-07-002-06-001.pdf">http://www.oig.dol.gov/public/reports/oa/2007/05-07-002-06-001.pdf</a>   |
| <b>“MSHA Needs to Improve Controls Over Performance Data” December 2006 (OIG)</b>  |
| <b>Purpose:</b> The OIG conducted the audit to determine the completeness and reliability of MSHA’s performance data.  |
| <b>Major Findings:</b> MSHA could not ensure it had accounted for all miner hours worked by mine operators or independent contractors. Certain contractors are exempt from reporting work hour information, and MSHA does not expend sufficient resources conducting reviews or audits to verify that work hour information submitted by mine operators or contractors is valid. In addition, the OIG found that MSHA did not have data to support the testing to ensure that noise exposures did not exceed established limits. |
| <b>Recommendations:</b> OIG recommended that MSHA verify and validate mine operators’ reporting of all hours worked for both employees and contractors and that MSHA develop and implement controls for procedures that require systematic and regular entry of noise sample data.   |
| <b>Actions Taken and Remaining:</b> MSHA updated coal noise sampling procedures and revised the Metal and Nonmetal Handbook to require inspectors to verify accuracy of noise sampling reports. MSHA does not concur with findings and recommendations regarding mine operator and contractor work hour data.  |
| <b>Additional Information:</b> Please see: <a href="http://www.oig.dol.gov/public/reports/oa/2007/22-07-008-06-001.pdf">http://www.oig.dol.gov/public/reports/oa/2007/22-07-008-06-001.pdf</a>   |

### Data Quality and Major Management Challenges

Data quality for this goal was rated *Good*. Fatality and all-injury rates are calculated using actual hours worked at mines. Accidents and hours worked are obtained from reports required of mine operators.<sup>33</sup> Information quality is maintained through built-in checks at the electronic and manual points of data entry as well as through audits conducted by MSHA enforcement personnel. MSHA safety and health compliance specialists conduct dust and noise sampling in accordance with established written procedures. While data for some health indicators lacked timeliness in the past, MSHA has worked diligently to correct this issue.

MSHA has a Departmental Major Management Challenge (see item I, *Protecting the Safety and Health of Workers*, in the MMC section of Management’s Discussion and Analysis). OIG and GAO have pointed out the lack of data on contractor hours worked at the mine level. Most recently, OIG conducted an audit of MSHA’s performance data, which resulted in a recommendation that mine operators report all hours worked for both employees and contractors to allow verification that all data needed to support the reported injuries and fatalities have been included. MSHA officials did not agree with the recommendation because they believe that the data on contractor hours are sufficient at the national level for calculating the all-injury and fatality rates. However, having contractor data at the mine level could enhance enforcement effectiveness; MSHA may require non-exempt contractor hours to be reported at the mine level. OIG also pointed out that some MSHA District or Field Offices did not record their noise sample results and some did not record the correct date of the sample results. Consequently, MSHA revised its Metal and Nonmetal Handbook to require inspectors to verify that their noise sampling results are entered accurately into MSHA’s information system.

OIG also conducted an audit of MSHA’s accountability program and determined that the program, as designed, did not provide adequate assurance that Coal Mine Safety and Health’s oversight responsibilities were effectively and consistently performed and that MSHA did not always use the results of the reviews to improve its operations. In addition, in response to previous GAO audit recommendations, MSHA has a succession planning initiative in place to replace the mine inspectors who will be retiring in the near future. MSHA has developed and implemented systems that ensure that mine operators and contractors comply with the Mine Act. This includes the Mine Plan Approval Database, which enables headquarters to monitor the timely submission and approval of all required and optional plans including critical ventilation and roof control plans; and the Hazardous Condition Complaints Database, which tracks hazardous condition complaints from receipt to investigation and resolution. Complaints can be submitted online, via telephone, in writing or verbally. Headquarter and district management can monitor daily activities to ensure that complaints that allege imminent danger are followed up with timely field office inspections.

<sup>33</sup> Certain independent contractors are exempt from reporting employment and injury information if they participate in “low hazard” mining activities as defined by MSHA policy. Non-exempt contractors report employment information for aggregate work locations, not by individual mine site.

## Protect Workers' Wages

### Performance Goal 07-3C (ESA) – FY 2007

*Ensure workers receive the wages due them.*

| Indicators, Targets and Results   |        |                             |                             |                             |                                 |
|---|--------|-----------------------------|-----------------------------|-----------------------------|---------------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>Some indicators not shown for FY 2004-06 – see Legacy Data note below  |        | FY 2004<br>Goal<br>Achieved | FY 2005<br>Goal<br>Achieved | FY 2006<br>Goal<br>Achieved | FY 2007<br>Goal Not<br>Achieved |
| Number of workers for whom there is an agreement to pay or an agreement to remedy per 1,000 enforcement hours in complaint cases  | Target | —                           | —                           | baseline                    | <b>296</b>                      |
|   | Result | —                           | —                           | 293                         | <b>271</b>                      |
|   | *      | —                           | —                           | Y                           | <b>N</b>                        |
|   | Cost   | —                           | —                           | \$112                       | <b>\$123</b>                    |
| Percent of prior violators who achieved and maintained FLSA compliance following a full FLSA investigation  | Target | 74%                         | 72%                         | 73%                         | <b>77%</b>                      |
|   | Result | 71%                         | 72%                         | 76%                         | <b>66%</b>                      |
|   | *      | N                           | Y                           | Y                           | <b>N</b>                        |
|   | Cost   | —                           | —                           | \$27                        | <b>\$30</b>                     |
| Low-wage workers assisted per 1,000 case hours  | Target | —                           | —                           | —                           | <b>304</b>                      |
|   | Result | —                           | —                           | —                           | <b>418</b>                      |
|   | *      | —                           | —                           | —                           | <b>Y</b>                        |
|   | Cost   | —                           | —                           | \$39                        | <b>\$45</b>                     |
| Number of wage determination data submission forms processed per 1,000 hours  | Target | baseline                    | 1,506                       | 1,491                       | <b>1,852</b>                    |
|   | Result | 1,491                       | 1,667                       | 1,834                       | <b>2,636</b>                    |
|   | *      | Y                           | Y                           | Y                           | <b>Y</b>                        |
|   | Cost   | —                           | —                           | \$23                        | <b>\$23</b>                     |
| Goal Net Cost (millions)  |        | —                           | \$214                       | \$214                       | <b>\$221</b>                    |
| Source(s): Wage and Hour Investigator Support and Reporting Database (WHISARD); significant activity reports; regional logs and reports on local initiatives; and investigation-based compliance surveys.   |        |                             |                             |                             |                                 |
| Legacy Data: Complete indicators, targets and results for FY 2003-06 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-2.1A. |        |                             |                             |                             |                                 |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis.   |        |                             |                             |                             |                                 |

#### Program Perspective and Logic

The Employment Standards Administration's Wage and Hour Division (WHD)'s mission is to promote and achieve compliance with labor standards that protect and enhance the welfare of the Nation's workforce. Through WHD, the Department assures compliance with laws establishing minimum standards for wages and working conditions. These include the minimum wage, overtime, and youth employment provisions of the Fair Labor Standards Act (FLSA) and the protections afforded to workers under the Migrant and Seasonal Agricultural Worker Protection Act and the Family and Medical Leave Act. WHD enforces field sanitation standards in agriculture and government contract prevailing wage statutes and administers the wage determination provisions of the Davis-Bacon and Service Contract Acts.

The program's performance objectives are to maximize benefits for the greatest number of workers through efficient complaint resolution, to promote sustained compliance among investigated employers, to increase

compliance on behalf of low-wage workers in industries with the most persistent and serious violations, and to ensure accurate and timely wage rates. WHD balances its resources among key strategies – compliance assistance, partnerships and collaborative efforts, and complaint-driven and directed enforcement. Compliance assistance activities promote voluntary compliance by employers. Partnerships broaden the program’s impact. Directed enforcement in low-wage industries – where workers are reluctant to complain – detects, remedies, and deters violations. Complaint investigations serve individual complainants and provide opportunities for detecting and remedying violations on behalf of other employees.

In 2005, WHD’s southeast region began a concerted effort to reduce the number of farmworker fatalities and injuries. The State of Florida requires Farm Labor Contractors (FLCs) and employees who transport workers to pass a certification examination, so WHD and the State agreed to update the State study guide with safety information on 15-passenger vans. WHD provided this information to registered FLCs and conducted presentations on the Migrant and Seasonal Agricultural Worker Protection Act transportation safety requirements, including operation of buses, environmental factors affecting safe operation, driver impairment, and use of cell phones. Since 2004, reported annual agriculture-related transportation fatalities in Florida have declined from 13 to 4, and the number involving 15-passenger vans declined from 11 to 2. [Photo credit: DOL/ESA]



WHD measures results for each of its four performance objectives. The wage determination program indicator monitors the survey process to improve the timeliness of Davis-Bacon Act wage determinations. The performance indicators for complaint investigations and low-wage industries promote efficiencies and encourage remedies for all potentially affected workers. WHD conducts an annual survey of prior violators in order to track long-term recidivism trends, which are used to establish goals and assess the agency’s impact on employer behavior. Through the strategic use of complaint investigations, which represent approximately 70 to 75 percent of enforcement resources, WHD strives to increase outcomes for the greatest number of workers. Time spent by WHD staff in these key activities is the primary basis for tracking the resources allocated for each indicator.

The WHD New York City District Office’s, the Rapid Employee Assistance in Chinese Hotline (REACH) initiative offers a Chinese language hotline in New York City for Chinese-speaking workers who have questions about their pay. Through this initiative, WHD partners with Chinatown employment agencies, distributes Chinese language posters and handouts, and maintains a dedicated telephone line to provide information to workers. Since its inception in 2004, the New York City District Office has received and handled nearly 1,000 telephone calls on the REACH hotline, including requests for general information and referrals to other agencies. To date, the hotline has resulted in payment of wages of more than \$775,000 to close to 500 low-wage workers. [Photo credit: DOL/ESA]



### Analysis and Future Plans

In FY 2007, WHD established ambitious targets for the agency’s four indicators. The resulting number of workers assisted per 1,000 enforcement hours in complaint cases – 271 in FY 2007 – fell short of the 296 target. WHD attributes this performance shortfall to the decline in senior investigator levels and the loss of

experienced investigators to retirement. WHD exceeded its target of 304 workers per 1,000 enforcement hours in a similar efficiency measure when it assisted 418 low-wage workers per 1,000 enforcement hours. Although performance for this measure was also adversely affected by investigator staffing issues, several significant cases helped WHD to exceed its target. The increased reliance of employers on foreign-born labor, the growth of undocumented immigration, and the increase in informal work relationships also challenge the agency's effort to efficiently resolve complaints and complete low-wage industry investigations in a timely manner. These economic and workforce trends, including associated language barriers between WHD personnel and the working community, complicate the agency's investigations and its ability to meet efficiency objectives.

Only 66 percent of prior violators were found in compliance in FY 2007, a decrease of ten percentage points from FY 2006; however, the severity of violations decreased as evidenced by fewer affected employees and less back wages owed to workers. The results for the recidivism indicator are derived from a random, investigation-based survey of employers, which makes it difficult to accurately identify a reason for the decreased level of employer compliance. The improvements with respect to the number of affected employees and resulting amount of back wages owed them, however, reflect a continued trend among recidivist employers—which is explained by WHD's focus on thorough enforcement and compliance assistance. WHD continues to significantly improve the efficiency of the wage survey process through enhanced technology. WHD processed 2,636 wage data forms per 1,000 hours, a 39 percent increase from FY 2006.

WHD will reallocate resources as opportunities to improve performance emerge. In support of its compliance priorities in low-wage industries, WHD's FY 2008 performance plan focuses on addressing the violations that may arise from informal employment relationships such as those involving contingent workforces, misdesignated independent contractors, and multiple subcontracting arrangements. Each of the agency's regional and local district offices' low-wage initiatives will include compliance activities in at least one of the low-wage industries in which contingent worker issues are common. In the coming year, the agency will analyze data and evaluations to better target those low-wage industries in which violations are likely to occur.

The costs for this performance goal increased by three percent between FY 2006 and FY 2007. The primary reason for this increase is a rise in agency and Department level indirect costs that include legal services for enforcement-related case work and audit services. Costs are allocated across the four performance indicators as reflected in the Indicators, Targets and Results table.

#### **PART, Program Evaluations and Audits**

WHD's enforcement and compliance program underwent a PART review in 2006 and received a rating of *Moderately Effective*. In response to a recommendation from the review, WHD began requiring regional and local offices to report outputs for all partnerships. The PART determined that WHD's measures were outcome-oriented, but recommended examining the ambitiousness of targets. WHD is undergoing an independent evaluation of its performance and efficiency measures, which will provide recommendations to more effectively target low-wage industries and to establish more ambitious targets. The prevailing wage determination program underwent a PART review in 2003 and received a rating of *Results Not Demonstrated*. The review found the program lacked ambitious, outcome-oriented performance measures and procedures to measure and achieve efficiencies and cost effectiveness. In response, WHD developed performance indicators and targets and conducted an external review of the program. WHD continues to examine changes to the wage survey and outreach to improve data collection processes.

External evaluations and audits highlight successes and opportunities in low-wage industries. Boston University, working with Mathematica Policy Research, Inc., completed an evaluation of business structures in two low-wage industries: eating and drinking and hotel and motel. This evaluation suggests that business structure could play a role in promoting compliance and further supports the agency's prioritization of low-wage industries.

**“Low-Wage Industry Prioritization Evaluation,” August 2007 (Mathematica Policy Research, Inc./ Boston University)**

**Purpose:** Improve targeting and compliance strategies by identifying factors and variables related to non-compliance in low-wage establishments, franchises, and industries.

**Major Findings:**

- 1) Business structure may influence regulatory compliance in low-wage industries.
- 2) Relative to establishments in the eating and drinking industry, fast food sector:
  - Franchised establishments are nearly twice as likely to disclose back wage violations as investigations of company-operated establishments.
  - Franchised outlets have higher rates of back wages owed per employee paid in violation compared to company-owned outlets.
  - Franchisees respond to a related, but different, set of pressures and incentives within a fast food company than do their company-owned counterparts.
  - Franchisee compliance tends to be worst the “first” time a unique franchisee is investigated.
  - Very large franchisees exhibit high levels of compliance as their incentives become more aligned with those of their franchisors.
- 3) Relative to establishments in the hotel and motel industry:
  - Ownership and management structures potentially provide methods for gaining significant impacts across hotel properties of a given brand.
  - Variation in the hotel segment may be related to predicting regulatory performance and affecting compliance behavior.
  - Franchising has become the standard ownership form in hotel and motel.
  - Where present, variation in franchise structure may be related to regulatory performance as well as other relevant outcomes.

**Recommendations:**

- 1) In addition to the eating and drinking industry, examine other industries where similar dynamics may be present.
- 2) Devise different interventions that draw on distinctive features of identified low-wage industries, in particular, the eating and drinking and hotel and motel industries.

**Actions Taken and Remaining:** As appropriate, WHD incorporated preliminary findings related to the eating and drinking and hotel and motel industries into initiatives planned for FY 2008. In FY 2008, the agency will work with contractors to devise intervention strategies that leverage industry-specific findings, as well as previous recommendations involving strategic enforcement concepts.

**Additional Information:** Wage and Hour Division, Office of Performance, Budget and Departmental Liaison, 200 Constitution Avenue, NW, S-3502, Washington, DC 20210, or call (202) 693-0051

**Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Very Good*, an improvement from the prior year's rating of *Good*. By revising one performance indicator to track annual data reported from the agency's Wage Hour Investigator Support and Reporting Database (WHISARD), WHD improved the reliability of its data quality – to the extent the agency is no longer dependent on a lengthy analysis of survey data. Strengths of program data include relevance, completeness and the quality controls in place to verify the data. With the exception of the wage determination measures, performance information is extracted from the WHISARD, the agency's record of investigative case findings and investigator enforcement time. Investigative case records are reviewed by WHD management staff and are the subject of WHD internal accountability reviews. The data are reported quarterly and performance statistics are considered throughout the agency's strategic planning process.

## Foster Equal Opportunity Workplaces

### Performance Goal 07-3D (ESA) – FY 2007

*Federal contractors achieve equal opportunity workplaces.*

| Indicators, Targets and Results   |        |                       |                       |                       |                       |                       |
|---|--------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)   |        | FY 2003 Goal Achieved | FY 2004 Goal Achieved | FY 2005 Goal Achieved | FY 2006 Goal Achieved | FY 2007 Goal Achieved |
| Discrimination rate for audited Federal contractors   | Target | 9%                    | 9%                    | 7%                    | 6%                    | <b>2%</b>             |
|   | Result | 1.2%                  | 1%                    | 2%                    | 1.7%                  | <b>1%</b>             |
|   | *      | Y                     | Y                     | Y                     | Y                     | <b>Y</b>              |
|   | Cost   | —                     | —                     | —                     | \$68                  | <b>\$72</b>           |
| Compliance rate for all other EEO requirements  | Target | 59%                   | 61%                   | 62%                   | 64%                   | <b>86%</b>            |
|   | Result | 72.4%                 | 91%                   | 86%                   | 87.2%                 | <b>88%</b>            |
|   | *      | Y                     | Y                     | Y                     | Y                     | <b>Y</b>              |
|   | Cost   | —                     | —                     | —                     | \$29                  | <b>\$31</b>           |
| Goal Net Cost (millions)  |        | —                     | —                     | \$99                  | \$97                  | <b>\$103</b>          |
| Source(s): Case Management System (CMS)   |        |                       |                       |                       |                       |                       |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. |        |                       |                       |                       |                       |                       |

#### Program Perspective and Logic

The Employment Standards Administration's Office of Federal Contract Compliance Programs (OFCCP) administers and ensures compliance with three equal employment opportunity laws that prohibit Federal contractors and subcontractors from discriminating on the basis of race, color, religion, sex, national origin, disability, and protected veterans' status: Executive Order 11246, Section 503 of the Rehabilitation Act of 1973, and the Vietnam Era Veterans' Readjustment Assistance Act of 1974.



For more than 30 years, OFCCP has been ensuring that Federal contractors and subcontractors comply with veteran protections under the Vietnam Era Veterans' Readjustment Assistance Act of 1974. Shown here are OFCCP Compliance Officers Ray (on the left) and Marv preparing for Operation Stand Down, Nashville's annual event to assist homeless veterans. Operation Stand Down provides services to honorably discharged veterans of the United States Armed Forces, including employment services, transitional housing, and referrals to other agencies' services. Operation Stand Down was recognized twice by the Department for its support of OFCCP's mission. [Photo credit: DOL/ESA]

Through fair and effective enforcement of these laws by OFCCP, the Department seeks to ensure that Federal contractors provide equal employment opportunity to all applicants. By continuing to reduce the incidence of discrimination among Federal contractors, OFCCP is able to demonstrate a positive correlation between targeted



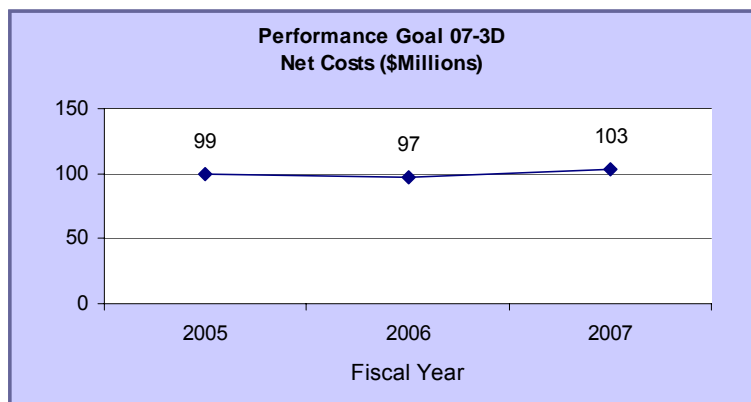
enforcement and compliance assistance activities and its performance goal of achieving equal opportunity in Federal contractor workplaces. Budgetary resources are allocated to both enforcement and compliance assistance. Program strategies are shaped by several external trends and factors, such as the total number of Federal contractors, company acquisitions and mergers, and turnover in the Federal contractor community. Compliance assistance efforts focus on raising contractor awareness of equal opportunity obligations and encouraging self-evaluations. The Compliance Assistance Program provides one-on-one customer assistance, including online tools and resources that teach contractors how to comply with Federal employment laws.

### Analysis and Future Plans

OFCCP's performance indicators track compliance levels among each new group of contractors audited annually. In FY 2007, OFCCP completed 4,923 compliance evaluations, of which 60 were classified as having systemic violations. OFCCP reached its targets of reducing the incidence of discrimination among Federal contractors to two percent of all audited Federal contractors and increasing the compliance rate to 86 percent among Federal contractors in all other aspects of Equal Employment Opportunity standards.

In FY 2005, OFCCP implemented the Contracts First (C1) project to produce a contractor selection list that is based on evidence of contracts rather than voluntary self-identification provided by EEO-1 summary data. C1 continues to provide more up-to-date contract information than the EEO-1 summary data that OFCCP used in the past. In FY 2007, C1 identified almost 1500 Federal contractor establishments, in addition to those establishments identified from EEO-1 data. By using more accurate selection lists, compliance officers are able to concentrate on cases where OFCCP has established jurisdiction.

In FY 2007, OFCCP published in the Federal Register new regulations to implement the Jobs for Veterans Act (JVA), which amended the affirmative action provisions of the Vietnam Era Veterans' Readjustment Assistance Act of 1974 (VEVRAA). The JVA amendments raised the threshold dollar amount of the Government contracts that are subject to the affirmative action provisions of VEVRAA, changed the categories of veterans protected by the law, and changed the manner in which the mandatory job listing requirement is to be implemented. OFCCP will modify its existing compliance assistance program to aid Federal contractors in satisfying the requirements outlined in the new regulations.



Costs associated with this goal rose by four percent over the past two years. Some of this increase can be attributed to the rising costs of personnel, which represent almost 80 percent of OFCCP's budget. The other significant factor is an increase in agency and Department level indirect costs that include audit services and Information Technology (IT) support. OFCCP's resource allocations seek to eliminate unproductive hours. For example, the agency's Active Case Management process decreases the amount of time spent evaluating companies with good affirmative action

program results so that compliance officers can spend that time investigating the worst offenders. OFCCP continues to develop its performance and cost information using a logic model. OFCCP has calculated unit costs for program outputs on national, regional, and individual compliance officer basis. The program also identified cost drivers that were most likely to impact the cost of a particular activity. Outputs were selected based on the percentage of their contribution to reaching performance indicator targets.

OFCCP will build upon its comprehensive compliance assistance program, having conducted more than two thousand compliance assistance events in the last three years. Compliance assistance outreach helps employers prevent unlawful discrimination by providing them with the information necessary to monitor their workplace practices effectively. The ability to identify systematic discrimination is also central to OFCCP's enforcement strategies. In selecting establishments for evaluation in FY 2008 and FY 2009, OFCCP will seek to improve the statistical model used to select Federal contractor establishments for evaluation.

### **PART, Program Evaluations and Audits**

In 2004, a PART reassessment rated OFCCP *Adequate*, an improvement over their initial 2002 PART rating of *Results not Demonstrated*. The initial PART found that OFCCP could not quantify the impact of its civil rights enforcement efforts, and in response OFCCP implemented measures tracking the incidence of discrimination and levels of compliance. OFCCP improved its rating based on these new measures and its overall performance.

OFCCP has continued to implement PART improvement plan recommendations, which include setting more ambitious targets, reviewing program regulations and requirements to identify areas for improvement, and continuing to evaluate and modernize agency data collection processes. During last year's Departmental strategic planning process, OFCCP revised its performance targets to reflect a history of consistently and significantly exceeding past targets. The agency eliminated the Equal Opportunity Survey data collection requirement after an independent study found that it was an ineffective tool. OFCCP also updated its regulation on veterans' non-discrimination requirements and initiated revisions to its requirements regarding the collection and maintenance of gender, race and ethnicity data by Federal contractors.

### **Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Very Good*, representing an improvement from last year's rating of *Good*. Strengths of the data include its timeliness and accuracy. Field offices routinely update the Case Management System with compliance audit data supporting performance goals, which are available in monthly, quarterly, and annual reports. OFCCP continues to improve its current information system, including enhanced data reporting capabilities and new data integrity checks.

OFCCP indirectly addressed the reliability criterion by revising performance measurement targets during the FY 2006-11 strategic planning process. OFCCP measures discrimination and compliance rates among each unique group of contractors audited each year. The reliability criterion requires that agencies demonstrate meaningful performance trends with their annual data. By taking a long-term view of performance, OFCCP will use multi-year trend data representing several groups of contractors within an audit cycle to demonstrate improvement and set ambitious long-term goals.

In addition, recognizing that validity is still a concern, OFCCP is considering ways to expand data collection to measure new performance areas using recommendations from prior program evaluations. Given its track record of consistently exceeding targets, OFCCP performance monitoring would be strengthened by measuring areas where significant improvements are possible.

## Assist Veterans' Return to Jobs After Military Obligations

### Performance Goal 07-3E (VETS) – FY 2007

*Reduce employer-employee employment issues originating from service members' military obligations conflicting with their civilian employment.*

| Indicators, Targets and Results   |        |                             |                             |
|---|--------|-----------------------------|-----------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)   |        | FY 2006<br>Goal<br>Achieved | FY 2007<br>Goal<br>Achieved |
| **Estimated   |        |                             |                             |
| USERRA Progress Index (measures compliance and assistance performance)  | Target | 105%                        | 101%                        |
|   | Result | 108%                        | 110%**                      |
|   | *      | Y                           | Y                           |
| Goal Net Cost (millions)  |        | \$11                        | \$10                        |
| Source(s): USERRA Information Management System (UIMS)  |        |                             |                             |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. |        |                             |                             |

#### Program Perspective and Logic

The Department's Veterans' Employment and Training Service (VETS) is responsible for protecting employment and reemployment rights of persons who are current or former members of the uniformed services, and who encounter barriers in civilian employment related to their service. These rights and protections were established by the Uniformed Services Employment and Reemployment Rights Act (USERRA).

VETS provides a range of USERRA-related services, including compliance assistance to employers and protected individuals and investigation of individuals' complaints alleging violation of their rights. VETS seeks to reduce both employer violations and the filing of meritless complaints by protected individuals. The indicators for this goal focus on resolving filed claims. DOL has found that most violations and meritless complaints could be avoided with greater knowledge of the rights and protections established by USERRA. For this reason, VETS has an active compliance assistance program directed at employers and members of National Guard and Reserve units to increase knowledge and understanding of USERRA's key provisions.

Two external factors have the greatest impact on achievement of this goal: the economy and increases in military active duty periods. Both of these factors cause more service members to face difficulties associated with their civilian employment or reemployment. While the economy remains steady, the U.S. war effort continues to increase Guard and Reserve active duty periods – a trend that will likely increase USERRA activity.

Goal achievement is measured using a comprehensive Progress Index that demonstrates reduction of violations and meritless complaints by consolidating indicators of cases and assistance (non-case-related contacts) using weights for each element that are determined by service priorities. It consists of seven compliance indicators and one assistance indicator. The compliance indicators are:

- 1) Number of Guard/Reserve demobilized per USERRA claim filed by Guard/Reserve;
- 2) Number of Guard/Reserve demobilized per USERRA claim filed by Guard/Reserve in primary issues;
- 3) Number of USERRA violations;
- 4) Number of USERRA violations in primary issues;
- 5) Number of meritless USERRA claims;
- 6) Number of meritless USERRA claims in primary issues; and
- 7) Average days cases remain in VETS jurisdiction.

The assistance indicator is the number of USERRA assistance contacts per Guard/Reserve mobilized and demobilized. Other Federal agencies that handle USERRA inquiries or process USERRA claims are outside the scope of VETS' Progress Index. Those agencies include the Employer Support of the Guard and Reserve, an agency in the Department of Defense; and the U.S. Office of Special Counsel, which is participating in a demonstration project to test an alternate method of handling USERRA complaints filed by Federal employees.

**Analysis and Future Plans**

The goal was achieved. Preliminary reports indicate that USERRA claims decreased by four percent in FY 2007 compared to the previous year, with violations decreasing by eight percent and meritless claims decreasing by 14 percent. This progress reflects the impact of VETS' aggressive compliance assistance efforts, with over 458,000 individual contacts since September 2001. Compliance assistance efforts will continue to focus on National Guard and Reserve components, because they are the source of most USERRA claims. In FY 2006, for example, Guard/Reserve claims accounted for 84 percent of total claims. VETS expects this trend to continue and possibly increase due to mobilizations/demobilizations relating to the War Against Terrorism.

Costs associated with this goal were virtually unchanged from FY 2006-07.

**PART, Program Evaluations and Audits**

|   |
|---|
| <p><b>“Military Personnel: Additional Actions Needed to Improve Oversight of Reserve Employment Issues,”<br/>February 2007 (GAO)</b></p>  |
| <p><b>Purpose:</b> “As reservists demobilize, concerns exist about difficulties with their civilian employment. [In Report No. GAO-07-259], GAO assessed (1) the status of DOD’s efforts to capture reservists’ employer data; (2) DOD, Labor, Justice, and Office of Special Counsel processes to track and address reservists’ USERRA complaints; and (3) the four Federal agencies’ efforts to track reservists’ USERRA complaints related to disabilities incurred while on active duty.”</p>   |
| <p><b>Major Findings:</b></p> <ol style="list-style-type: none"> <li>1) Between fiscal years 2004 and 2006, the four agencies addressed approximately 16,000 informal and formal complaints. However, no one agency has total visibility over all the complaints, and only a small percentage of complaints are reported to Congress.</li> <li>2) Agencies responsible for assisting reservists with USERRA issues cannot systematically record and track disability-related employment complaints because they do not use consistent and compatible complaint categories or have a mechanism in place for distinguishing disability-related complaints from others.</li> </ol> |
| <p><b>Recommendations:</b></p> <ol style="list-style-type: none"> <li>3) Congress should consider changing the law to require Labor’s annual report to include DOD complaint data; DOD should improve its reporting of employer information; Labor should make aggregate complaint data available to DOD.</li> <li>4) Agencies should adopt uniform data elements and track disability-related USERRA complaints.</li> </ol>  |
| <p><b>Actions Taken and Remaining:</b></p> <ol style="list-style-type: none"> <li>1) DOL is making aggregate USERRA complaint data available to DOD, quarterly and when requested.</li> <li>2) DOL has achieved consensus among all four USERRA agencies to establish uniform data elements, including pertinent data involving USERRA disability issues, which are being tracked in Labor’s enhanced USERRA Information Management System (UIMS) version 2.0 (implemented at the beginning of FY 2007).</li> </ol>   |
| <p><b>Additional Information:</b> Report No. GA-07-259 is available online at <a href="http://www.gao.gov/new.items/d07259.pdf">http://www.gao.gov/new.items/d07259.pdf</a>.</p>  |
| <p><b>“Military Personnel: Improved Quality Controls Needed over Servicemembers’ Employment Rights Claims at DOL,” July 2007 (GAO)</b></p>  |
| <p><b>Purpose:</b> “Under a demonstration project, from February 8, 2005, through September 30, 2007, OSC [Office of Special Counsel] is authorized to receive and investigate certain USERRA claims, with DOL continuing its investigative role for others. As required by Pub. L. No. 108-454, [Report GAO-07-907] describes the (1) processes, (2) outcomes, and (3) major changes during the demonstration project.”</p>  |

**Major Findings:**

- 1) DOL did not consistently notify claimants concerning the right to have their claims referred to OSC for further investigation or to bring their claims directly to the Merit Systems Protection Board.
- 2) At DOL, inaccurate data were included in the agency's annual report to Congress. Duplicate, reopened, and transferred claims accounted for most of this difference. GAO found the closed dates in DOL's database, which it uses to report to Congress on the number and percentage of claims it closes within 90, 120, and 365 days, were not reliable.

**Recommendations:** GAO recommends that:

- 1) DOL develop an internal review mechanism for all unresolved claims before they are closed and claimants are notified, and
- 2) DOL establish internal controls to ensure the accuracy of data entered into DOL's database.

**Actions Taken and Remaining:**

- 1) All VETS investigators received new instructions on notifying claimants of their right to referral and on recording the appropriate closure date for a claim. Furthermore, DOL is revising the USERRA Operations Manual for VETS investigators to institute systemic procedures to notify claimants in writing of their right to referral and to enter closure dates into the VETS database.
- 2) A new Quality Assurance Review process will ensure that 100% of the cases investigated, Federal and non-Federal, adhere to systemic procedures and standards; and that data entered into the VETS database accurately reflects USERRA claims processing. The process will require a higher-level review before a claimant is notified of the determinations and before cases are closed.

**Additional Information:** Report GAO-07-907 is available online at <http://www.gao.gov/new.items/d07907.pdf>.

**Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Good*, a downgrade from last year's *Excellent* rating. Validation and verification of UIMS data is accomplished periodically via Quality Assurance Reviews at State, regional, and national levels. UIMS data reflects official data documented in the hard-copy case records. GAO report findings (GAO-07-907) highlighted management challenges in data quality. GAO described improvements needed in USERRA data accuracy and reliability, which are being addressed through the new Quality Assurance Review process. As discussed above, VETS' Operations Manual and Quality Assurance Review process are being updated in FY 2008 to address these needs.



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## **Strategic Goal 4: Strengthened Economic Protections**

*Protect and strengthen worker economic security through effective and efficient provision of unemployment insurance and workers' compensation; ensuring union transparency; and securing pension and health benefits.*

DOL increases the economic security of America's working families by administering payment of temporary benefits for the unemployed, protecting Federal workers from the economic effects of work-related injuries and illness, ensuring that labor union operations are transparent, protecting employee benefits plans against fraud and abuse, and insuring defined benefit pension plan payments. These operations are carried out by three DOL agencies and a government corporation whose board is chaired by the Secretary of Labor.

Agencies with programs supporting this goal are:

- Employment and Training Administration (ETA)
- Employment Standards Administration (ESA)
- Employee Benefits Security Administration (EBSA)
- Pension Benefit Guaranty Corporation (PBGC)

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An OLMS investigation revealed that a union official had embezzled more than \$50,000 from a local union. After the sentencing, during which the official was ordered to make restitution to the union, OLMS Investigator Laura Rola discussed the successful conclusion of the case with Shane Preston, a trustee of the union, and Assistant United States Attorney Richard Southwick. [Photo credit: DOL/ESA/OLMS]

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For these agencies, Protecting America's workers mean protecting their economic security. DOL provides benefits and enforces laws that provide a safety net for workers and ensure transparency among the unions that protect them. Every employee faces unforeseen risks, and these Agencies work to ensure that unemployed workers receive benefits; that workers in special industries receive compensation when injured or ill; that pension contributions and health benefits are secure; and that unions deliver honest elections and financial records. DOL monitors its effectiveness using performance indicators linked to each of these unique programs. In FY 2007, DOL provided resources for the unemployed, ensured covered workers timely received their benefits, provided superior customer service on pension plan issues, and increased the transparency of union reporting.

### **For the Unemployed**

- Nearly 70 percent of unemployed workers found jobs within months of collecting their first payment.
- DOL increased the timeliness of those first payments.

### **For the Injured or Ill Worker**

- The backlog of claims from workers in the nuclear weapons industry, formerly handled by the Department of Energy, was eliminated, which totaled to nearly \$500 million in benefits.
- Federal workers returned to work more quickly after a work-related injury or illness. Returning to work more quickly means employees received the appropriate medical care, and employers could find work that would allow them to transition back into their jobs.

### **For Workers with Pensions**

- Significantly more employers suspected of violating pension laws were going to be prosecuted.
- More employers volunteered to participate in programs designed to ensure compliance with pension laws, further protecting workers' funds from possible violations.

For Union Members

- Financial reporting among unions continued to improve, and indications of fraud remained low.

These national results are realized by delivering excellent service and careful consideration to each worker’s claim and situation. The vignettes below and throughout this section link Strategic Goal Four to the people we serve. For more specific information on the programs, see the Performance Goal narratives.



Representatives from the Paducah Resource Center (Valerie-right) and Jacksonville District Office (Ginger-left) of DOL’s Energy Employees Occupational Illness Compensation Act Program (EEOICPA) provide program information at the Kentucky Governor’s Health and Safety Conference in Louisville – an annual meeting of labor, management, State and Federal government representatives. The event provided an excellent opportunity to educate the participants about the EEOICPA program and to improve the agencies’ information-sharing with DOL and their assistance to covered workers. [Photo Credit: OWCCP/ESA]

The following table provides key information, goal statements, and achievement for DOL performance goals associated with this strategic goal.

| Goal (Agency) and Statement   | Performance Summary  | Net Cost (millions) <sup>34</sup> |                 |                 |
|---|--|-----------------------------------|-----------------|-----------------|
|   |  | FY 2005                           | FY 2006         | FY 2007         |
| <b>07-4A (ETA)</b> Make timely and accurate benefit payments to unemployed workers, facilitate the reemployment of Unemployment Insurance claimants, and set up unemployment tax accounts promptly for new employers. | Goal not achieved. Two targets reached, one improved and one not reached.    | \$34,243                          | \$33,340        | \$34,697        |
| <b>07-4B (ESA)</b> Reduce the consequences of work-related injuries.  | Goal substantially achieved. Eight targets reached and one improved.         | 6,131 <sup>35</sup>               | 2,130           | 3,554           |
| <b>07-4C (ESA)</b> Ensure union financial integrity, democracy and transparency.  | Goal substantially achieved. One target reached and two improved.            | 63                                | 56              | 68              |
| <b>07-4D (EBSA)</b> Enhance pension and health benefit security.  | Goal achieved. All three targets reached.                                    | 160                               | 179             | 176             |
| <b>07-4E (PBGC)<sup>36</sup></b> Improve the pension insurance program.   | Goal substantially achieved. Five targets reached and one improved.          | –                                 | –               | –               |
| <b>Total for Strategic Goal 4</b>   | <b>One goal achieved, three substantially achieved and one not achieved.</b> | <b>\$40,597</b>                   | <b>\$35,705</b> | <b>\$38,495</b> |

The net cost dedicated to Strategic Goal 4 in FY 2007 was \$38.495 billion. The first chart below is based on total Departmental costs of \$47.872 billion; the second is based on an adjusted net cost of \$12.771 billion

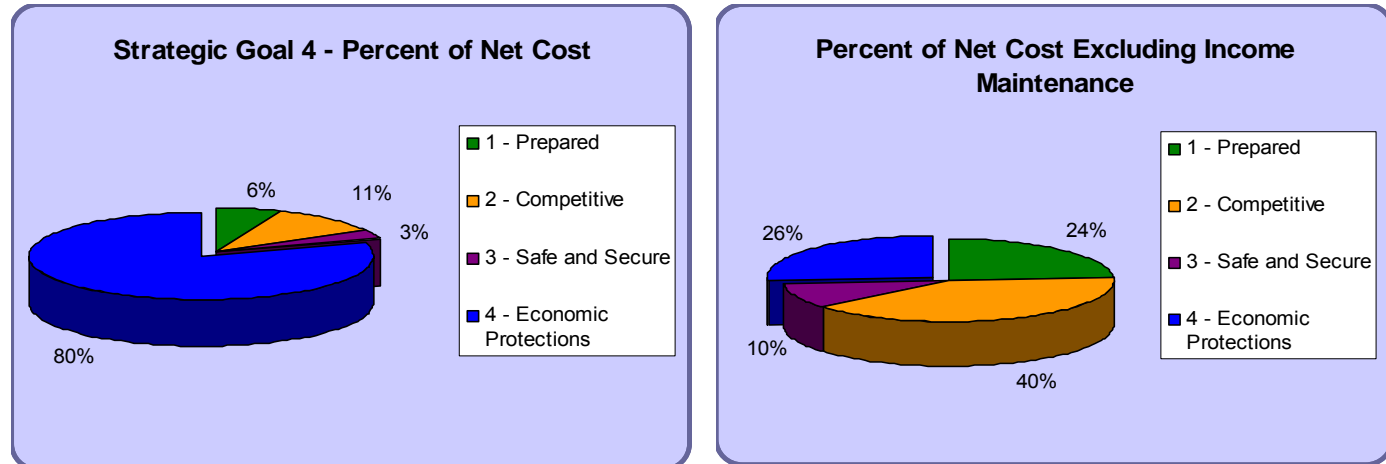
<sup>34</sup> Net cost as defined in a footnote to the Cost of Results discussion in Management’s Discussion and Analysis.

<sup>35</sup> This anomaly is explained in the Analysis and Future Plans section of the Performance Goal 07-4B narrative.

<sup>36</sup> PBGC is not included in the Consolidated Statements of Net Cost; hence the cost of its programs is not reflected here.



that excludes the major non-discretionary program costs associated with this goal.<sup>37</sup> The adjusted net cost dedicated to Strategic Goal 4 for FY 2007 was \$3.394 billion; the corresponding net cost in FY 2006 (restated to reflect current goal structure) was \$3.491 billion.



EBSA investigated an Oakland, Maryland company's self-funded health plan after receiving a participant complaint that there were unpaid health claims. DOL found that the company had gone out of business, filed bankruptcy and did not pay health claims for seven months. As a result of the investigation, the company forwarded \$285,197 to the third party administrator to pay the unpaid claims.

A widow was being denied her life insurance and survivor pension benefits and over a period of four months tried, without success, to have her claims addressed. Without the benefits, she was unable to pay her debts, including funeral expenses for her late husband, and was being pursued by creditors. After she contacted the Department, an EBSA Benefits Advisor contacted her plan administrator and was instrumental in securing payment of her late husband's \$32,750 life insurance benefit and her survivor pension. As a result of this intervention, she was able to pay her debts.

<sup>37</sup> The excluded costs are referred to as Income Maintenance – unemployment benefit payments to individuals who are laid off or out of work and seeking employment (\$32.051 billion) plus disability benefit payments to individuals who suffered injury or illness on the job (\$3.050 billion).

## Pay Unemployment Insurance Claims Accurately and Promptly

### Performance Goal 07-4A (ETA) – FY 2007

*Make timely and accurate benefit payments to unemployed workers, facilitate the reemployment of Unemployment Insurance (UI) claimants, and set up unemployment tax accounts promptly for new employers.*

| Indicators, Targets and Results   |        |                                 |                                 |                                 |                                 |                                 |                                 |
|---|--------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated<br>Some indicators not shown for FY 2002-05 – see Legacy Data note below   |        | FY 2002<br>Goal Not<br>Achieved | FY 2003<br>Goal Not<br>Achieved | FY 2004<br>Goal Not<br>Achieved | FY 2005<br>Goal Not<br>Achieved | FY 2006<br>Goal Not<br>Achieved | FY 2007<br>Goal Not<br>Achieved |
| Percent of intrastate first payments made within 21 days  | Target | 91%                             | 91%                             | 89.2%                           | 89.9%                           | 89.9%                           | <b>90.0%</b>                    |
|   | Result | 88.7%                           | 89%                             | 90.3%                           | 89.3%                           | 87.6%                           | <b>88.4%**</b>                  |
|   | *      | N                               | N                               | Y                               | N                               | N                               | <b>I</b>                        |
| Percent of the amount of estimated detectable/recoverable overpayments that the States can establish for recovery   | Target | —                               | 59%                             | 59%                             | 59.5%                           | 59.5%                           | <b>60.0%</b>                    |
|   | Result | —                               | 54%                             | 57.4%                           | 58.7%                           | 62.1%                           | <b>55.4%**</b>                  |
|   | *      | —                               | N                               | N                               | N                               | Y                               | <b>N</b>                        |
| Percent of UI claimants who were reemployed by the end of the first quarter after the quarter in which they received their first payment  | Target | —                               | —                               | —                               | —                               | baseline                        | <b>65.0%</b>                    |
|   | Result | —                               | —                               | —                               | —                               | 62.4%                           | <b>67.9%**</b>                  |
|   | *      | —                               | —                               | —                               | —                               | Y                               | <b>Y</b>                        |
| Percent of new employer liability determinations made within 90 days of the end of the first quarter in which liability occurred  | Target | 80%                             | 80%                             | 82.2%                           | 82.4%                           | 82.5%                           | <b>82.8%</b>                    |
|   | Result | 81.7%                           | 83%                             | 83.6%                           | 82.4%                           | 83.7%                           | <b>84.7%**</b>                  |
|   | *      | Y                               | Y                               | Y                               | Y                               | Y                               | <b>Y</b>                        |
| Goal Net Cost (millions)  |        | —                               | —                               | —                               | \$34,243                        | \$33,340                        | <b>\$34,697</b>                 |
| Source(s): Payment Timeliness: 9050, 9050p. Reports Payment Accuracy: Benefit Accuracy Measurement (BAM) program and ETA 227 report. Facilitate Reemployment: ETA 9047 Report. New Status Determinations Timeliness: ETA 581 report   |        |                                 |                                 |                                 |                                 |                                 |                                 |
| Legacy Data: Complete indicators, targets and results for FY 2002-05 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-2.2B.   |        |                                 |                                 |                                 |                                 |                                 |                                 |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. Approximately \$2 billion of the net cost is for administration; the rest is for benefit payments to individuals. Costs are not allocated to the indicator level because performance indicators do not map to administrative cost categories or benefit payments. See Analysis and Future Plans section in the following narrative. |        |                                 |                                 |                                 |                                 |                                 |                                 |

#### Program Perspective and Logic

By temporarily replacing part of unemployed workers' lost wages, the Federal-State Unemployment Insurance (UI) system minimizes individual financial hardship due to unemployment and stabilizes the economy during economic downturns. For both workers and employers, the system's success depends on the timely payment of benefits, prevention or prompt detection of erroneous payments, timely establishment of new employers' tax accounts to ensure the reporting of workers' wages and payment of taxes to fund benefits, and promoting and facilitating workers' return to suitable work. States operate their own programs under their own laws, which must conform to and substantially comply with Federal law. As the Federal partner, DOL provides program leadership, allocates administrative funds, provides technical assistance, and exercises performance oversight to ensure that State partners meet Federal UI laws and regulations. Measuring efficiency and effectiveness of States' administrative operations is an important aspect of program management.

Economic conditions and resulting workloads affect many aspects of the UI system performance. For example, when unemployment rises, more claims are filed and UI payment timeliness generally declines. On the other hand, when new business creation slows, it reduces the number of new employer tax accounts and the timeliness of tax liability determinations generally goes up. In addition, external factors can be extensive enough to affect aggregate UI system performance negatively (for example, the series of hurricanes that hit the Gulf region during 2005). Performance targets are based on the Administration's current economic assumptions.

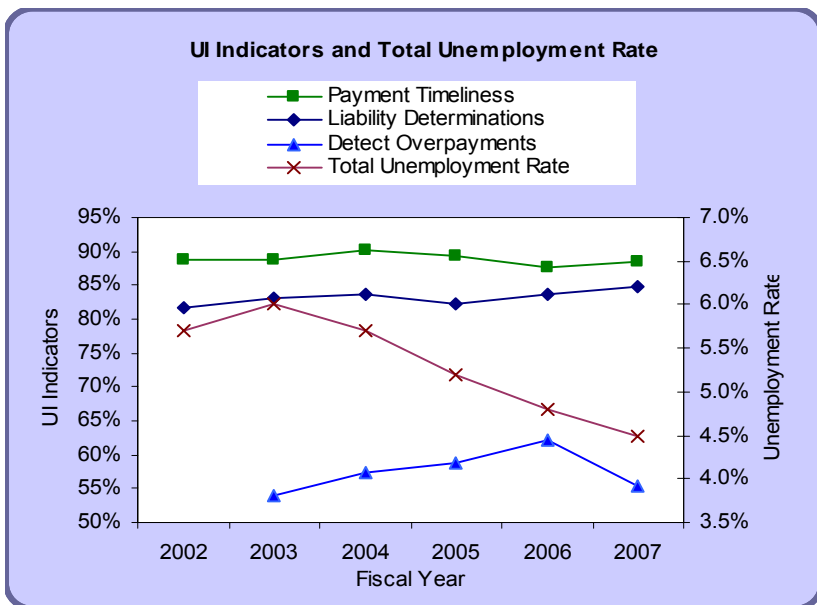
Robert and his colleagues at the Missouri Division of Employment Security implemented the National Directory of New Hires (NDNH) in January 2006 to detect whether persons receiving unemployment insurance benefits have returned to work with a new employer virtually anywhere in the country. In the first year of use, the NDNH helped Missouri detect 5,459 overpayments worth over \$3.7 million. The NDNH facilitates earlier detection of individuals who have returned to work but are unlawfully collecting unemployment insurance. In the first year of usage, the average overpayment detected through the NDNH is less than the total average overpayment – indicating earlier detection and cessation of wrongful benefit payments. The average overpayment established in 2006 using all methods of detection was \$801 while the average overpayment from NDNH detection was \$680. [Photo credit: Tammy Cavender]



### Analysis and Future Plans

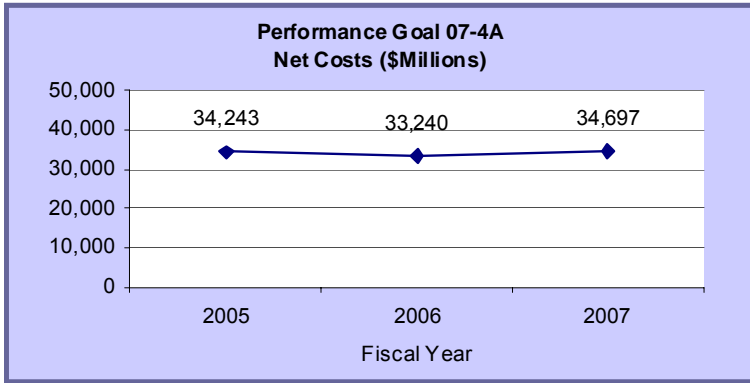
The goal was not achieved. As economic conditions remained strong, the number of unemployment insurance beneficiaries declined slightly from 7.4 million to 7.3 million between FY 2006 and FY 2007. UI met two of its four key performance targets, those for claimant reemployment and timely liability determinations. Performance on the timely first payment indicator improved from the FY 2006 level of 87.6 percent, but remained below the 90 percent target. About a quarter of the improvement was due to recovery in performance in three of the States affected by the 2005 hurricanes. If all 10 States whose performance was below the Secretary of Labor's standard of 87 percent in 2007 had reached it, the 90 percent target would have been met. As part of the State Quality Service Plan, those 10 States have corrective action plans to attain the standard in FY 2008.

After exceeding the Detection of Overpayment target (calculated by dividing overpayments established by estimated recoverable overpayments) of 59.5 percent in 2006, the system fell almost five points below the 60 percent target in 2007. The chief reason was a 12 percent increase in the estimated recoverable overpayments – due in part to improvements made in the ability of the Benefit Accuracy Measurement System to detect overpayments – while overpayments established remained virtually unchanged from 2006. DOL is continuing its vigorous efforts to reduce the principal causes of overpayments by promoting and facilitating States' connection with the National Directory of New Hires (NDNH), training in adjudication of eligibility issues,



and increasing the number of Reemployment and Eligibility Assessments (REA) programs funded – pending additional funding.

In FY 2007, the UI system costs were \$1.357 billion higher than in FY 2006. Benefit payments, which rose five percent to \$32.051 billion in FY 2007 from \$30.506 billion in FY 2006, accounted for the increase. Administrative costs actually fell by seven percent, from \$2.834 billion to \$2.646 billion. DOL collects information on State spending of UI grant funds; however, the categories in which cost data are collected are generally functional or workload categories – initial claims, continued claims, eligibility determination,



appeals, employer accounts, tax audits, overhead, and infrastructure costs such as space and information technology. These categories do not align well with UI performance measures, which span multiple functions. For example, the cost of timely first payments would include some portion of the costs attributable to initial claims, eligibility determinations, employer accounts, tax audits, and a share of overhead and infrastructure costs. Therefore, separating costs by performance indicator is not currently feasible.

**PART, Program Evaluations and Audits**

The UI system underwent a PART review in 2003 and received a rating of *Moderately Effective*. The improvement plan includes a recommended greater use of the NDNH to quickly detect and prevent overpayments to claimants who have returned to work. In 2007, 35 States were matching against NDNH, and in 2008, all States will be required to do so. The improvement plan also included a recommendation to fund REA programs for 19 States in 2007 in order to enforce continuing eligibility for UI benefits and connect claimants with reemployment services.

Two recent studies evaluated the implementation and operation of the worker profiling initiative, adequacy of program reporting, and accuracy of States’ models to predict benefit exhaustion among UI claimants. Both identified best practices. Among the actions taken to address the recommendations, ETA is training State staff to evaluate profiling data, updating policy direction, and offering technical assistance to poor-performing States.

**“Unemployment Insurance: More Guidance and Evaluation of Worker-Profiling Initiative Could Help Improve State Efforts,” June 2007 (GAO)**

**Purpose:** In Report No. GAO-07-680, GAO evaluated the effectiveness of the worker profiling initiative – a program designed to determine UI claimants most likely to exhaust their benefits and refer them to reemployment services – in terms of its implementation and its effect on duration of unemployment.

**Major Findings:**

- 1) The broad guidelines established by DOL for States on the design and maintenance of profiling models have been inadequate.
- 2) Many States’ profiling models are outdated; many models may have lost predictive accuracy, resulting in inappropriate referrals to employment services or missing the opportunity to make an appropriate referral.
- 3) National data on worker profiling are of limited usefulness.

**Recommendations:**

- 1) ETA needs to take a more active role to ensure the accuracy of the State profiling models.
- 2) Evaluate the impact of the worker-profiling program on the reemployment of UI recipients to ensure the benefits are commensurate with the resources invested.

|   |
|---|
| <p><b>Actions Taken and Remaining:</b></p> <ol style="list-style-type: none"> <li>1) DOL is developing training for State staff in evaluation of profiling data and will market its technical assistance in profiling model use/improvement more aggressively to States.</li> <li>2) DOL will consider, if resources permit, an evaluation of the impact of the worker-profiling initiative.</li> </ol> |
| <p><b>Additional Information:</b> Report No. GAO-07-680 is available at <a href="http://www.gao.gov/new.items/d07680.pdf">http://www.gao.gov/new.items/d07680.pdf</a>.</p>  |
| <p><b>“Worker Profiling And Reemployment Services: Evaluation of State Worker Profiling Models,” March 2007 (Coffey Communications)</b></p>   |
| <p><b>Purpose:</b> To evaluate how well existing State worker profiling models predict UI benefit exhaustion and identify best practices for designing, operating, and maintaining such models.</p>   |
| <p><b>Major Findings:</b></p> <ol style="list-style-type: none"> <li>1) State profiling models are generally effective tools for targeting reemployment services, but their effectiveness varies. Those employing statistical models appear to be most effective.</li> <li>2) Many States have not updated or revised their models since they were first developed in the late 1990s.</li> </ol>        |
| <p><b>Recommendations:</b></p> <ol style="list-style-type: none"> <li>1) More effective statistical modeling methods are needed for building profiling models.</li> <li>2) States and DOL should employ statistical controls that take into account the services claimants have received when evaluating the effectiveness of profiling models.</li> </ol>  |
| <p><b>Actions Taken and Remaining:</b> DOL will contact States that have demonstrated poor model performance to offer technical assistance for updating or revising their models. The report’s recommendations will be used to further develop specific guidance to States on evaluating, improving and maintaining their profiling models.</p>   |
| <p><b>Additional Information:</b> The report is available at <a href="http://wdr.doleta.gov/research/keyword.cfm?fuseaction=dsp_resultDetails&amp;pub_id=2346&amp;mp=y">http://wdr.doleta.gov/research/keyword.cfm?fuseaction=dsp_resultDetails&amp;pub_id=2346&amp;mp=y</a></p>  |

#### **Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Very Good*. Strengths of the data include timeliness and reliability, which result from the use of consistent data collection and reporting methods. Quality controls and procedures for verifying program data could be strengthened to reduce instances of overpayment and worker misclassification by assuring that definitions are uniformly applied among the States and that performance data are correctly reported. ETA is implementing an updated automated validation system.

Reducing improper payments and improving the integrity and solvency of the UI program remain among the Department’s top management challenges (see item IV, *Safeguarding Unemployment Insurance*, in the Major Management Challenges section of Management’s Discussion and Analysis). ETA is aggressively addressing the two leading causes of overpayments - individuals who claim benefits after returning to work and issues involving separation from work - by promoting use of the NDNH and sponsoring related training (for 400 State adjudication staff by the end of FY 2008). To improve the accuracy of the overpayment detection measure, all States are required to cross-match Benefit Accuracy Measurement System audits with NDNH data by no later than January 2008. Unemployment Trust Fund solvency has improved; as of July 2007, no State had an outstanding loan from the Federal UI Trust Fund. Most States’ Trust Fund accounts had a positive cash flow over the last 12 months, and overall Trust Fund balances are projected to be at least 15 percent higher than in 2006.

## Reduce the Consequences of Work-Related Injuries

### Performance Goal 07-4B (ESA) – FY 2007

Reduce the consequences of work-related injuries.

| Indicators, Targets and Results   |        |                                 |  |  |  |                             |  |
|---|--------|---------------------------------|--|--|--|-----------------------------|--|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated<br>Some indicators not shown for FY 2002-06 – see Legacy Data note below |        | FY 2002<br>Goal Not<br>Achieved | FY 2003<br>Goal Sub-<br>stantially<br>Achieved | FY 2004<br>Goal Sub-<br>stantially<br>Achieved | FY 2005<br>Goal Sub-<br>stantially<br>Achieved | FY 2006<br>Goal<br>Achieved | FY 2007<br>Goal Sub-<br>stantially<br>Achieved |
| Lost production days rate (per 100 employees) for Federal Employees' Compensation Act (FECA) cases of the United States Postal Service                  | Target | 115                             | 130  | 146  | 148  | 146                         | <b>129.8</b>                                   |
|   | Result | 131                             | 143  | 147  | 135  | 142                         | <b>135.7**</b>                                 |
|   | *      | N                               | N  | N  | Y  | Y                           | <b>I</b>                                       |
|   | Cost   | —                               | —  | —  | —  | \$7                         | <b>\$7</b>                                     |
| Lost production days rate (per 100 employees) for FECA cases of All Other Government Agencies   | Target | 55                              | 54.7   | 55.4   | 61   | 60                          | <b>49</b>                                      |
|   | Result | 54                              | 55   | 61.9   | 56   | 52.2                        | <b>44.9**</b>                                  |
|   | *      | Y                               | N  | N  | Y  | Y                           | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —  | —  | \$7                         | <b>\$7</b>                                     |
| Savings resulting from Periodic Roll Management case evaluations (\$million)  | Target | \$19                            | \$20   | \$18   | \$17   | \$13                        | <b>\$8</b>                                     |
|   | Result | \$26                            | \$25   | \$24   | \$23   | \$16                        | <b>\$17.1</b>                                  |
|   | *      | Y                               | Y  | Y  | Y  | Y                           | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —  | —  | \$20                        | <b>\$34</b>                                    |
| The rate of change in the indexed cost per case of FECA cases receiving medical treatment remains below the nationwide health care cost trend           | Target | —                               | +9.1%  | +8.8%  | +8.8%  | +8.7%                       | <b>+8.5%</b>                                   |
|   | Result | —                               | -2.8%  | +2.4%  | +2.8%  | +6.3%                       | <b>+7.2%</b>                                   |
|   | *      | —                               | Y  | Y  | Y  | Y                           | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —  | —  | \$22                        | <b>\$39</b>                                    |
| Targets for five communications performance areas   | Target | —                               | baseline                                       | 3  | 3  | 4                           | <b>4</b>                                       |
|   | Result | —                               | 5  | 4  | 3  | 4                           | <b>4</b>                                       |
|   | *      | —                               | Y  | Y  | Y  | Y                           | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —  | —  | \$7                         | <b>\$12</b>                                    |
| Average days required to resolve disputed issues in Longshore and Harbor Worker's Compensation Program contested cases                                  | Target | 242                             | 279  | 273  | 245  | 250                         | <b>248</b>                                     |
|   | Result | 285                             | 266  | 247  | 254  | 235                         | <b>230</b>                                     |
|   | *      | N                               | Y  | Y  | N  | Y                           | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —  | —  | \$6                         | <b>\$6</b>                                     |
| Average number of days to render a decision on a claim for Black Lung benefits  | Target | —                               | —  | —  | —  | —                           | <b>247</b>                                     |
|   | Result | —                               | —  | —  | —  | —                           | <b>224</b>                                     |
|   | *      | —                               | —  | —  | —  | —                           | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —  | —  | \$24                        | <b>\$26</b>                                    |
| Average number of days to process initial claims for Energy Employees Occupational Illness benefits   | Target | —                               | —  | —  | —  | —                           | <b>baseline</b>                                |
|   | Result | —                               | —  | —  | —  | —                           | <b>252</b>                                     |
|   | Cost   | —                               | —  | —  | —  | \$155                       | <b>\$185</b>                                   |

| Indicators, Targets and Results   |        |                                 |  |  |  |                             |  |
|---|--------|---------------------------------|--|--|--|-----------------------------|--|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>**Estimated<br>Some indicators not shown for FY 2002-06 – see Legacy Data note below   |        | FY 2002<br>Goal Not<br>Achieved | FY 2003<br>Goal Sub-<br>stantially<br>Achieved | FY 2004<br>Goal Sub-<br>stantially<br>Achieved | FY 2005<br>Goal Sub-<br>stantially<br>Achieved | FY 2006<br>Goal<br>Achieved | FY 2007<br>Goal Sub-<br>stantially<br>Achieved |
| Percent of Final Decisions in the Part B and Part E Energy Program processed within 180 days (hearing cases) or 75 days (all other cases)   | Target | —                               | —  | —  | —  | 80%                         | <b>85%</b>                                     |
|   | Result | —                               | —  | —  | —  | 89%                         | <b>87.5%</b>                                   |
|   | *      | —                               | —  | —  | —  | Y                           | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —  | —  | \$16                        | <b>\$18</b>                                    |
| Percent of Part E claims backlog receiving initial decisions  | Target | —                               | —  | —  | —  | 75%                         | <b>100%</b>                                    |
|   | Result | —                               | —  | —  | —  | 85%                         | <b>100%</b>                                    |
|   | *      | —                               | —  | —  | —  | Y                           | <b>Y</b>                                       |
|   | Cost   | —                               | —  | —  | —  | —                           | —  |
| Goal Net Cost (millions)  |        | —                               | —  | —  | \$6,131  | \$2,130                     | <b>\$3,554</b>                                 |
| Source(s): FECA Integrated Federal Employees' Compensation System; Federal agency payroll offices; Office of Personnel Management employment statistics; FECA Central Medical Bill Processing system; Milliman USA Cost Index Report; FECA Tele-communications system standard reports; FECA district office and national MIS reports; Longshore Case Management System; Black Lung Automated Support Package; and Energy Program Case Management System.         |        |                                 |  |  |  |                             |  |
| Legacy Data: Complete indicators, targets and results for FY 2002-06 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-2.2B.   |        |                                 |  |  |  |                             |  |
| Note: Goal Net Cost includes DOL/OWCP program administration, Black Lung Trust Fund interest payments, and OWCP disability benefits. Individual indicator costs include only direct administrative costs for the workload outputs measured for the indicator results. FY 2006 costs, but not performance data, are shown for the Black Lung and Energy program initial claims indicators because they are only slightly different measures of the same processes. |        |                                 |  |  |  |                             |  |

### Program Perspective and Logic

DOL protects workers, their dependents and survivors from the economic effects of work-related injuries and illnesses by providing wage replacement and cash benefits, medical treatment, vocational rehabilitation and other benefits through four disability compensation programs:

- Federal Employees' Compensation Act (FECA) program for civilian Federal workers;
- Longshore and Harbor Workers' Compensation for private-sector maritime workers;
- Black Lung Benefits program for coal miners;
- Energy Employees Occupational Illness Compensation (EEOIC) for nuclear weapons employees of the Department of Energy or its contractors.

Activities of the Employment Standards Administration's Office of Workers' Compensation Programs (OWCP) emphasize adjudicating claims and paying benefits accurately and timely, efficiently mediating disputed claims, assisting with injury recovery and return to work, controlling costs, providing responsive informational and other assistance to customers, and assisting employers with regulatory compliance and program administration. OWCP examines the relationships among investments, activities and program results to allocate funds to achieve program goals.

Ten performance indicators measure the outcomes of key OWCP strategies and program priorities. Lost production rates determine the effectiveness of FECA's case management. Periodic Roll Management generates benefit cost savings through the careful review of cases to determine if continued disability status is warranted and to determine the reemployment potential of those currently receiving compensation. FECA also measures medical benefit cost containment in order to maintain financial integrity. Communications goals promote improved customer services by increasing accessibility, quality, and responsiveness. By

reducing the average processing time for disputed claims, Longshore contributes to its chief outcome of resolving claims appropriately and equitably at minimum cost to all parties. The Black Lung program measures average time to render claims decisions and its efficiency in producing quality decisions. Prioritizing claims processing accuracy and timeliness, and reduction of the backlog of cases inherited from the Department of Energy have improved the efficiency of the EEOIC program.

Several external factors challenge the achievement of the OWCP program mission. The number and type of jobs available are driven by employment and business technology trends. These trends determine the availability of jobs and their skill requirements for injured workers trying to return to duty. Changes in the physical demands and exposures associated with today's jobs are changing the nature of new injury cases and the type of assistance they require. The cost of medical care continues to rise with the expanded use of new technology, medicines and treatment procedures. The nation's expanded use of private contractor resources to support the wars in Iraq and Afghanistan has accelerated the number of deaths and injuries compensable under the Defense Base Act and the War Hazards Compensation Act. New technologies and higher customer expectations continue to challenge OWCP to provide greater information at higher access speeds. The EEOIC program structure mandates that certain cancer claims be transferred to the Department of Health and Human Services' National Institute for Occupational Safety (NIOSH). Length of processing times in these cases impacts EEOIC program performance.

### **Analysis and Future Plans**

In FY 2007, DOL substantially achieved this performance goal. The following discussion is organized into three categories: Return to Work, Containing Program Costs, and Customer Service.

#### *Returning Injured Employees to Work*

With more effective Quality Case Management, FECA reduced average lost production days as measured for first-year FECA wage-loss cases by five percent and increased the number of cases returned to work with nurse assistance by nearly one-third. This work, combined with continuing declines in new Federal injury cases, enabled FECA to reach its lost production days (LPD) target for all other government agencies (excluding the U.S. Postal Service (USPS)). However, the lost production days target for the USPS was not reached after two successful years of meeting that goal. The number of USPS claims remained constant from the prior year while opportunities for reemployment to light duty in that agency decreased, particularly as more job functions are automated. As a result, DOL is examining strategies targeted to the USPS claimant population through its case management and vocational rehabilitation activities.

The Administration also has proposed legislation to reform and update the FECA program, which would build return-to-work incentives into the Federal Employees' Compensation Act. The enhanced Act would contribute to FECA's effectiveness as a leader in the field, particularly with initiatives such as Safety, Health and Return-to-Employment (SHARE). In 2006, President Bush extended the SHARE initiative for three years. Originally launched in 2004 and scheduled to run for three years, SHARE has helped the Federal government make great strides in reducing injury and illness case and lost production day rates, and substantially improve timely filing of injury and illness notices. The Secretary of Labor leads the SHARE initiative and measures the performance of each Federal department and agency against the goals. In FY 2006, President Bush extended the SHARE initiative for three years.

#### *Containing Program Costs*

Measured in financial terms, DOL workers' compensation outcomes reflect the efficiency and quality of benefit payment activities and the impact of case management and benefit services. DOL reached its FY 2007 Periodic Roll Management (PRM) savings goal of \$17 million through directed review of long-term disability cases. Through PRM, DOL has saved over \$1 billion since FY 1999. DOL's goal for medical costs was also reached as costs were contained below the national rate of health care inflation, as measured by the Milliman USA Health Cost Index. In the past year, average FECA medical treatment costs rose by 7.2 percent compared to a projected 8.5 percent for the Nation's average. FECA effectively manages cost through centralized bill processing, strengthened reviews of treatment authorization requests, fee schedules, and stronger automated edits and other controls. Since FY 2000, the growth rate for FECA medical costs has remained below the nationwide rate, resulting in nearly \$31 million savings annually.



### Customer Service

DOL continued to improve communications service levels in the FECA program by reducing average caller hold times, resolving more inquiries at the time of the call, reducing the average time to return calls, and meeting call handling quality standards. The Longshore program has met its ambitious target to timely resolve disputed issues in contested cases four of the last five years, reducing the number of days to resolution by over 15 percent during that time. The Longshore program attributes this success to its commitment to ensuring timely and amicable dispute resolutions in contested cases through effective mediation. Longshore will continue conducting outreach and working closely with parties to contested cases in order to reach a timely resolution.

OWCP exceeded the goal to reduce average processing time to render decisions on Black Lung benefits claims. Black Lung consistently outperforms its targets; therefore, in FY 2008 a refined measure will capture new improvements in claims adjudication activities.

The Black Lung offices in Parkersburg, WV and Columbus, OH participated in a Coal Miners' Health Fair on April 27, 2007, in Martin's Ferry, Ohio. The Health Fair was sponsored by the Respiratory and Occupational Lung Disease Clinic at East Ohio Regional Hospital, a clinic funded in part by the Department of Health and Human Services. Over 100 miners and family members from Ohio and West Virginia attended, and several DCMWC employees were on hand to assist claimants in filing their claims and to answer their questions about the claims process. This photo shows coal miner Leonard of Wheeling, WV being assisted with his claim by claims examiner Matthew of the Parkersburg office. Matthew is a Veteran and recently returned from a tour of duty in Iraq with the US Army. [Photo credit: DOL/ESA]



Elimination of the case backlog inherited from the Department of Energy has been a major priority and challenge for the EEOIC program due to the complexity of additional covered exposures, illnesses, and benefit provisions under Part E, the section of the Act that covers these particular cases. EEOIC successfully reached 100 percent of initial decisions on Part E backlog claims. The program also established a baseline for processing initial decisions and achieved its target for processing final decisions on all claims. OWCP has made substantial progress on EEOIC wage-loss and impairment claims processing, continued its comprehensive quality review process, and is pursuing an outreach program to educate claimants and solicit their feedback on program services.

A large proportion of the change in costs for this performance goal from FY 2005 to FY 2007 is due to actuarial liabilities incurred for benefits under the Energy Part E program, which Congress transferred to DOL from the Department of Energy. In FY 2005, Energy Part E assumed an initial \$3.5 billion in benefit liabilities. In FY 2006, Part E liabilities were reduced by \$500 million and in FY 2007 they increased by \$500 million. Consequently, costs in FY 2007 compared to FY 2006 were higher by \$1 billion. The remainder of the rise in costs consists primarily of a \$300 million (7.3 percent) increase in OWCP benefit payments.

### PART, Program Evaluations and Audits

As noted below, all OWCP divisions have been reviewed using the PART and are working on their respective improvement plans. The EEOIC Program underwent its first PART review in 2007 and received an *Adequate* rating. A recommendation was that OWCP work with the National Institute for Occupational Safety and Health to develop performance measures and report that performance against EEOIC goals. The assessment also advised that DOL conduct an independent, comprehensive evaluation of the program and improve coordination of the EEOIC program with State workers' compensation systems.

The FECA Program received a PART rating of *Moderately Effective* in 2004. DOL worked with Congress on reforms to FECA to update the benefit structure, allow for the adoption of State best practices, and convert benefits for retirement-age individuals to a typical retirement level. OWCP implemented recommendations of an independent evaluation and identified best practices for early case intervention and improved return-to-work assistance. The recently implemented electronic case management system will play an important role in supporting business process improvements that are sustainable and will result in increased efficiency.

In 2003, the Black Lung Program received a rating of *Moderately Effective*. Entering its fourth year since the assessment, the Black Lung program has demonstrated significant progress on its PART improvement plan. An independent evaluation (see report outline below) provided recommendations for improving performance measurement, thereby addressing the need for an evaluation and more ambitious performance goals. The program will begin reporting on a cost index for its medical cost containment goal in 2008, a noteworthy addition for better managing cost as well as a goal of reducing the average time to make a claims decision. The purpose of the cost containment measure is to maintain Black Lung medical costs at or below a nationwide comparable trend, the National Health Expenditure published by the Centers for Medicare and Medicaid.

The Longshore Program underwent its PART review in FY 2005 and was rated *Adequate*. The PART found consistent progress in achieving its performance goals, but a lack of comprehensive data to gauge the program's effectiveness and efficiency. Recommendations included: Identifying needed reforms to strengthen the Longshore and Harbor Workers' Compensation Act (LHWCA), evaluating automated system alternatives for tracking employer and carrier benefit delivery services and to allow comparisons of Longshore to similar programs, and evaluating recent efforts to improve processes and controls in the program's disbursement system. An independent evaluation of the program's effectiveness and efficiency will conclude at the end of FY 2007. DOL will then evaluate the recommendations, which will include possible improvements to the Longshore Case Management System.

| “OWCP Licensing and Confidentiality Procedures for Contract Nurses,” September 2006 (OIG)  |
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| <p><b>Purpose:</b> This audit was conducted in response to a complaint from a former OWCP contract nurse whose allegations included noncompliance with nurse licensure policies and unnecessary access to confidential medical records.</p>  |
| <p><b>Major Findings:</b></p> <ol style="list-style-type: none"> <li>1) Consistent license verification can reduce OWCP's risk of not timely identifying license restrictions or the failure to renew licenses.</li> <li>2) OWCP communications with claimants do not state the claimant's level of responsibility for notifying medical providers regarding nurse access to medical information and claimants were not notified when contract nurses were no longer actively assigned to them.</li> </ol> |
| <p><b>Recommendations:</b></p> <ol style="list-style-type: none"> <li>1) Establish and implement policies and procedures for verification of licenses to determine renewal and good standing at regular intervals for its contract nurses.</li> <li>2) Establish practices to clearly and consistently communicate with claimants delineating their responsibilities so that contract nurses do not have unnecessary access to confidential medical records.</li> </ol>                                    |
| <p><b>Actions Taken and Remaining:</b> In January 2007, the OIG was provided a copy of the procedures implemented by OWCP to address both of the recommendations. There are no actions remaining.</p>  |
| <p><b>Additional Information:</b> A copy of the report can be obtained at <a href="http://www.oig.dol.gov/public/reports/oa/2006/02-06-207-04-431.pdf">http://www.oig.dol.gov/public/reports/oa/2006/02-06-207-04-431.pdf</a>.</p>   |
| “Report Relating to the Federal Employees’ Compensation Act Special Benefit Fund,” October 2006 (OIG)  |
| <p><b>Purpose:</b> This schedule has been prepared to report the actuarial liability, net intra-governmental accounts receivable, and benefit expense of the FECA Special Benefit Fund.</p>  |
| <p><b>Major Findings:</b> The benefit expenses for the year ending September 30, 2006, was comprised of the following (dollars in thousands):</p> <ol style="list-style-type: none"> <li>a) Benefits paid for compensation = \$1,814,705</li> <li>b) Benefits paid for medical benefits = \$694,588</li> </ol>   |

- c) Change in accrued benefits = \$(21,370)
- d) Change in actuarial liability = \$(156,188)
- e) Total benefit expense = \$2,331,735

**Recommendations:** None made

**Actions Taken and Remaining:** Not applicable

**Additional Information:** A copy of the report can be obtained at <http://www.oig.dol.gov/public/reports/oa/2007/22-07-002-04-431.pdf>.

**“Findings and Recommendations Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2006,” May 2007 (OIG)**

**Purpose:** The objective of the audit was to express an opinion on the fair presentation of DOL’s consolidated financial statements.

**Major Findings:**

- 1) Weaknesses noted in the change control process for a benefits system.
- 2) Weaknesses noted in Federal Employees’ Compensation Act (FECA) accounting and financial reporting.
- 3) Delinquent forms CA-1032, Request for Information on Earnings, Dual Benefits, Dependents and Third Party Settlement Form

**Recommendations:**

- 1) Coordinate efforts with the ESA to develop and/or enforce procedures and controls to address change control weaknesses.
- 2) Develop and implement quarterly ESA procedures to adequately reconcile the FECA history databases to the charge-back reports.
- 3) Utilize the PER screen within iFECS to track CA-1032 status and document their receipt and review using a system configuration or manual control.
- 4) Require supervisory review of CE receipt and review of CA-1032 forms.

**Actions Taken and Remaining:**

- 1) The iFECS POA&M has been updated to include the change control weakness. Additionally, ESA has documented and implemented a standard process for requesting, reviewing, developing, testing, and approving changes to iFECS.
- 2) OWCP’s management developed and implemented reconciliation procedures to ensure that there is no material difference between charge-back reports and the payment histories. The procedures were completed June 15, 2007, in preparation for the reconciliation after the close of the charge-back year. The reconciliation was completed August 5, 2007.
- 3) A bulletin requiring use of the PER was issued on 12/31/06.
- 4) To accomplish appropriate review the program has maintained compliance with accountability reviews and other performance management tools.

**Additional Information:** A copy of the report can be obtained at <http://www.oig.dol.gov/public/reports/oa/2007/22-07-001-13-001.pdf>

**“Evaluation of the Efficiency and Effectiveness of the Black Lung Program,” June 12, 2007  
(ICF International)**

**Purpose:** To assess the efficiency and effectiveness of the program according to six performance measures and as compared to three other similar workers’ compensation programs.

**Major Findings:** The program is operating at a high level of efficiency and effectiveness.

**Recommendations:**

- 1) Establish national program performance objectives.
- 2) Strengthen and expand national program data collection and analysis.
- 3) Consider implementing various procedural and process improvements.
- 4) Develop a formal training process for staff and personnel planning.
- 5) Conduct a customer and stakeholder satisfaction survey.

**Actions Taken and Remaining:**

- 1) The Black Lung Program has established national performance objectives for the appointment and monitoring of representative payees. In FY 2008 it will streamline and tighten its timeliness goals for claims adjudication.
- 2) The Black Lung Program is expanding its data collection to include more information about accounts receivable

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| <p>from coal mine operators, and is considering other ICF recommendations regarding data collection.</p> <ol style="list-style-type: none"> <li>3) The Black Lung Program has included ICF proposals during its accountability review process and will finalize this process early in FY 2008.</li> <li>4) The Black Lung Program will consider ICF's recommendations concerning staff training and personnel planning in FY 2008 and beyond.</li> <li>5) The Black Lung Program plans to conduct customer satisfaction surveys of stakeholder segments in FY 2008.</li> </ol>   |
| <p><b>Additional Information:</b> A copy of the complete report can be obtained from the Office of Workers' Compensation Programs, Employment Standards Administration, U.S. Department of Labor, FPB N3464, 200 Constitution Avenue, NW, Washington, D.C. or by calling 202-693-0047.</p>   |
| <p><b>"Evaluation of DEEOIC's Part B Cancer Claims Adjudication Process," May 30, 2007 (ICF International)</b></p>   |
| <p><b>Purpose:</b> To evaluate the Division of Energy Employees Occupational Illness Compensation (DEEOIC) adjudication process for cancer claims under Part B of the EEOICPA and compare its processes and certain identified impacts to adjudication of cancer claims in three other workers' compensation programs.</p>   |
| <p><b>Major Findings:</b> Research on comparison programs revealed substantial diversity of program structures and processes, performance measurement and reporting capabilities, types of performance data collected, and scale of cancer claims adjudication. Based on the careful consideration of these factors, it was determined that a direct comparison of the programs to DEEOIC would not result in meaningful conclusions; however, the research process did identify certain promising practices being used in other programs and reinforced the value of some of DEEOIC's existing practices, as well as its performance monitoring infrastructure and systems.</p> |
| <p><b>Recommendations:</b></p> <ol style="list-style-type: none"> <li>1) Consider process improvements and oversight mechanisms to enhance external partnerships</li> <li>2) Explore new dose reconstruction methodologies as a means to expedite the process</li> <li>3) Expand the use technology to streamline operations among District and National offices</li> <li>4) Develop long-term staff training</li> </ol>   |
| <p><b>Actions Taken and Remaining:</b></p> <ol style="list-style-type: none"> <li>1) DEEOIC plans to conduct a comprehensive program evaluation once pending GAO and OIG reports are completed.</li> <li>2) DEEOIC is working with NIOSH to establish the performance standards required under the PART evaluation.</li> <li>3) A Unified Energy Case Management System project is already expanding the use of technology among District and National Offices.</li> <li>4) OWCP is in the process of developing comprehensive training for staff.</li> </ol>  |
| <p><b>Additional Information:</b> A copy of the complete report can be obtained from the Office of Workers' Compensation Programs, Employment Standards Administration, U.S. Department of Labor, FPB C3321, 200 Constitution Avenue, NW, Washington, D.C. or by calling 202-693-0081.</p>   |

### Data Quality and Major Management Challenges

Data quality for this performance goal was rated *Excellent*, reflecting OWCP's long history of managing workers' compensation case record data and benefit payment histories. Performance measurement, also a long-standing fixture in OWCP, relies primarily upon data extracted from internal automated case management and benefit payment systems. Outside sources, including other Federal agencies and the nationally known research institute, Milliman USA, also provide performance data. OWCP maintains strict oversight of data entry into its internal systems, with regular on-site review by local managers and formal periodic reviews that check the quality of the claims data record. Other quality tools include extensive checks and edits built into Automated Data Processing system programming, second-tier certifications of claims and payment decisions, telephone call monitoring, and ongoing performance reviews by district management. Multiple OWCP analytical staff collaborate in the report production, data collection and results measurement processes. Performance results are reviewed frequently, in formal sessions, by OWCP management.

OIG considers aspects of FECA program design and operation to be Departmental and government-wide major management challenges. DOL is spearheading efforts to make FECA more cost-effective through the SHARE initiative (see item V in the Major Management Challenges section of Management's Discussion and Analysis). As noted earlier, the SHARE initiative has been extended for another three years to FY 2009. Coordinating with OSHA, FECA has updated the initiative's government-wide goals, publicized the initiative's objectives and sharpened agency participation, and continues to track agency performance. Complementing

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administrative strategies that assist medical recovery and return to duty, DOL is seeking legislative reforms to the FECA benefit structure that will enhance incentives for injured employees to return to work, address benefit equity issues, discourage unsubstantiated claims, and make other improvements. Estimated cost savings of this reform to the government over 10 years is \$608 million.

With input from the Inspectors General community, DOL's OIG developed a protocol for use by IGs across the government to reduce fraud and overpayments. The Employment Standards Administration has begun refining reconciliation procedures that address financial reporting for FECA. Research and design, initial testing, and system-wide program analysis have already been completed.

FECA is classified by OIG as high-risk for improper payments and has recommended updating medical information for claimants to prevent payment to those who are no longer disabled. DOL has met its improper payments reduction and recovery targets for the FECA program. Using the Integrated Federal Employee Compensation System, tracking of due dates of medical evaluations was installed and new controls implemented to ensure that claims examiners obtain and review current medical evidence.

## Union Financial Integrity and Transparency

### Performance Goal 07-4C (ESA) – FY 2007

*Ensure union financial integrity, democracy, and transparency.*

| Indicators, Targets and Results   |        |                             |   |                                 |   |
|---|--------|-----------------------------|---|---------------------------------|---|
| *Indicator target reached (Y), substantially reached (S), improved (I), or not reached (N)<br>**Estimated<br>Some indicators not shown for FY 2004-05 – see Legacy Data note below  |        | FY 2004<br>Goal<br>Achieved | FY 2005<br>Goal<br>Sub-<br>stantially<br>Achieved | FY 2006<br>Goal Not<br>Achieved | FY 2007<br>Goal<br>Sub-<br>stantially<br>Achieved |
| Percent of unions with fraud  | Target | baseline                    | —   | 8%                              | <b>7.5%</b>                                       |
|   | Result | 9%                          | —   | 8%                              | <b>7%</b>   |
|   | *      | Y                           | —   | Y                               | <b>Y</b>  |
|   | Cost   | —                           | —   | \$18                            | <b>\$35</b>                                       |
| Percent of unions in compliance with LMRDA standards for democratic union officer elections   | Target | —                           | —   | Baseline                        | <b>92.5%</b>                                      |
|   | Result | —                           | —   | 92%                             | <b>92.3%</b>                                      |
|   | *      | —                           | —   | Y                               | <b>I</b>  |
|   | Cost   | —                           | —   | \$11                            | <b>\$13</b>                                       |
| Percent of union reports meeting standards of acceptability   | Target | 75%                         | 95%   | 96%                             | <b>97%</b>  |
|   | Result | 92%                         | 94%   | 93%                             | <b>95%</b>  |
|   | *      | Y                           | S   | N                               | <b>I</b>  |
|   | Cost   | —                           | —   | \$8                             | <b>\$16</b>                                       |
| Goal Net Cost (millions)  |        | —                           | \$63  | \$56                            | <b>\$68</b>                                       |
| Source(s): OLMS union compliance audit information and e.LORS data system   |        |                             |   |                                 |   |
| Legacy Data: Complete indicators, targets and results for FY 2003-05 are available in the FY 2006 report at <a href="http://www.dol.gov/sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-2.1B. |        |                             |   |                                 |   |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis.   |        |                             |   |                                 |   |

#### Program Perspective and Logic

The Employment Standards Administration's Office of Labor-Management Standards (OLMS) ensures union transparency, financial integrity, and democracy by administering and enforcing the Labor-Management Reporting and Disclosure Act (LMRDA). The LMRDA requires public disclosure reporting by unions and others, establishes standards for union officer elections, and imposes criminal sanctions for embezzlement of union funds. To implement the LMRDA protections, OLMS conducts criminal and civil investigations and union audits, and administers the reporting and public disclosure program.

Union transparency underpins the achievement of union democracy and financial integrity objectives and is measured by tracking the acceptability of union financial reports filed for public disclosure. An initial study indicated that approximately 73 percent of union reports met standards of acceptability in 2003. OLMS established aggressive goals for increasing transparency and, in 2007, the union compliance rate increased to over 95 percent. OLMS measures the effectiveness of its audits and embezzlement investigations by tracking indicators of fraud in unions. This is measured by auditing a random sampling of unions. In 2004, a study indicated that approximately nine percent of unions had indicators of fraud. OLMS studies have found that indicators of fraud have declined to seven percent in 2007.

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Through compliance assistance and complaint-driven enforcement, OLMS ensures that union elections are run fairly and that union members have access to the rights guaranteed them under the LMRDA. In FY 2006, OLMS conducted a study to determine the rate of union compliance with standards for democratic union officer elections. The study found that unions were in compliance with 92 percent of critical LMRDA standards for democratic union officer elections. Measurement in 2007 indicates a slight increase in the compliance rate to 92.3 percent.

Approximately 25 percent of OLMS resources support the agency's Internet public disclosure system and a wide range of compliance assistance, liaison, enforcement, and regulatory activities to increase union transparency and LMRDA reporting compliance. OLMS dedicates more than 50 percent of appropriated resources annually to support a program of audits and criminal investigations to protect the millions of dollars in dues paid by labor union members. OLMS dedicates about 20 percent of its budget to investigating union member complaints of election misconduct and supervising union officer election reruns to assure compliance with LMRDA union democracy provisions.

OLMS continues to promote increased electronic filing of union financial reports, which has improved reporting transparency and accuracy. While currently only the largest unions submit reports electronically, OLMS will seek increased use of electronic filing by all unions. In addition to promoting electronic filing, OLMS will also continue its outreach and compliance assistance programs to better inform union leaders and members as to the requirements of the LMRDA.

#### **Analysis and Future Plans**

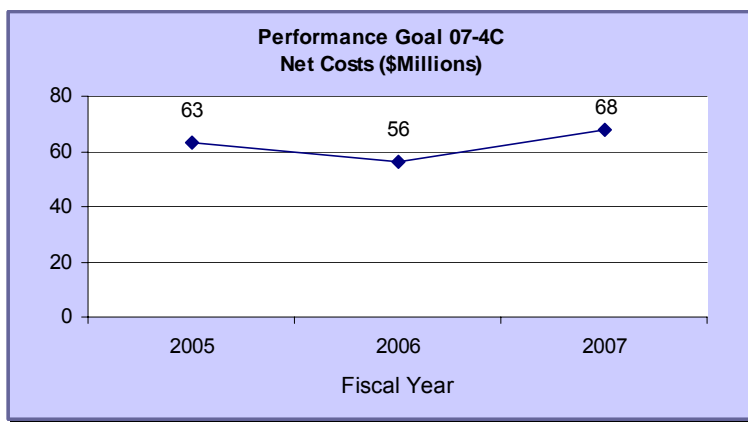
OLMS substantially achieved its performance goal by improving results for two performance indicators and reaching one target. OLMS met its target, 7.5 percent, for the percentage of unions with indicators of fraud. Private sector research indicates that this rate of fraud is significantly lower than fraud in corporations, which is estimated at 10 percent. The ability to surpass current performance levels is unlikely. Consequently, OLMS plans to revise its measure to refocus on key financial integrity program areas that directly impact the program's effectiveness.

OLMS improved its prior year baseline result for the union democracy measure, but just missed the targeted 92.5 percent. Under the LMRDA, OLMS responds to formal complaints filed by a union member regarding an election. As such, OLMS does not conduct targeted enforcement on elections. OLMS is exploring a revised measure that would better measure performance of its statutory role.

OLMS fell short of its ambitious financial reporting target, but still improved upon prior year results. Since FY 2003, union reports acceptable for public disclosure increased from 73 to 95 percent. As the targets near 100 percent, OLMS intends to focus efforts on increasing the number of electronic filers, which would drive continuing improvements in LMRDA reporting compliance, provide more timely public disclosure of reports and improve agency efficiency in managing reports and public disclosure.

OLMS has been able to leverage its use of technology, such as the implementation of electronic filing procedures, as well as its streamlined auditing procedures to improve its overall performance with available resources. OLMS is exploring indicators that will more closely link performance results to program improvements. OLMS believes that its performance measurement program can be used to identify greater resource efficiencies in its programs and as an outgrowth, more effectively protect union members' assets (by more accurately targeting instances of fraud and embezzlement), and increase financial transparency (by making better use of technology to offer more accurate and timely financial reports to union members and other interested parties).

Lastly, OLMS has initiated work on legislation to obtain civil monetary penalty authority. This legislation would place the agency on par with its worker protection counterparts at the Department and strengthen OLMS' efforts in LMRDA reporting compliance.



OLMS net costs rose by 21 percent in FY 2007 after dropping by 11 percent in FY 2006. OLMS attributes the increase to a rise in agency and Department level indirect costs that include audit services. In FY 2007, OLMS was able to assign 94 percent of net costs to performance indicators, up from 64 percent in FY 2006. Each indicator represents a major performance goal within OLMS, and as noted above, resources are budgeted across these three areas.

### PART, Program Evaluations and Audits

OLMS underwent a PART review in 2005 and received a rating of *Adequate*. The assessment found the program well defined, but lacked sufficient tools to effectively enforce the LMRDA public disclosure reporting provisions and a performance measure for mission-critical union democracy goals. In response to PART recommendations, OLMS completed a study in FY 2006 to determine compliance with standards for democratic union officer elections and established a baseline and goals for an indicator measuring compliance with union officer election standards under the LMRDA. In 2007, OLMS continued reporting on this measure, but also examined alternative measures for union democracy, financial integrity, and transparency goals to achieve program improvements in support of its critical mission. The PART also found that no recent independent review of OLMS' programs had been conducted, noting that such a review could help identify and address weaknesses in procedures, compliance and enforcement strategies, or program design. An independent evaluation will provide an assessment of the LMRDA reporting and public disclosure program and make recommendations for improvements.

### Data Quality and Major Management Challenges

Data quality for this performance goal was rated *Good*. OLMS uses its Case Data System to track investigations and performance. The electronic reporting and disclosure database provides quick access to accurate and timely union financial data. Overall, strengths of this data include its relevance to program performance and accuracy. OLMS will continue refining data collection protocols to ensure the development of meaningful long-term trends for each of its performance indicators. OLMS acknowledges its sampling and collection protocols for the data underlying the fraud and democracy performance goals are not optimal. New performance measures are being explored that will rely on more robust data collection methods. OLMS will continue to promote the use of electronic filing for union financial reports that will enable additional error checking for data accuracy.



## Provide for Secure Pension and Health Plans

### Performance Goal 07-4D (EBSA) – FY 2007

*Enhance pension and health benefit security.*

| Indicators, Targets and Results  |        |                             |                             |                             |
|--|--------|-----------------------------|-----------------------------|-----------------------------|
| *Indicator target reached (Y), improved (I), or not reached (N)<br>Some indicators not shown for FY 2005-06 – see Legacy Data note below   |        | FY 2005<br>Goal<br>Achieved | FY 2006<br>Goal<br>Achieved | FY 2007<br>Goal<br>Achieved |
| Ratio of criminal cases accepted for prosecution to cases referred   | Target | —                           | —                           | 48%                         |
|  | Result | —                           | —                           | 67%                         |
|  | *      | —                           | —                           | Y                           |
|  | Cost   | —                           | —                           | \$103                       |
| Ratio of closed civil cases with corrected fiduciary violations to civil closed cases  | Target | —                           | —                           | 61%                         |
|  | Result | —                           | —                           | 69%                         |
|  | *      | —                           | —                           | Y                           |
| Customer Satisfaction Index for employers, plan sponsors, employee representatives, trustees of multiemployer plans, and other plan professionals who have contacted EBSA for assistance   | Target | —                           | —                           | baseline                    |
|  | Result | —                           | —                           | 81.5                        |
|  | Cost   | —                           | —                           | \$29                        |
| Applications to Voluntary Compliance programs  | Target | 8,340                       | 13,500                      | 13,838                      |
|  | Result | 14,082                      | 17,214                      | 20,123                      |
|  | *      | Y                           | Y                           | Y                           |
|  | Cost   | —                           | —                           | —                           |
| Goal Net Cost (millions)   |        | \$160                       | \$179                       | \$176                       |
| Source(s): Enforcement Management System (EMS), Delinquent Filer Voluntary Compliance (DFVC) Tracking System, and The Gallup Organization/Technical Assistance and Inquiry System (TAIS)   |        |                             |                             |                             |
| Legacy Data: Complete indicators, targets and results for FY 2003-06 are available in the FY 2006 report at <a href="http://www.dol.gov/_sec/media/reports/annual2006/PGD.htm">http://www.dol.gov/_sec/media/reports/annual2006/PGD.htm</a> . See Performance Goal 06-2.2C.  |        |                             |                             |                             |
| Note: Costs for this goal are net costs as defined in a footnote to the Cost of Results discussion in Management's Discussion and Analysis. The cost listed for the first indicator also includes the costs associated with the civil ratio measures. Costs are not allocated to the indicator level for the civil and criminal ratio measures because these programs are not separable into individual costs. |        |                             |                             |                             |

#### Program Perspective and Logic

The Department's Employee Benefits Security Administration (EBSA) is responsible for assuring compliance with the Employee Retirement Income Security Act (ERISA). EBSA's activities are essential to maintaining the public's trust and confidence in the employee benefits system. By achieving successful civil and criminal case closure and acceptance rates, DOL demonstrates its success in identifying and pursuing wrongdoers. By providing outreach and education and directly assisting plan participants, beneficiaries, employers and plan officials in understanding their rights and responsibilities under the law, DOL helps ensure workers' and retirees' benefits are protected.

EBSA oversees benefit security for nearly 3.2 million private sector pension and health plans, and similar numbers of other welfare benefit plans, such as those providing life or disability insurance. The benefit plans under EBSA's jurisdiction cover approximately 150 million participants and beneficiaries, and in excess of \$5.6 trillion in assets. External factors, such as the economy and tax policy, have a significant impact on

whether employers opt to offer benefits, and whether employees choose to participate in benefit plans and to what extent.

After receiving a participant complaint, the Department investigated an Independence, Missouri, truck servicing company. The investigation revealed that over a period of three and a half years, the company withheld approximately \$36,500 from 17 employees' paychecks which was intended to be deposited into the company's 401(k) plan. Instead, the money was used to fund the business in violation of the law. As a result of the Department's investigation, the company's owner was charged with embezzling from an employee benefit plan. The owner pled guilty, was sentenced to five years' probation, and made restitution to the plan – including lost earnings.

### Analysis and Future Plans

For the first time in FY 2007, EBSA performed under more rigorous enforcement performance indicators as reflected in the Department's Strategic Plan. EBSA achieved its performance target of the ratio of closed civil cases with corrected fiduciary violations to closed civil cases – a more challenging measure than the previous performance indicator which included the correction of lower priority non-fiduciary violations. With respect to criminal case work, EBSA achieved its target to report cases accepted for prosecution rather than the less ambitious measurement of cases referred for litigation.

In addition to tracking long-term targets for civil and criminal ratios, EBSA monitored annual targets to evaluate the success of five national enforcement initiatives (see table below). These initiatives are part of the civil cases measurement and may change from year-to-year as the agency satisfies its commitments and assumes new priorities. This year, EBSA eliminated its Orphan Plan Project because it fulfilled its goal of establishing an efficient framework for the completion and distribution of abandoned plan benefits to workers. EBSA replaced this indicator with the new Consultant Advisor Project ratio, which includes a relatively small number of carefully targeted cases. EBSA opened several cases this year, but only completed one, an insufficient number to establish a baseline. The agency will establish a baseline in FY 2008 to the extent sufficient investigations are closed. The Employee Stock-Ownership Plans (ESOP) project target remained elusive for a second year. EBSA is reviewing the ESOP target and strategies in an effort to improve its performance.

|  |        |          |
|--|--------|----------|
| Employee Contribution Project ratio          | Target | 77%      |
|  | Result | 82%      |
| Employee Stock-Ownership Plans ratio         | Target | 58%      |
|  | Result | 51%      |
| Multiple Employer Welfare Arrangements ratio | Target | 55%      |
|  | Result | 55%      |
| Rapid ERISA Action Team ratio                | Target | 48%      |
|  | Result | 69%      |
| Consultant/Advisor Project (CAP) ratio       | Target | baseline |
|  | Result | NA       |

EBSA reached its customer service and voluntary compliance targets. In FY 2007, DOL obtained monetary results of approximately \$1.5 billion. Monetary results are a product of EBSA's investigative, compliance and participant assistance activities. This year, Benefit Advisors continued to provide superior participant assistance as they responded to 99 percent of all written inquiries within 30 days of receipt and responded to over 99 percent of telephone inquiries by the close of the next business day.

EBSA began work with The Gallup Organization to launch its compliance assistance customer service satisfaction index evaluation, modeled after the highly successful participant assistance evaluation conducted between 2003 and 2006. EBSA achieved its performance target for customer service in its participant assistance program two years early. With respect to customer service performance for its compliance assistance programs, EBSA achieved a highly regarded score of 81.5. The Gallup Organization has deemed

certain aspects of the agency's customer service program as *World Class*, a designation reserved for only the highest performing organizations – demonstrating that EBSA balances its performance goals with providing quality service to its customers. EBSA continued to monitor its compliance assistance measure that demonstrates success in voluntary compliance programs, such as the Voluntary Fiduciary Correction Program and the Delinquent Filer Voluntary Compliance Program. To meet the demands of a rapidly changing and complex employee benefits environment, EBSA will deter and correct violations of relevant statutes, facilitate compliance assistance by plan sponsors, plan officials, providers of services to benefit plans, and other members of the regulated community; and assist workers in understanding their rights and responsibilities via aggressive, grassroots outreach and education next year.

A self-funded health plan was not paying its participants' claims. One of the participants called the Department and explained that she was unable to receive additional medical treatment because her health care provider refused to provide any further services without payment of the outstanding claims. A Benefits Advisor contacted the plan and discovered that many more participants were similarly affected, and that the plan had over \$200,000 in delinquent claims. As a result of this single complaint and the Department's efforts, \$221,713 in outstanding medical claims were paid, enabling the participant who called to resume her treatments and assisting dozens more participants.

The two percent decrease in net cost of this performance goal between FY 2006 and FY 2007 reflects changes in DOL support agency and overhead expenses.

To protect workers and retirees and to encourage continued sponsorship of pension plans, the President signed the Pension Protection Act (PPA) in FY 2006. EBSA has the primary responsibility for developing more than two dozen regulations to implement the PPA and began reallocating resources in FY 2007 to meet the demanding work schedule.

#### **PART, Program Evaluations and Audits**

EBSA underwent a PART review in 2004 and received a rating of *Moderately Effective*. EBSA conducted evaluations and regulatory reviews in response to PART recommendations. DOL contracted with Gallup to evaluate EBSA's participant assistance program. EBSA received detailed performance information that helped to improve its customer satisfaction score. With Gallup's assistance, EBSA also conducted targeted training to address employee weaknesses and share best practices. Finally, field offices implemented plans to improve their customer satisfaction scores. In FY 2006, Gallup conducted a follow-up study of EBSA's participant assistance program. EBSA ended its four-year study with a 69 percent satisfaction rate, up from its baseline year of 53 percent.

With respect to the regulatory review program, ICF is conducting a cost benefit analysis of selected regulations. Given the complex nature of regulatory reviews, EBSA will more fully report the results of this effort next year. Preliminary results indicate that EBSA is publishing regulations where benefits outweigh costs. In late FY 2007, EBSA launched a performance improvement analysis by Gallup of its participant assistance program in one field office. The analysis will provide insight and specific management advice aimed at program improvement.

The GAO concluded a review of EBSA's enforcement program in FY 2007. The GAO commended EBSA for addressing recommendations made in their FY 2002 review. EBSA will work with the GAO in implementing new recommendations, including their recommendation to assess the nature and extent of ERISA noncompliance.

#### **"Office of Participant Assistance Program Evaluation Studies," December 2006 (The Gallup Organization)**

**Purpose:** To provide information enabling EBSA to address program performance issues to the greatest extent possible and thus improving the interaction customers have directly with EBSA representatives.

**Major Findings:** Participant Assistance Customer Satisfaction Surveys:

- 1) EBSA achieved a customer satisfaction score of 69 percent (percentage rating 4 or 5 on a 5-point scale).
- 2) Individual employee performance drives the customer service experience.
- 3) Surveys suggest that 57 percent of respondents indicated EBSA performs better than other agencies and 50

percent stated that EBSA performed better than private sector businesses.

**Recommendations:**

- 1) Use study results to maintain achievements in the absence of further participant assistance studies.
- 2) Rely on best and brightest Benefit Advisors (BA) for Customer Satisfaction tips in training new BAs.
- 3) Share the Agency's success publicly to create a sense of pride among the staff that achieved the success.

**Actions Taken and Remaining:** None outstanding

- 1) EBSA institutionalized BA meetings to refine and update plans for improving their office's performance based on the Gallup evaluations.
- 2) EBSA holds its executive leadership accountable for achieving the agency's customer satisfaction goals.
- 3) Customer Service training is now a regular part of the Basic Training Program for new BAs.

**Additional Information:** A copy of this report can be obtained from the Employee Benefits Security Administration, 200 Constitution Avenue, N.W., Room N-5625, Washington, DC, 20210; or by calling 202-693-8655.

**“Enforcement Improvements Made but Additional Actions Could Further Enhance Pension Plan Oversight,”  
January 2007 (GAO)**

**Purpose:** Report GAO-07-22 follows up on a 2002 GAO review, in which the GAO reported that EBSA strengthened its enforcement program and is a well managed organization, but improvements could be made.

**Major Findings:** Since the last GAO review:

- 1) EBSA made several improvements to coordinate regional investigations, to increase participation in its voluntary correction programs, and to recruit investigators with advanced skills.
- 2) EBSA has not adequately assessed the nature and extent of ERISA noncompliance.
- 3) EBSA has taken limited steps to evaluate the effect staff attrition rates have on its operations. GAO also concluded that certain statutory obstacles limit EBSA's oversight of private sector pension plans.

**Recommendations:**

- 1) Evaluate the extent to which EBSA could supplement its current enforcement practices with strategies used by similar enforcement agencies.
- 2) Conduct a formal review to determine the effect ERISA's statutory filing deadlines have on investigators' access to timely information.
- 3) Evaluate the factors affecting staff attrition.

**Actions Taken and Remaining:**

- 1) EBSA will follow the assessment of the IRS noncompliance program next year and will analyze its applicability to EBSA. With respect to risk assessment, EBSA's national and regional projects accomplish the spirit of GAO's recommendation.
- 2) EBSA will review a sample of cases opened based on an analysis of Form 5500 information beginning in FY 2007.
- 3) EBSA revised its employee exit survey to better identify effective retention strategies.

**Additional Information:** A copy of report no. GAO-07-22 is available at <http://www.gao.gov/new.items/d0722.pdf>.

**“Regulatory Review for the Employee Benefits Security Administration,” December 2007 (ICF International)**

**Purpose:** To guide and inform the regulatory decision-making process through regulatory analysis, EBSA is obligated under E.O. 12866 to conduct cost and benefit analyses of “economically significant” regulations.

**Major Findings:**

- 1) EBSA appropriately attempts to minimize the economic cost of regulation and preserve opportunity for industry innovation and competition.
- 2) EBSA's process for regulatory analysis is collaborative and collegial, but could benefit from more explicit routing plans and schedules.
- 3) There are advantages and disadvantages to rules being written concurrently with the regulatory analysis. More upfront analysis supports a better informed evaluation of alternatives, but requires a greater level of effort.
- 4) ICF reviewed the Reasonable Contract or Arrangement Under Section 408(b)(2) – Fee Disclosure Regulation and concluded that the benefits of the proposed regulation and class exemption will outweigh the anticipated costs of compliance.

**Recommendations:**

- 1) Continue conducting analysis as part of a separate regulatory analysis team as EBSA currently does, rather than having rulemaking and the regulatory analysis done by the same program.

- 2) Ensure all necessary staff are involved early in the process and all parties communicate regularly.
- 3) Continue planning regulatory evaluations using the regulatory review process.

**Actions Taken and Remaining:**

- 1) EBSA will consider ways to facilitate the regulation making process and to use resources in the most efficient manner.
- 2) EBSA will evaluate the appropriate skills of employees working on regulatory impact analyses and team organization.
- 3) ICF will conduct a regulatory analysis of ERISA section 105(a) (Periodic Pension Benefit Statements) and existing Field Assistance Bulletin 2006-03 to complete their activities.
- 4) ICF will conduct reviews of selected regulations in FY 2008.

**Additional Information:** A copy of this report can be obtained from the Employee Benefits Security Administration, 200 Constitution Avenue, N.W., Room N-5718, Washington, DC 20210; or by calling 202-693-8417.

**Data Quality and Major Management Challenges**

Data quality for this performance goal was rated *Excellent*. Strengths of the data include its timeliness and reliability. EBSA's Enforcement Management System (EMS) provides the data for the enforcement ratios. EBSA's quality assurance processes require that individuals not directly involved with the investigation at hand approve all case openings. Cases with monetary results receive several levels of scrutiny, including national office oversight and review. Additionally, EBSA uses a peer review method to conduct quality assurance of randomly selected closed cases. In the customer satisfaction area, Gallup provided the performance data. The Voluntary Fiduciary Correction Program data is maintained in the EMS and the Delinquent Filer Voluntary Compliance Program tracking system.

EBSA has one Major Management Challenge (MMC): *Ensuring the Security of Employee Benefit Plan Assets* (item III in the MMC section of Management's Discussion and Analysis). The specific areas of concern include benefit plan audits, benefit plan fraud, and corrupt multiple employer welfare arrangements. Because the risks associated with this challenge go to the heart of EBSA's goal to secure pension and health plans, EBSA has taken specific actions to address this challenge, including strengthening benefit plan audits through increased oversight of accounting firms, meeting ambitious targets for civil and criminal cases, and vigorously pursuing fraudulent Multiple Employer Welfare Arrangements.

## Improving Pension Insurance

### Performance Goal 07-4E (PBGC) – FY 2007

*Improve the pension insurance program.*

| Indicators, Targets and Results  |        |                                 |                                 |                                 |   |
|--|--------|---------------------------------|---------------------------------|---------------------------------|---|
|  |        | FY 2004<br>Goal Not<br>Achieved | FY 2005<br>Goal Not<br>Achieved | FY 2006<br>Goal Not<br>Achieved | FY 2007<br>Goal<br>Sub-<br>stantially<br>Achieved |
| *Indicator target reached (Y), improved (I), or not reached (N)  |        |                                 |                                 |                                 |   |
| Implement premium reforms in the Pension Protection Act of 2006 and Deficit Reduction Act of 2005: Issue Proposed Regulation for Variable Rate Premium (PPA)   | Target | —                               | —                               | —                               | <b>50%</b>  |
|  | Result | —                               | —                               | —                               | <b>100%</b>                                       |
|  | *      | —                               | —                               | —                               | <b>Y</b>  |
| Implement premium reforms in the Pension Protection Act of 2006 and Deficit Reduction Act of 2005: Issue Proposed Regulation for Flat Rate Premium Increase (DRA)  | Target | —                               | —                               | —                               | <b>50%</b>  |
|  | Result | —                               | —                               | —                               | <b>100%</b>                                       |
|  | *      | —                               | —                               | —                               | <b>Y</b>  |
| Implement premium reforms in the Pension Protection Act of 2006 and Deficit Reduction Act of 2005: Issue Proposed Regulation for Termination Premium (both)  | Target | —                               | —                               | —                               | <b>50%</b>  |
|  | Result | —                               | —                               | —                               | <b>100%</b>                                       |
|  | *      | —                               | —                               | —                               | <b>Y</b>  |
| Customer Satisfaction score for premium filers   | Target | 71                              | 72                              | 74                              | <b>68</b>   |
|  | Result | 69                              | 68                              | 68                              | <b>70</b>   |
|  | *      | N                               | N                               | N                               | <b>Y</b>  |
| Customer Satisfaction score for trustee plan participant callers   | Target | 77                              | 78                              | 80                              | <b>80</b>   |
|  | Result | 78                              | 79                              | 75                              | <b>78</b>   |
|  | *      | Y                               | Y                               | N                               | <b>I</b>  |
| Customer Satisfaction score for retirees receiving benefits from PBGC  | Target | —                               | 84                              | 84                              | <b>85</b>   |
|  | Result | —                               | 85                              | 85                              | <b>88</b>   |
|  | *      | —                               | Y                               | Y                               | <b>Y</b>  |
| Source(s): American Customer Satisfaction Index (ACSI) and Federal Register.   |        |                                 |                                 |                                 |   |
| Note: Costs are not provided because PBGC is not included in the Consolidated Statement of Net Costs. However, in accordance with the requirements of the Government Performance and Results Act (GPRA), PBGC's performance reporting is included in this report because PBGC's performance goals are included in the Department's performance budget. |        |                                 |                                 |                                 |   |

#### Program Perspective and Logic

PBGC operates under the guidance of its Board of Directors, which consists of the Secretaries of Labor, Commerce and the Treasury. The Secretary of Labor chairs the Pension Benefit Guaranty Corporation (PBGC)'s Board of Directors. PBGC protects the retirement incomes of 44 million American workers in over 30,000 defined benefit pension plans. Defined benefit plans provide specified monthly benefits at retirement, often based on a combination of salary and years of service. PBGC safeguards the pension insurance program and provides exceptional service to its customers, while it exercises effective stewardship over its resources.

PBGC receives no funds from tax revenues. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trustee or

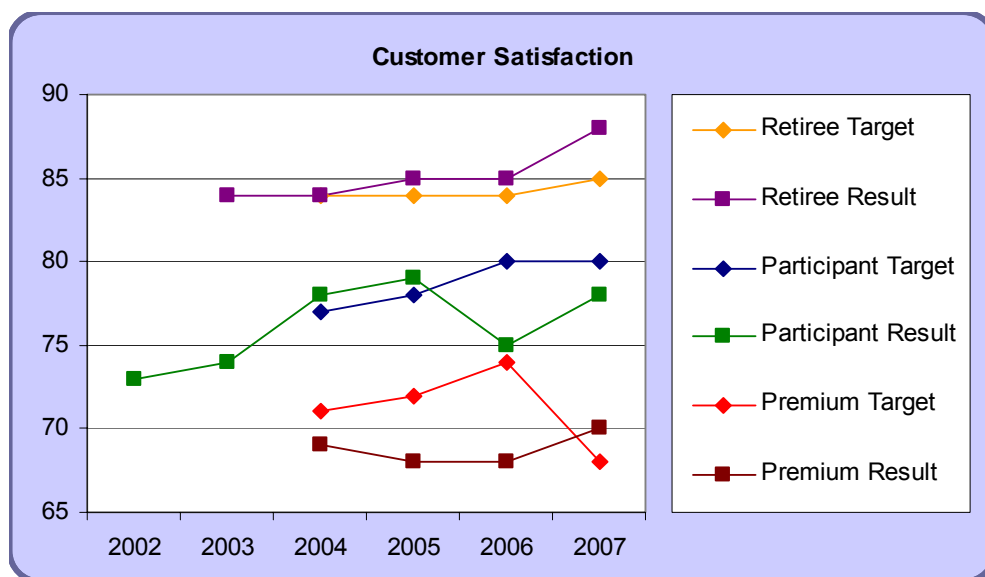
insured by PBGC, and recoveries from the companies formerly responsible for the plans. Approximately 75 percent of funds are allocated to participant activities, while 25 percent are used for plan sponsor and pension practitioner activities. PBGC's operating budget was \$386 million in FY 2006 and \$399 million in FY 2007. It is responsible for the current and future pensions of about 1.3 million people, including those who have not yet retired and participants in multi-employer plans receiving financial assistance.

PBGC monitors its progress in meeting participant, premium filer, and stakeholder needs and expectations by using the American Customer Satisfaction Index (ACSI) survey methodology, which provides comparisons to both private businesses and the Federal government. PBGC uses customer feedback to make targeted improvements to processes and services directly impacting its customers.

The Deficit Reduction Action (DRA) and the Pension Protection Act (PPA), both enacted in 2006, included amendments to the Employee Retirement Income Security Act. These provisions included new plan funding rules and provisions for pension plan transparency, and reforms to the premium structure for defined benefit plans. On February 20, 2007 PBGC issued proposed regulations to implement provisions of the PPA and the DRA that change the flat premium rate, cap the variable-rate premium, and create a new termination premium. On May 21, 2007 PBGC also issued proposed regulations that change the variable-rate premium for the plan years beginning on or after January 1, 2008. PBGC has met this indicator for FY 2007.

### Analysis and Future Plans

**Practitioner Performance Indicators:** PBGC's customer satisfaction index for premium filers increased from 68 to 70 in 2007, the highest score since the survey began in 2002. The increase is primarily due to improved customer perceptions of PBGC's viability and the health of the defined benefit pension insurance system. In 2008, PBGC will focus on its new Premium and Practitioner System (which is expected to improve timeliness and accuracy of service to practitioners), and implementing mandatory electronic premium filing and PPA provisions. PBGC also aims to maintain quality service during the transition.



**Participant Performance Indicators:** The 2007 survey of retirees receiving monthly pension benefits from PBGC showed a high level of satisfaction with PBGC service. Using the ACSI, PBGC scored 88 from retirees receiving benefits, representing a three point increase from 2006. Preliminary analysis of customer responses show that the highest scoring components driving customer satisfaction are receipt of benefits at a regular time each month and efficiency of the benefit payment process. PBGC attributes this success to its exceptional customer service and expansion of online services available to retirees. The 2007 ACSI survey of participant callers showed an improvement of three points, from 75 to 78 percent. Participants scored PBGC higher in responsiveness and accuracy of concern resolution, timeliness of issuing benefit estimates, and ability to meet expectations. In 2008, PBGC will begin restructuring its service delivery model. While the change is expected to result in performance-based contracting and more streamlined processing in the longer term, PBGC will strive to maintain the current levels of satisfaction throughout the transition period.

**Improving Efficiency**

PBGC's administrative costs per participant dropped 25 percent from 2000 to 2006 and decreased 14 percent in 2007 for pension plans it has assumed. Continuous technological upgrades enable PBGC to provide better and faster service to participants.

**PART, Program Evaluations and Audits**

PBGC underwent a PART review in 2007 and received a rating of *Moderately Effective*. PBGC is now focusing on implementing a comprehensive approach to improving information technology and infrastructure security, and using performance information to better manage the program and improve performance.

PBGC continues to be included in the Government Accountability Office's list of High Risk Federal Programs because of "its large deficit and the uncertainty of the future of the defined benefit system." A summary of the GAO reports follows:

**"High Risk Series: An Update," January 2007 (GAO)**

**Purpose:** In Report No. GAO-07-310, GAO updated its 2005 list of high risk areas warranting attention by Congress and the executive branch. With the passage of the Pension Protection Act (PPA) of 2006 that included major pension reforms, PBGC still remains high risk.

**Major Findings:** PPA's overall impact on the single employer program's deficit remains unclear. Also, PPA did not fully close potential funding gaps and provided funding relief to plan sponsor in troubled industries. Furthermore, PPA is unlikely to reverse the long-term decline in defined benefit system or help PBGC make up its current deficit.

**Recommendations:** Carefully monitor the effects of PPA on PBGC and defined benefit plans, and consider taking additional action to safeguard the private pension system's role in national security.

**Actions Taken and Remaining:** PBGC made significant progress in implementing provisions of the Pension Protection Act (PPA) of 2006 and the Deficit Reduction Action (DRA) of 2005. In February 2007, PBGC issued proposed regulations to implement provisions of PPA and DRA that change the flat premium rate, cap the variable-rate premium and create a new termination premium. In May 2007, PBGC issued proposed regulations that change the variable-rate premium for the plan years beginning on or after January 1, 2008.

**Additional Information:** GAO-07-310 is available at <http://www.gao.gov/new.items/d07310.pdf>.

**"Defined Benefit Pensions: Conflicts of Interest Involving High Risk or Terminated Plans Pose Enforcement Challenges," June 2007 (GAO)**

**Purpose:** GAO report no. GAO-07-703 assessed conflicts of interest affecting private-sector defined benefit pension plans and the procedures Federal agencies employ to identify and recover losses from conflicts.

**Major Findings:** Without a detailed audit, GAO could not conclude that specific financial harm was caused by conflicts of interest. Different missions among EBSA, PBGC and SEC pose challenges in coordinating a focused approach to pursuing conflicts of interest.

**Recommendations:** EBSA, PBGC and SEC should share data on and assess the risk of conflicts of interest.

**Actions Taken and Remaining:** PBGC has instituted an enhanced plan intake process that includes a screening mechanism to identify potential indicators of fiduciary breaches, such as the existence of conflicts of interest. PBGC is working with EBSA and the SEC to establish an information-sharing agreement that would be useful in identifying and protecting PBGC's insurance programs. PBGC is piloting an information-sharing protocol in a test case.

**Additional Information:** GAO-07-703 is available at <http://www.gao.gov/cgi-bin/getrpt?GAO-07-703>.

**"Pension Benefit Guaranty Corporation: Governance Structure Needs Improvements to Ensure Policy Direction and Oversight," July 2007 (GAO)**

**Purpose:** In study no. GAO-07-808, GAO assessed the PBGC's governance structure, policy direction and oversight, and administrative responsibilities among its Board of Directors, DOL, and PBGC management.

**Major Findings:** The board structure does not guarantee that PBGC's board is active and diverse. Lack of guidelines for the roles and responsibilities among the board, board chair, and management often lead to confusion and inefficiencies.



|  |
|--|
| <p><b>Recommendations:</b> Develop policies and mechanisms consistent with corporate governance practices, including roles and responsibilities. Consider expanding PBGC's Board of Directors.</p>   |
| <p><b>Actions Taken and Remaining:</b> PBGC will work closely with the Board of Directors as they address the recommendations.</p>   |
| <p><b>Additional Information:</b> GAO-07-808 is available at <a href="http://www.gao.gov/new.items/d07808.pdf">http://www.gao.gov/new.items/d07808.pdf</a>.</p>  |
| <p><b>“Employer-Sponsored Benefits: Many Factors Affect the Treatment of Pension and Health Benefits in Chapter 11 Bankruptcy,” September 2007 (GAO)</b></p>   |
| <p><b>Purpose:</b> Examine impact of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA) and the Pension Protection Act of 2006 (PPA) on the Chapter 11 Bankruptcy filing process.</p>  |
| <p><b>Major Findings:</b> Bankruptcy professionals generally agreed that BAPCPA will have a limited effect on employers' decisions to maintain their defined benefit plans. Changes included in the PPA, such as the change in termination date, may affect employers' decisions to maintain their defined benefit plans. Several other factors, such as market conditions and benefit obligations, can also influence employers' decisions in bankruptcy.</p> |
| <p><b>Recommendations:</b> Additional time may be needed to more fully understand how BAPCPA and PPA affect benefits in specific cases; the full impact of legislation may never be known because employers' decisions to modify benefits are part of a more complex process including bankruptcy and pension laws.</p>  |
| <p><b>Actions Taken and Remaining:</b> PBGC will monitor the effects of the legislation on its insurance programs.</p>   |
| <p><b>Additional Information:</b> GAO-07-1101 is available at <a href="http://www.gao.gov/new.items/d071101.pdf">http://www.gao.gov/new.items/d071101.pdf</a>.</p>   |

### Data Quality and Major Management Challenges

Data quality for this performance goal was rated *Data Quality Not Determined* due to the relevance criterion. Measures of customer satisfaction are not representative of PBGC's efforts to improve the pension insurance program. During 2007, PBGC focused on implementing premium reforms required by the PPA and DRA and set performance measures and targets for proposing regulations. This goal was achieved successfully. In addition, during the PART review, PBGC developed two new mission-related performance measures focusing on eliminating the deficit and reducing the cycle time to determine a participant's benefit amount. Implementation of these measures in 2008 addresses the relevance criterion and will improve the data quality rating.

Though PPA made significant reforms to the pension system, GAO reports in its *2007 High Risk Update* that “while some of [PPA] reforms represent progress, their ultimate impact on the single-employer program's deficit is unclear. Many of these reforms will be phased in gradually, postponing their potentially positive effect on plan funding, while other changes could have the effect of increasing PBGC's financial exposure.” Addressing PBGC's deficit will require additional legislative action by Congress and the President. PBGC will take the statutory actions that are within its purview to eliminate the deficit and account for expected losses – so that workers and retirees can continue to receive qualified benefit payments from the PBGC.





## Financial Section

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## Message from the Chief Financial Officer



The *FY 2007 Performance and Accountability Report* is the Department's principal publication and report to the President and the American people on our stewardship and management of the public funds with which we have been entrusted. I am pleased to report that for the eleventh year in a row, the Department of Labor received an unqualified or "clean" opinion from our Inspector General on our consolidated financial statements.

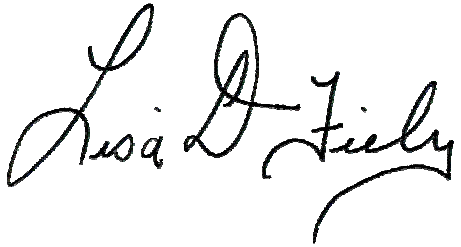
This past spring the Department received a seventh consecutive Certificate of Excellence in Accountability Reporting from the Association of Government Accountants and once again the Mercatus Center ranked our Performance and Accountability Report as one of the best in the Federal government in terms of accuracy, transparency, and public benefit. This year's report continues this trend of transparency in reporting. With these accomplishments, the American people can have confidence that the financial and performance information presented in this report is timely, accurate and reliable.

Financial management highlights at the Department over the past year include the following:

- In keeping with the Department's commitment to create an environment where managers routinely use cost information to make well-informed decisions, we continue to refine our Department wide Managerial Cost Accounting (MCA) system. With our primary focus on meeting end-user needs, we are enhancing the value of the MCA system to managers. Our efforts to transform MCA usage from a compliance initiative to a "must have" management tool is leading to better information for making decisions and enhancing accountability across the Department.
- We also moved forward into the second year of a refined program to comply with requirements for internal controls over financial reporting under the direction of the Department's Internal Control Board. We will aggressively continue our efforts to create an environment in which managers throughout the Department integrate internal controls into their financial systems as a routine practice.
- Due to funding uncertainties and constraints, the development of a new financial management system to supersede the Department's existing core accounting system was reassessed through a new cost-benefit analysis. In an effort not to falter in meeting the future needs of the Department and provide up-to-date financial tools to both the Department's financial and management communities, we are pursuing the use of a shared service provider in line with the government-wide Financial Management Line of Business initiative.
- With respect to the President's Management Agenda (PMA), the Department has maintained a "green" status score on the Improving Financial Performance and Eliminating Improper Payments scorecards while continuing to look beyond scorecard achievement toward shaping a lasting environment in which timely and accurate financial information is routinely a part of all critical decision making.
- We made service improvements to the Department's e-Gov Travel system to improve end-user satisfaction.

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We are pleased with our accomplishments in FY 2007, and we will strive to improve all aspects of performance and to maintain higher financial management standards in FY 2008.

A handwritten signature in black ink that reads "Lisa D. Fiely". The signature is written in a cursive, flowing style.

Lisa D. Fiely  
Acting Chief Financial Officer  
November 15, 2007



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report**

Secretary and Inspector General  
U.S. Department of Labor:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Labor (DOL) as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended; and the statements of social insurance as of September 30, 2007 and 2006 (hereinafter referred to as "consolidated financial statements"). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2007 audit, we also considered the DOL's internal controls over financial reporting and performance measures and tested the DOL's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

We have also examined DOL's compliance with section 803a of the *Federal Financial Management Improvement Act of 1996* (FFMIA) as of September 30, 2007.

### **SUMMARY**

As stated in our opinion on the consolidated financial statements, we concluded that the DOL's consolidated financial statements as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion on the consolidated financial statements, DOL changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations and its method of reporting the proprietary activities related to its allocation transfers in fiscal year 2007.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

1. Lack of Adequate Controls over Access to Key Financial and Support Systems
2. Weakness Noted over Payroll Accounting
3. Weakness Noted over Budgetary Accounting
4. Lack of Segregation of Duties over Journal Entries

However, none of the significant deficiencies are believed to be material weaknesses.

We noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed two instances of *Anti-deficiency Act* noncompliance that are required to be reported under *Government*

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*Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

As stated in our opinion on DOL's compliance with FFMIA, we concluded that DOL complied, in all material respects, with the requirements of FFMIA as of September 30, 2007.

The following sections discuss our opinion on the DOL's consolidated financial statements; our consideration of the DOL's internal controls over financial reporting and performance measures; our tests of the DOL's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

## **OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying consolidated balance sheets of the DOL as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources for the years then ended; and the statement of social insurance as of September 30, 2007 and 2006. The accompanying statements of social insurance as of September 30, 2003 through 2005 were not audited by us and, accordingly, we do not express an opinion on them.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor as of September 30, 2007 and 2006, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, and the financial condition of its social insurance program as of September 30, 2007 and 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1B to the consolidated financial statements, DOL changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations and its method of reporting the proprietary activities related to its allocation transfers in fiscal year 2007.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in the Secretary's Message, Performance Section, and Appendices are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the DOL's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the DOL's



## Financial Section

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consolidated financial statements that is more than inconsequential will not be prevented or detected by the DOL's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the DOL's internal control.

In our fiscal year 2007 audit, we consider the deficiencies described in Exhibit I to be significant deficiencies in internal control over financial reporting. However, we believe that none of the significant deficiencies presented in Exhibit I are material weaknesses.

We noted certain additional matters that we will report to management of DOL in a separate letter.

### INTERNAL CONTROL OVER PERFORMANCE MEASURES

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

### COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed two instances of *Anti-deficiency Act* noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and are described in Exhibit II.

The results of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no other instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

**Other Matter.** DOL is currently reviewing two incidents regarding potential violations of the *Anti-deficiency Act*. As of the date of this report, no final noncompliance determination has been made for either of the two incidents.

We noted certain additional matters that we will report to management of DOL in a separate letter.

### OPINION ON COMPLIANCE WITH FFMIA

DOL represented that, in accordance with the provisions and requirements of FFMIA, the Secretary of Labor determined that the U.S. Department of Labor's financial management systems are in substantial compliance with FFMIA.

We have examined the U.S. Department of Labor's compliance with section 803a of the *Federal Financial Management Improvement Act of 1996* as of September 30, 2007. Under section 803a of FFMIA, DOL's financial management systems are required to substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. We used OMB's *Revised Implementation Guidance for the Federal Financial Management Improvement Act*, dated January 4, 2001, to determine compliance.

In our opinion, the U.S. Department of Labor complied, in all material respects, with the aforementioned requirements as of September 30, 2007.



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## RESPONSIBILITIES

**Management's Responsibilities.** The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the DOL prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, contracts, and grant agreements applicable to the DOL, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2007 and 2006 consolidated financial statements of the DOL based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DOL's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2007 audit, we considered the DOL's internal control over financial reporting by obtaining an understanding of the DOL's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to



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express an opinion on the effectiveness of the DOL's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DOL's internal control over financial reporting.

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis and Performance sections, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin 07-04. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the DOL's fiscal year 2007 consolidated financial statements are free of material misstatement, we performed tests of the DOL's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DOL. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Our responsibility also included expressing an opinion on DOL's compliance with FFMIA section 803a requirements as of September 30, 2007, based on our examination. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about DOL's compliance with the requirements of FFMIA section 803a and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on DOL's compliance with specified requirements.

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The DOL's response to the findings identified in our audit is summarized in Exhibit I. We did not audit the DOL's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the DOL's management, the DOL's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

November 9, 2007

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**1. Lack of Adequate Controls over Access to Key Financial and Support Systems**

The Office of Inspector General (OIG) has been reporting access control weaknesses over the U.S. Department of Labor's (DOL) financial systems since fiscal year (FY) 2001 and application access control weaknesses since FY 2004. In FY 2006, we reported two reportable conditions relating to system access controls over financial reporting:

- Lack of Strong Application Controls over Access to and Protection of Financial Information, and
- Lack of Strong Logistical Security Controls to Secure DOL's Networks and Information.

The OIG recommended that management:

- Verify that specific security weaknesses identified during the audits are communicated to DOL agencies and included in each individual agency's Plan of Actions & Milestones (POAM), and that appropriate and timely corrective action is taken on the identified weaknesses;
- Coordinate efforts among the DOL agencies to develop and/or enforce procedures and controls to address logical access and security control weaknesses on current financial management systems; and
- Coordinate efforts among the DOL agencies to develop and/or enforce procedures and controls to address systemic application access control weaknesses in current financial management systems

During our FY 2007 audit, we noted that 51 prior year agency-specific recommendations addressing access controls have not been corrected (12 in the Office of the Chief Financial Officer (OCFO), 13 in the Employment and Training Administration (ETA), 12 in the Office of the Assistant Secretary for Administrative Management (OASAM), and 14 in the Employment Standards Administration (ESA)). In addition, in FY 2007, we identified weaknesses that resulted in 112 new recommendations related to access controls (23 in the OCFO, 52 in ETA, 20 in OASAM, and 17 in ESA). The specific nature of these weaknesses, their causes, and the systems impacted by them has been communicated separately to management.

New weaknesses detected during FY 2007 and the prior year control weaknesses represent a significant deficiency over access to key financial and support systems. These weaknesses include deficiencies in key financial information technology (IT) controls in the areas of security and system software controls that directly impact access to financial systems.

In summary, we noted issues with account management, configuration management, and review of system audit logs in our FY 2007 testing of DOL's IT systems, each of which present a reasonably possible chance to adversely affect DOL's ability to initiate, authorize, record, process or report DOL financial data. Specifically, the following control weaknesses were present in multiple financial systems across various DOL agencies.

- Account Management
  - Account management controls were not consistently performed, such as incomplete or missing access request, modification, and termination forms;
  - Periodic user account reviews or re-certifications were not performed;
  - Inactive accounts were not disabled or deleted in a timely manner;
  - Generic accounts existed on systems;
  - Access authorization, recertification, and periodic reviews of data center access were not consistent with policies; and
  - Terminated personnel had active system accounts, and in some cases terminated employees accessed systems after their termination date.

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- Configuration Management
    - Technical security standards and policies need to be updated and implemented to include stronger logical access security controls. Specifically, patches were not applied to systems in a timely manner; unnecessary services were not disabled; and access to sensitive files, directories, or software was not restricted;
    - Production servers were not configured in accordance with baseline configurations or to the most appropriate settings;
    - Password settings do not comply with the Office of the Chief Information Officer (OCIO) Computer Security Handbook (CSH); and
    - Network permissions which allow users to access resources remotely that was not appropriately restricted.
  - Review of System Audit Logs
    - Audit logs monitoring user and administrator activity, changes to security profiles, remote access logs, access to sensitive directories, and failed login attempts are not reviewed, or documentation of audit log reviews was not maintained;
    - Audit log review procedures were not documented;
    - Audit logs were not secured against editing by system administrators; and
    - Application level audit logs (e.g., significant transactions and changes to sensitive tables) were not proactively reviewed.

These findings are a result of issues in the implementation and monitoring of Departmental processes and procedures. For example, management has not incorporated adequate testing of system controls as part of their Office of Management and Budget (OMB) Management and Control (OMB Circular No. A-123) program. These access control weaknesses could lead to users with inappropriate access to financial systems; inefficient processes; lack of completeness, accuracy, or integrity of financial data; and/or the lack of detection of unusual activity within financial systems. In addition, as a result of the identified weaknesses, the DOL OIG reported an access control significant deficiency in conjunction with its FY 2007 testing of compliance with the *Federal Information Security Management Act* (FISMA), which was passed as part of the *Electronic Government Act of 2002*.

Based on these facts noted as part of our FY 2007 audit, we revised the status of the recommendations related to this finding from **resolved and open** to **unresolved**. Additionally, we recommend that management complete the following actions to address the specific issues identified during our FY 2007 audit:

1. Identify key financial IT controls and incorporate them into DOL's internal control OMB Circular No. A-123 testing process, to ensure that these controls are documented and operating effectively during the year.
2. Coordinate efforts among the DOL agencies to develop and/or enforce procedures and controls to address access control weaknesses in current financial management systems.

**Management's Response:** Management is pursuing an aggressive remediation process that has resulted in substantial improvements to the Department's overall IT control environment. Management continues to believe that controls inherent to specific applications, as well as manual and other compensating controls already in place, are sufficiently designed and effective to prevent or detect unauthorized access to DOL financial systems. Management concurs with and will implement the auditor's 2007 recommendations to enhance the testing of key controls as part of DOL's A-123 program. DOL's Office of Chief Information Officer operates a monitoring program that is applied on a quarterly, semiannual and annual basis for every DOL major information system to determine security control implementation compliance. The monitoring program ensures that agencies document all identified weaknesses, regardless of the oversight sources in the agencies' system-specific Plans of Actions and Milestones (PO&AM). DOL has enhanced its security control testing and evaluation (SCT&E) program

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which will provide detailed reporting on and tracking of agency access control deficiencies and will closely address the access control and configuration management controls areas identified by the OIG in the FY 2007 FISMA consolidated report.

**Auditor Response.** Based on management's response, the unresolved recommendations cited above are now **resolved and open**.

## 2. Weakness Noted over Payroll Accounting

During FY 2006, the U.S. Department of Agriculture's (USDA) Office of Chief Financial Officer (OCFO)/National Finance Center (NFC) processed DOL's payroll. The *Fiscal Year 2006 – Office of the Chief Financial Officer/National Finance Center General Control Review* dated September 21, 2006, and issued by the USDA's Office of Inspector General (Report No. 11401-24-FM) reported a qualified opinion regarding the effectiveness of NFC's internal controls for the period October 1, 2005 through June 30, 2006. During FY 2006, DOL did not have policies and procedures in place to reconcile the payroll information it submitted to the NFC to that received and processed by the NFC.

For each FY 2006 pay period, DOL submitted to the NFC payroll information that included all DOL employees for the period, along with their hours worked, leave used, and other payroll related information for the period. The NFC processed the payroll for DOL each period and made available for download a Detail Pay and Deduct Register report for each DOL Human Resources office. We noted that DOL did not utilize these reports to perform reviews or reconciliations of data processed by the NFC, and no other controls were in place during the year to ensure that what was submitted to NFC via Time and Attendance records were reconciled to what was shown as paid in the Detail Pay and Deduct Register.

We recommended that management develop and implement policies and procedures to reconcile payroll information provided to the NFC to the payroll information processed by the NFC each pay period. These reconciliations should be documented, reviewed and approved by an appropriate supervisor, and maintained.

During FY 2007, the NFC continued to process DOL's payroll. The *Fiscal Year 2007 – Office of the Chief Financial Officer/National Finance Center General Control Review* dated September 27, 2007, and issued by the USDA's Office of Inspector General (Report No. 11401-26-FM) reported a qualified opinion regarding the effectiveness of NFC's internal controls for the period July 1, 2006 through June 30, 2007.

As part of DOL's corrective action plan for FY 2007, the OCFO's PeoplePower Task Force created a Time and Attendance Reconciliation Report based on the NFC's Detail Pay and Deduct Register to be used to reconcile information sent to NFC to that received and processed by NFC. In March 2007, the DOL OCFO issued policies and procedures that state that each DOL Human Resource office should review the Time and Attendance Reconciliation Reports each pay period and research and resolve differences identified. No offices that we tested complied with the new OCFO procedures, but two offices that we tested performed their own reconciliation procedures. The lack of reconciliation controls implemented department-wide around the NFC outputs, compounded by the control weaknesses identified at the NFC, increased the risk that payroll-related line items in the FY 2007 financial statements could be misstated because of errors in payroll processing by the NFC.

Federal agencies that use external service providers, such as the NFC, should have controls in place to ensure the accuracy of processing outputs. As stated by the USDA OIG in its FY 2007 Report No. 11401-26-FM, "The accuracy and reliability of data processed by OCFO/NFC and the resultant reports rests with the customer agency and any compensating controls implemented by the agencies."

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OMB Circular No. 123, *Management's Responsibility for Internal Control*, states, "Application control should be designed to ensure that transactions are properly authorized and processed accurately and that the data is valid and complete. Controls should be established at an application's interfaces to verify inputs and outputs, such as edit checks." Additionally, per the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

Although the OCFO issued the policies and procedures discussed above, DOL did not implement these policies and procedures, and the OCFO did not monitor to ensure that the reconciliations were completed, documented, reviewed and approved by an appropriate supervisor, and maintained. As such, we consider the recommendation we made in FY 2006 as **resolved and open**. To close this recommendation in the future, the DOL OCFO should ensure (a) that Human Resource offices are reconciling payroll information provided to the NFC to the payroll information processed by the NFC each pay period in compliance with DOL's current policies and procedures, and (b) that these reconciliations are documented, reviewed and approved by an appropriate supervisor, and maintained.

**Management's Response:** Management accepts that more uniform reconciliation procedures and monitoring would improve internal controls for payroll expenses. As such, OCFO issued a policy memorandum on October 23, 2007, to agencies requiring monthly reconciliation of NFC payroll expenses to DOL payroll personnel data and maintenance of documentation of the work performed. OCFO will perform a monthly reconciliation audit on a sample basis. These audits will begin in FY 2008 and documentation of each audit will be maintained.

### 3. Weakness Noted over Budgetary Accounting

During FY 2006, we reported that the OCFO did not complete timely reconciliations related to the *Apportionment and Reapportionment Schedules* (SF-132) and the *Report on Budget Execution and Budgetary Resources* (SF-133). We recommended that management ensure that current policies and procedures over SF-132 and SF-133 reconciliations are enhanced to require (a) quarterly reconciliations be prepared and documented, (b) the completion of documented supervisory reviews over the reconciliations, and (c) the completion of these procedures by a certain date (e.g., 15 days after each quarter-end).

During our FY 2007 audit work, we requested quarterly reconciliations of the SF-132 to the SF-133. However, the first quarter reconciliation was not completed, and the second quarter reconciliation was not provided to us until June 2007. In addition, these reconciliations identified several necessary corrections to amounts posted in the general ledger, and various differences remained unresolved. We also requested the reconciliation of the FY 2006 Statement of Budgetary Resources (SBR) to the FY 2006 President's Budget of the United States; however, we noted the reconciliation was not reviewed timely. FY 2006 and 2007, the OCFO did not have adequate resources and did not adequately enforce policies to ensure the reconciliations were completed and any identified reconciling items resolved in a timely manner. The lack of timely and complete reconciliations increases the risk that material differences in external reports and in the general ledger may not be detected and corrected in a timely manner during the year or for year-end reporting.

Additionally in FY 2006, we reported that 6 of the 10 requested budgetary to proprietary account relationship tests were not completed as of March 31, 2006, and explanations were not provided for variances identified in the four analyses that were completed. We recommended that management develop and implement policies and procedures that require (a) the preparation and documentation of quarterly budgetary to proprietary relationship analyses, (b) the completion of documented supervisory reviews over the analyses, and (c) the completion of these analyses by a certain date (e.g., 15 days after each quarter-end).

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During our FY 2007 procedures over budgetary to proprietary account relationship analyses, we noted that the OCFO is in the process of automating this analysis and is developing a review policy over the automated analysis. However, the automated analysis and review policy had not been completed and performed during the fiscal year. The lack of timely and complete budgetary to proprietary analyses increases the risk that material differences in external reports and in the general ledger may not be detected and corrected in a timely manner during the year or for year-end reporting.

Furthermore, we identified certain errors during our FY 2007 Treasury warrant budgetary testwork that could have been detected by the analysis and reconciliation controls discussed above. Specifically, three budgetary and proprietary entries were not posted concurrently; requiring a net \$22 million adjustment to increase budget authority, and one budgetary entry was miscoded to the incorrect budgetary account, requiring a \$693 million reclassification entry. In FY 2007, we also identified the improper use of certain U.S. Standard General Ledger (USSGL) accounts related to obligation adjustments in certain situations.

Per GAO's *Standards of Internal Control in the Federal Government*, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties." In addition, it states, "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation."

According to OMB's Circular No. A-136 (June 2007), section II.4.6.1<sup>1</sup>, "...Information on the SBR should be reconcilable to the budget execution information reported on the SF 133 *Report on Budget Execution and Budgetary Resources* and with information reported in the Budget of the United States Government to ensure the integrity of the numbers presented. The SBR is an agency-wide report, which aggregates account-level information reported in the SF 133. Consistency between information presented in the financial statements and the Budget of the United States Government is critical to ensure the integrity of the numbers presented. The FACTS II helps to ensure the consistency of data. The FACTS II data submitted by agencies are USSGL-based trial balances, which are used to populate the SF 133 and the actual column of the Program and Financing Schedule of the Budget. The USSGL-based trial balance is also used to prepare the SBR."

Since the OCFO did not complete the budgetary and proprietary analysis during FY 2007 and did not complete the SF-132 to SF-133 reconciliations accurately and timely, the recommendations we made in FY 2006 remain **resolved and open**.

We also recommend that management develop clearly defined transaction codes within DOLAR\$ to ensure that adjustments to obligations are recorded in the proper USSGL account depending on the situation and strengthen manual controls related to the processing of obligation adjustments. This recommendation is **resolved and open**.

**Management's Response:** Management is confident that the design and effectiveness of its four layers of operating controls used for end-of-year financial reporting would detect improper balances in the relationships between budgetary and proprietary accounts. These controls ensure the reliability of data for end-of-year financial reporting.

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<sup>1</sup>Also cited in the July 2006 version of OMB Circular No. A-136, section II.4.6.1.

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With the addition of some final policy documentation in FY 2008 and further strengthening of OCFO monitoring and oversight, management expects to improve the timeliness and effectiveness of the controls over budgetary accounting so that all elements of this finding will be resolved in FY 2008.

Regarding the \$693 million budgetary entry miscoding error, OCFO provided documentation demonstrating that the end-of-year reconciliations would have detected the misclassified budgetary entry had the auditor not detected it during the course of the audit. This reconciliation, along with other key analytics, confirmed the accuracy of budgetary and proprietary accounting as part of the annual financial statement preparation process. Beginning in December 2007, management will perform these analytical procedures monthly to further strengthen DOL's financial processes.

Management is developing new, and strengthening existing, manual and system controls relating to obligation adjustments.

#### 4. Lack of Segregation of Duties over Journal Entries

During the FY 2006 audit, we noted that accounting staff from all DOL agencies were able to prepare and enter journal entries into the Department of Labor Accounting Related Systems (DOLAR\$) without approval. By allowing individuals the authority to prepare and approve their own transactions in DOLAR\$, there is an increased risk that a material error would not be prevented or detected and corrected in a timely manner.

We recommended that management reconfigure DOLAR\$ so that journal entries entered into the DOLAR\$ general ledger system and its successor system are required to be approved electronically by an individual other than the preparer before posting. We also recommended that agencies implement manual compensating review controls until system controls have been implemented.

During the FY 2007 audit, we found that management had not made the recommended changes to DOLAR\$. During the second quarter of FY 2007, the OCFO had developed Department-wide manual policies and procedures designed to ensure the segregation of journal entry preparation and approval authority. However, our test of 21 sample journal entries from October 1, 2006 through June 30, 2007, noted that 16 of the journal entries did not have supporting documentation evidencing management review and approval.

Since the Department did not make, or plan, changes to DOLAR\$ to segregate journal entry preparation and approval authority in DOLAR\$, and has changed its plans to implement a new general ledger system, we consider the system related recommendation we made in FY 2006 **unresolved**. To resolve the recommendation, management needs to provide a corrective action plan with timeframes to implement a new general ledger system that requires electronic approval by someone other than the preparer before journal entries are posted.

Because management implemented new policies and procedures for part of FY 2007, we consider the manual control recommendation made in FY 2006 as **resolved and open**. To close this recommendation, management should formalize the Department-wide policies and procedures for documenting the preparation and review of journal entries; and enforce these policies and procedures. Management should ensure that all journal entries are properly supported and documented. Documentation should authenticate the posting of the entry and the users who recorded and authorized the transaction in DOLAR\$.

**Management's Response:** In the second quarter of FY 2007, management developed and implemented a new policy that has produced positive results in improving management controls associated with DOLAR\$ journal vouchers (JV). This new policy requires documentation be maintained with the JV entries to support transactions and requires that proper authorizations and approvals be shown on the documents. While the auditor noted that weak segregation of duties in the JV process increases the risk of potential misstatement, OCFO employs other



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compensating controls to mitigate this risk and these compensating controls provide reasonable assurance over the accuracy and reliability of JV entries. OCFO will further refine the existing JV policy to strengthen segregation of duties by January 2008.

Having addressed the segregation of duties with manual controls in the JV process, OCFO does not intend to automate this control in the current operating environment as the DOLAR\$ accounting system is at the end of its planned life-cycle, where extensive system changes are no longer cost effective. Management will ensure that the new system that replaces DOLAR\$, planned for implementation by October 2009, dependent on the availability of funding, contains electronic controls over the JV process.

**Auditor Response.** Based on management's response, the unresolved recommendation to implement an electronic approval by someone other than the preparer in the new general ledger system is now **resolved and open**.

### 1. *Anti-deficiency Act*

During FY 2007, DOL management concluded that two *Anti-deficiency Act* violations had occurred. The first violation totaled \$130,569,041 and the second violation totaled \$29,103. The DOL Secretary has reported the violations to the President of the United States, the President of the Senate, the Speaker of the House of Representatives, and the Comptroller General of the United States, as required by 31 U.S.C. section 1351.

The first violation occurred in the Employment and Training Administration (ETA) Training and Employment Services (TES) account (160174) for Program Year 2005. This violation involved the obligation of budgetary resources in excess of a fiscal year 2006 apportionment, but did not involve obligations in excess of an appropriation. The second violation occurred in the Employment Standards Administration (ESA) Salaries and Expense account (160150) for fiscal years 2005, 2006, and 2007. The violation represents the compensation paid from March 20, 2005 through November 3, 2006 to an ESA employee who was a citizen of Mexico. This action violated a general provision in the fiscal year 2005 and fiscal year 2006 appropriations.

No recommendation is considered necessary since management has completed required reporting related to these violations.

## **Annual Financial Statements**



## **Principal Financial Statements and Notes**

**PRINCIPAL FINANCIAL STATEMENTS**

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**Principal Financial Statements Included in This Report**

The principal financial statements included in this report have been prepared in accordance with the requirements of the Chief Financial Officers Act of 1990 (P.L. 101-576), the Government Management Reform Act of 1994 and the Office of Management and Budget's (OMB) Circular No. A-136, "Financial Reporting Requirements." The responsibility for the integrity of the financial information included in these statements rests with management of the U.S. Department of Labor (DOL). The audit of DOL's principal financial statements was performed by KPMG LLP. The auditors' report accompanies the principal statements.

The Department's principal financial statements for fiscal years (FY) 2007 and 2006 consisted of the following:

- The **Consolidated Balance Sheet**, which presents as of September 30, 2007 and 2006 those resources owned or managed by DOL that are available to provide future economic benefits (assets); amounts owed by DOL that will require payments from those resources or future resources (liabilities); and residual amounts retained by DOL, comprising the difference (net position).
- The **Consolidated Statement of Net Cost**, which presents the net cost of DOL operations for the years ended September 30, 2007 and 2006. DOL's net cost of operations includes the gross costs incurred by DOL less any exchange revenue earned from DOL activities. Due to the complexity of DOL's operations, the classification of gross cost and exchange revenues by major program and suborganization is presented in Note 15 to the consolidated financial statements.
- The **Consolidated Statement of Changes in Net Position**, which presents the change in DOL's net position resulting from the net cost of DOL operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2007 and 2006.
- The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to DOL during FY 2007 and 2006, the status of these resources at September 30, 2007 and 2006, the change in obligated balance during FY 2007 and 2006, and outlays of budgetary resources for the years ended September 30, 2007 and 2006.
- The **Consolidated Statement of Custodial Activity**, which presents the sources and disposition of non-exchange revenues collected or accrued by DOL on behalf of other recipient entities for the years ended September 30, 2007 and 2006.
- The **Statement of Social Insurance**, which presents the net present value of projected cash inflows and cash outflows of the Black Lung Disability Trust Fund as of September 30, 2007, 2006, 2005, 2004, and 2003.

**CONSOLIDATED BALANCE SHEET**  
As of September 30, 2007 and 2006  
(Dollars in Thousands)

|   | <b>2007</b>          | <b>2006</b>          |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| Intra-governmental  |                      |                      |
| Funds with U.S. Treasury (Notes 1-C and 2)  | \$ 9,982,952         | \$ 9,717,149         |
| Investments (Notes 1-D and 3)   | 75,131,134           | 66,455,052           |
| Interest receivable from investments (Note 23)                                      | 883,360              | 745,556              |
| Accounts receivable (Notes 1-E and 4)   | 4,068,703            | 4,046,188            |
| Advances (Notes 1-F, 5 and 23)  | -                    | 4                    |
| <b>Total intra-governmental</b>   | <b>90,066,149</b>    | <b>80,963,949</b>    |
| Accounts receivable, net of allowance (Notes 1-E and 4)                             | 1,060,223            | 1,055,156            |
| Advances (Notes 1-F, 5 and 23)  | 541,565              | 555,294              |
| Property, plant and equipment, net<br>of accumulated depreciation (Notes 1-G and 6) | <b>1,115,819</b>     | <b>1,076,810</b>     |
| <b>Total assets</b>   | <b>\$ 92,783,756</b> | <b>\$ 83,651,209</b> |
| <b>LIABILITIES AND NET POSITION</b>   |                      |                      |
| <b>Liabilities (Note 1-I)</b>   |                      |                      |
| Intra-governmental  |                      |                      |
| Accounts payable  | \$ 21,761            | \$ 22,459            |
| Advances from U.S. Treasury (Notes 1-J and 8)                                       | 10,057,557           | 9,631,557            |
| Other liabilities (Note 11)   | 230,932              | 205,385              |
| <b>Total intra-governmental</b>   | <b>10,310,250</b>    | <b>9,859,401</b>     |
| Accounts payable  | 1,042,185            | 891,828              |
| Accrued leave (Notes 1-K and 23)  | 101,257              | 97,522               |
| Accrued benefits (Notes 1-L and 9)  | 1,448,772            | 1,199,648            |
| Future workers' compensation benefits (Notes 1-M, 10 and 23)                        | 635,848              | 548,314              |
| Energy employees occupational illness<br>compensation benefits (Note 1-N and 23)    | 7,501,838            | 6,942,442            |
| Other liabilities (Notes 11 and 23)   | 260,374              | 217,313              |
| <b>Total liabilities</b>  | <b>21,300,524</b>    | <b>19,756,468</b>    |
| Contingencies (Note 13)   |                      |                      |
| <b>Net position (Note 1-R)</b>  |                      |                      |
| Unexpended appropriations - other funds   | 8,207,904            | 8,193,767            |
| Cumulative results of operations  |                      |                      |
| Earmarked funds (Note 21)   | 65,388,181           | 57,146,431           |
| Other funds   | (2,112,853)          | (1,445,457)          |
| <b>Total net position</b>   | <b>71,483,232</b>    | <b>63,894,741</b>    |
| <b>Total liabilities and net position</b>   | <b>\$ 92,783,756</b> | <b>\$ 83,651,209</b> |

The accompanying notes are an integral part of these statements.

**CONSOLIDATED STATEMENT OF NET COST**

For the Years Ended September 30, 2007 and 2006

(Dollars in Thousands)

|  | <u>2007</u>          | <u>2006</u>          |
|--|----------------------|----------------------|
| <b>NET COST OF OPERATIONS</b> (Notes 1-S and 15) |                      |                      |
| <b>CROSSCUTTING PROGRAMS</b>                     |                      |                      |
| <b>Income maintenance</b>                        |                      |                      |
| Gross cost                                       | \$ 43,231,820        | \$ 40,661,833        |
| Less earned revenue                              | (3,265,223)          | (3,712,611)          |
| Net program cost                                 | <u>39,966,597</u>    | <u>36,949,222</u>    |
| <b>Employment and training</b>                   |                      |                      |
| Gross cost                                       | 6,088,647            | 5,710,741            |
| Less earned revenue                              | (44,925)             | (22,568)             |
| Net program cost                                 | <u>6,043,722</u>     | <u>5,688,173</u>     |
| <b>Labor, employment and pension standards</b>   |                      |                      |
| Gross cost                                       | 716,808              | 729,053              |
| Less earned revenue                              | (11,024)             | (14,082)             |
| Net program cost                                 | <u>705,784</u>       | <u>714,971</u>       |
| <b>Worker safety and health</b>                  |                      |                      |
| Gross cost                                       | 882,471              | 859,144              |
| Less earned revenue                              | (2,405)              | (14,465)             |
| Net program cost                                 | <u>880,066</u>       | <u>844,679</u>       |
| <b>OTHER PROGRAMS</b>                            |                      |                      |
| <b>Statistics</b>                                |                      |                      |
| Gross cost                                       | 613,949              | 604,142              |
| Less earned revenue                              | (6,083)              | (5,332)              |
| Net program cost                                 | <u>607,866</u>       | <u>598,810</u>       |
| <b>COSTS NOT ASSIGNED TO PROGRAMS</b>            |                      |                      |
| Gross cost                                       | 93,009               | 85,782               |
| Less earned revenue not attributed to programs   | (6,325)              | (7,608)              |
| Net cost not assigned to programs                | <u>86,684</u>        | <u>78,174</u>        |
| <b>Net cost of operations</b>                    | <u>\$ 48,290,719</u> | <u>\$ 44,874,029</u> |

The accompanying notes are an integral part of these statements.



**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the Years Ended September 30, 2007 and 2006  
(Dollars in Thousands)

|  | 2007                         |                              |                    | 2006                         |                              |                    |
|--|------------------------------|------------------------------|--------------------|------------------------------|------------------------------|--------------------|
|  | Consolidated Earmarked Funds | Consolidated All Other Funds | Consolidated Total | Consolidated Earmarked Funds | Consolidated All Other Funds | Consolidated Total |
| <b>Cumulative results of operations, beginning</b> | \$ 57,146,431                | \$ (1,445,457)               | \$ 55,700,974      | \$ 45,353,214                | \$ (2,032,676)               | \$ 43,320,538      |
| Adjustments  |                              |                              |                    |                              |                              |                    |
| Change in accounting principle (Note 1-B)          | -                            | 11,332                       | 11,332             | -                            | -                            | -                  |
| <b>Beginning balances, as adjusted</b>             | 57,146,431                   | (1,434,125)                  | 55,712,306         | 45,353,214                   | (2,032,676)                  | 43,320,538         |
| <b>Budgetary financing sources</b> (Note 1-T)      |                              |                              |                    |                              |                              |                    |
| Appropriations used                                | -                            | 10,482,552                   | 10,482,552         | -                            | 9,925,600                    | 9,925,600          |
| Nonexchange revenue (Note 16)                      |                              |                              |                    |                              |                              |                    |
| Employer taxes                                     | 39,910,946                   | -                            | 39,910,946         | 42,014,032                   | -                            | 42,014,032         |
| Interest   | 3,348,577                    | 9,542                        | 3,358,119          | 2,784,058                    | 7,825                        | 2,791,883          |
| Assessments  | -                            | 140,578                      | 140,578            | -                            | 149,829                      | 149,829            |
| Reimbursement of unemployment benefits             | 1,632,863                    | -                            | 1,632,863          | 1,855,188                    | -                            | 1,855,188          |
| Total nonexchange revenue                          | 44,892,386                   | 150,120                      | 45,042,506         | 46,653,278                   | 157,654                      | 46,810,932         |
| Transfers without reimbursement (Note 17)          | (3,470,145)                  | 3,666,500                    | 196,355            | (3,290,737)                  | 3,684,560                    | 393,823            |
| <b>Other financing sources</b> (Note 1-U)          |                              |                              |                    |                              |                              |                    |
| Imputed financing from costs absorbed by others    | 253                          | 129,606                      | 129,859            | 238                          | 122,544                      | 122,782            |
| Transfers without reimbursement (Note 17)          | -                            | 2,469                        | 2,469              | -                            | 1,328                        | 1,328              |
| Total financing sources                            | 41,422,494                   | 14,431,247                   | 55,853,741         | 43,362,779                   | 13,891,686                   | 57,254,465         |
| Net cost of operations                             | (33,180,744)                 | (15,109,975)                 | (48,290,719)       | (31,569,562)                 | (13,304,467)                 | (44,874,029)       |
| Net change   | 8,241,750                    | (678,728)                    | 7,563,022          | 11,793,217                   | 587,219                      | 12,380,436         |
| <b>Cumulative results of operations, ending</b>    | \$ 65,388,181                | \$ (2,112,853)               | \$ 63,275,328      | \$ 57,146,431                | \$ (1,445,457)               | \$ 55,700,974      |
| <b>Unexpended appropriations, beginning</b>        | \$ -                         | \$ 8,193,767                 | \$ 8,193,767       | \$ -                         | \$ 8,115,461                 | \$ 8,115,461       |
| Adjustments  |                              |                              |                    |                              |                              |                    |
| Change in accounting principle (Note 1-B)          | -                            | 48,401                       | 48,401             | -                            | -                            | -                  |
| <b>Beginning balances, as adjusted</b>             | -                            | 8,242,168                    | 8,242,168          | -                            | 8,115,461                    | 8,115,461          |
| <b>Budgetary financing sources</b> (Note 1-T)      |                              |                              |                    |                              |                              |                    |
| Appropriations received (Note 18-F)                | -                            | 11,006,912                   | 11,006,912         | -                            | 10,703,673                   | 10,703,673         |
| Appropriations transferred                         | -                            | (426,657)                    | (426,657)          | -                            | (600,895)                    | (600,895)          |
| Appropriations not available                       | -                            | (131,967)                    | (131,967)          | -                            | (98,872)                     | (98,872)           |
| Appropriations used                                | -                            | (10,482,552)                 | (10,482,552)       | -                            | (9,925,600)                  | (9,925,600)        |
| Subtotal   | -                            | (34,264)                     | (34,264)           | -                            | 78,306                       | 78,306             |
| <b>Unexpended appropriations ending</b>            | -                            | 8,207,904                    | 8,207,904          | -                            | 8,193,767                    | 8,193,767          |
| <b>Net position</b>                                | \$ 65,388,181                | \$ 6,095,051                 | \$ 71,483,232      | \$ 57,146,431                | \$ 6,748,310                 | \$ 63,894,741      |

The accompanying notes are an integral part of these statements.

**COMBINED STATEMENT OF BUDGETARY RESOURCES**

For the Years Ended September 30, 2007 and 2006

(Dollars in Thousands)

|   | <u>2007</u>                 | <u>2006</u>                 |
|---|-----------------------------|-----------------------------|
| <b>BUDGETARY RESOURCES</b>  |                             |                             |
| Unobligated balance, brought forward, October 1                                     | \$ 4,196,286                | \$ 3,872,075                |
| Recoveries of prior year unpaid obligations   | 220,673                     | 399,780                     |
| Budget authority  |                             |                             |
| Appropriations received (Note 18-F)   | 56,921,801                  | 58,971,002                  |
| Borrowing authority   | 426,000                     | 445,000                     |
| Spending authority from offsetting collections                                      |                             |                             |
| Earned  |                             |                             |
| Collected   | 2,787,587                   | 3,106,611                   |
| Change in receivables from Federal sources  | (5,294)                     | (47,510)                    |
| Change in unfilled customer orders  |                             |                             |
| Advance received  | (219)                       | (1,816)                     |
| Without advance from Federal sources  | -                           | (825)                       |
| Expenditure transfers from trust funds  | <u>3,665,542</u>            | <u>3,683,587</u>            |
| Total budget authority  | 63,795,417                  | 66,156,049                  |
| Nonexpenditure transfers, net   | (389,627)                   | (522,731)                   |
| Temporarily not available pursuant to Public Law                                    | (8,474,004)                 | (11,819,982)                |
| Permanently not available   | <u>(132,191)</u>            | <u>(449,404)</u>            |
| <b>Total budgetary resources</b>  | <b><u>\$ 59,216,554</u></b> | <b><u>\$ 57,635,787</u></b> |
| <b>STATUS OF BUDGETARY RESOURCES</b>  |                             |                             |
| Obligations incurred (Note 18-A)  |                             |                             |
| Direct  | \$ 52,020,071               | \$ 50,344,367               |
| Reimbursable  | <u>2,884,702</u>            | <u>3,095,134</u>            |
| Total obligations incurred  | 54,904,773                  | 53,439,501                  |
| Unobligated balances available  |                             |                             |
| Apportioned   | 2,440,989                   | 2,528,068                   |
| Exempt from apportionment   | <u>178,948</u>              | <u>212,629</u>              |
| Total unobligated balances available  | 2,619,937                   | 2,740,697                   |
| Unobligated balances not available  | <u>1,691,844</u>            | <u>1,455,589</u>            |
| <b>Total status of budgetary resources</b>  | <b><u>\$ 59,216,554</u></b> | <b><u>\$ 57,635,787</u></b> |
| <b>CHANGE IN OBLIGATED BALANCE</b>  |                             |                             |
| Obligated balance, net  |                             |                             |
| Unpaid obligations, brought forward, October 1                                      | \$ 9,020,444                | \$ 9,482,832                |
| Less uncollected customer payments from Federal sources, brought forward, October 1 | <u>(1,236,852)</u>          | <u>(1,473,680)</u>          |
| Total unpaid obligated balance, net   | 7,783,592                   | 8,009,152                   |
| Obligations incurred, net   | 54,904,773                  | 53,439,501                  |
| Less gross outlays  | (54,335,016)                | (53,502,109)                |
| Less recoveries of prior year unpaid obligations, actual                            | (220,673)                   | (399,780)                   |
| Change in uncollected customer payments from Federal sources                        | <u>(24,516)</u>             | <u>236,828</u>              |
| Obligated balance, net, end of period   |                             |                             |
| Unpaid obligations  | 9,369,528                   | 9,020,444                   |
| Less uncollected customer payments from Federal sources                             | <u>(1,261,368)</u>          | <u>(1,236,852)</u>          |
| Total unpaid obligated balance, net, end of period                                  | <b><u>\$ 8,108,160</u></b>  | <b><u>\$ 7,783,592</u></b>  |
| <b>NET OUTLAYS</b>  |                             |                             |
| Gross outlays   | \$ 54,335,016               | \$ 53,502,109               |
| Less offsetting collections   | (6,420,360)                 | (6,985,536)                 |
| Less distributed offsetting receipts  | <u>(795,011)</u>            | <u>(855,746)</u>            |
| Net outlays   | <b><u>\$ 47,119,645</u></b> | <b><u>\$ 45,660,827</u></b> |

The accompanying notes are an integral part of these statements.

**CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY**  
For the Years Ended September 30, 2007 and 2006  
(Dollars in Thousands)

|  | <u>2007</u>    | <u>2006</u>     |
|--|----------------|-----------------|
| <b>CUSTODIAL REVENUE</b> (Notes 1-V and 20)                              |                |                 |
| Cash collection of fines, penalties, assessments<br>and related interest | \$ 139,220     | \$ 152,880      |
| Less refunds   | <u>(235)</u>   | <u>(76)</u>     |
| Net cash collections   | 138,985        | 152,804         |
| Increase (decrease) in amounts to be collected                           | <u>15,114</u>  | <u>(12,767)</u> |
| <b>Total custodial revenue</b>   | <u>154,099</u> | <u>140,037</u>  |
| <b>DISPOSITION OF CUSTODIAL REVENUE</b> (Note 1-V)                       |                |                 |
| Net transfers to U.S. Treasury general fund                              | 138,985        | 152,804         |
| Increase (decrease) in amounts to be transferred                         | <u>15,114</u>  | <u>(12,767)</u> |
| <b>Total disposition of custodial revenue</b>                            | <u>154,099</u> | <u>140,037</u>  |
| <b>Net custodial activity</b>  | <u>\$ -</u>    | <u>\$ -</u>     |

The accompanying notes are an integral part of these statements.

**STATEMENT OF SOCIAL INSURANCE**

As of September 30, 2007, 2006, 2005, 2004, and 2003

(Dollars in Thousands)

|  | Projection Periods Ending September 30, 2040 |                        |                        |                        |                        |
|--|--|------------------------|------------------------|------------------------|------------------------|
|  | 2007   | 2006                   | 2005                   | Unaudited<br>2004      | 2003                   |
| <b>BLACK LUNG DISABILITY<br/>BENEFIT PROGRAM (NOTE 1-W)</b>  |  |                        |                        |                        |                        |
| Actuarial present value of future benefit payments during the projection period to disabled coal miners and dependent survivors              | \$ 2,450,064                                 | \$ 2,722,801           | \$ 2,622,302           | \$ 2,880,559           | \$ 2,954,920           |
| Actuarial present value of future administrative costs during the projection period  | 831,439                                      | 848,218                | 845,158                | 759,282                | 695,421                |
| Actuarial present value of future benefit payments and administrative costs during the projection period                                     | 3,281,503                                    | 3,571,019              | 3,467,460              | 3,639,841              | 3,650,341              |
| Less the actuarial present value of future excise tax income during the projection period  | 7,897,423                                    | 7,957,821              | 8,536,401              | 7,671,392              | 7,289,333              |
| Excess of actuarial present values of future excise tax income over the benefit payments and administrative costs for the projection period  | 4,615,920                                    | 4,386,802              | 5,068,941              | 4,031,551              | 3,638,992              |
| Actuarial present value of future interest on U. S. Treasury advances during the projection period   | 21,134,984                                   | 20,838,219             | 21,583,744             | 19,949,150             | 18,120,069             |
| Excess of actuarial present values of total future payments over the future excise tax income for the projection period                      | (16,519,064)                                 | (16,451,417)           | (16,514,803)           | (15,917,599)           | (14,481,077)           |
| Trust fund net position deficit at start of projection period (Note 21)  | (10,027,701)                                 | (9,604,743)            | (9,160,009)            | (8,711,444)            | (8,227,010)            |
| Actuarial present value of total future payments and trust fund net position deficit over future excise tax income for the projection period | <u>\$ (26,546,765)</u>                       | <u>\$ (26,056,160)</u> | <u>\$ (25,674,812)</u> | <u>\$ (24,629,043)</u> | <u>\$ (22,708,087)</u> |

The accompanying notes are an integral part of these statements.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Reporting Entity**

The U.S. Department of Labor (DOL or the Department), a cabinet level agency of the Executive Branch of the United States Government, was established in 1913, to promote the welfare of the wage earners of the United States. Today the Department's mission remains the same: to foster and promote the welfare of the job seekers, wage earners and retirees of the United States by improving their working conditions, advancing their opportunities for profitable employment, protecting their retirement and health care benefits, helping employers find workers, strengthening free collective bargaining, and tracking changes in employment, prices, and other economic measurements.

DOL is organized into major program agencies, which administer the various statutes and programs for which the Department is responsible. Through the execution of its congressionally approved budget, DOL conducts operations in five major Federal program areas, under four major budget functions: education, training, employment, and social services; health (occupational health and safety); income security; and national defense. DOL's major program agencies, major programs in which they operate, and the relationship of these programs to the Department's 2007 Strategic Goals are shown below.

#### **1. Major program agencies**

- Employment and Training Administration (ETA)
- Employment Standards Administration (ESA)
- Occupational Safety and Health Administration (OSHA)
- Bureau of Labor Statistics (BLS)
- Mine Safety and Health Administration (MSHA)
- Employee Benefits Security Administration (EBSA)  
(Formerly Pension and Welfare Benefits Administration)
- Veterans' Employment and Training (VETS)
- Other Departmental Programs
  - Office of the Assistant Secretary for Administration and Management
  - Office of the Solicitor
  - Office of the Chief Financial Officer
  - Office of the Inspector General
  - Bureau of International Labor Affairs
  - Women's Bureau
  - Office of Disability Employment Policy

#### **2. Major programs**

- Income maintenance – Strategic Goal 4
- Employment and training – Strategic Goals 1 and 2
- Labor, employment, and pension standards – Strategic Goal 3
- Worker safety and health – Strategic Goal 3
- Statistics – Strategic Goal 1

The Pension Benefit Guaranty Corporation (PBGC), a wholly owned Federal government corporation under the chairmanship of the Secretary of Labor, has been designated by the Office of Management and Budget (OMB) as a separate reporting entity for financial statement purposes and has been excluded from the DOL reporting entity for purposes of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**A. Reporting Entity - Continued**

**3. Fund accounting structure**

DOL's financial activities are accounted for by Federal account symbol, utilizing individual funds and fund accounts within distinct fund types used in reporting to Treasury Financial Management Services and OMB. For financial statement purposes, funds are classified as earmarked funds and all other funds.

Earmarked funds are financed by specifically identified revenues often supplemented by other financing sources which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Government's general revenues. Earmarked funds and all other funds are identified as follows:

**Earmarked funds**

The Unemployment Trust Fund was established under the authority of Section 904 of the Social Security Act of 1935, as amended, to receive, hold, invest, and disburse monies collected under the Federal Unemployment Tax Act, as well as state unemployment taxes collected by the states and transferred to the Fund, and unemployment taxes collected by the Railroad Retirement Board and transferred to the Fund.

The Black Lung Disability Trust Fund, established under Part C of the Black Lung Benefits Revenue Act, provides compensation and medical benefits to coal miners who suffer disability due to pneumoconiosis, and compensation benefits to their dependent survivors for claims filed subsequent to June 30, 1973. Claims filed from the origination of the program until June 30, 1973 are paid by the general fund Special Benefits to Disabled Coal Miners.

The Gifts and Bequests Fund uses miscellaneous funds received by gift or bequest to support various activities of the Secretary of Labor.

The Panama Canal Commission Compensation Fund was established to pay workers compensation obligations of the Panama Canal Commission under the Federal Employees' Compensation Act from funding provided by the Commission.

H-1B Funds provide demonstration grants to regional and local entities to provide technical skills training to unemployed and incumbent workers. The funds are supported by fees paid by employers applying for foreign workers under the H-1B temporary alien labor certification program authorized by the American Competitiveness and Workforce Improvement Act of 1998.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued****A. Reporting Entity - Continued****3. Fund accounting structure – continued****All other funds**

- General funds

Salaries and Expenses include appropriated funds which are used to carry out the missions and functions of the Department, except where specifically provided for from other Departmental funds.

Training and Employment Services provides for a flexible, decentralized system of Federal and local programs of training and other services for the economically disadvantaged designed to lead to permanent gains in employment, through grants to states and Federal programs such as Job Corps, authorized by the Workforce Investment Act and the Job Training Partnership Act. The Departments of Labor, Health and Human Services, Education and Related Agencies Appropriations Act, 2006 established an Office of Job Corps within the Office of the Secretary of Labor. This Act transferred management and administration of Job Corps activities from the Employment and Training Administration to an autonomous office under the Secretary during FY 2006. The administrative transfer of funds was accomplished under the allotment process. Since there was no actual budgetary transfer of funds, Job Corps costs continue to be reported under the Employment and Training Administration where funds were originally budgeted and appropriated.

Welfare to Work Jobs provides funding for the activities of the Welfare-to-Work Grants program established by the Balanced Budget Act of 1997. The program provides formula grants to States and Federally administered competitive grants to other eligible entities to assist welfare recipients in securing lasting unsubsidized employment.

State Unemployment Insurance and Employment Service Operations includes grants to states for administering the Unemployment Compensation and Employment Service programs. Unemployment Compensation provides administrative grants to state agencies which pay unemployment benefits to eligible individuals and collect state unemployment taxes from employers. The Employment Service is a nationwide system providing no-fee employment services to individuals seeking employment and to employers seeking workers. Employment Service activities are financed by allotments to states distributed under a demographically based funding formula established under the Wagner-Peyser Act, as amended.

Payments to the Unemployment Trust Fund was initiated as a result of amendments to the Emergency Unemployment Compensation (EUC) law, which provided general fund financing to the Unemployment Trust Fund to pay emergency unemployment benefits and the administrative costs.

Advances to the Unemployment Trust Fund and Other Funds provides advances to other accounts within the Unemployment Trust Fund to pay unemployment compensation whenever the balances in these accounts prove insufficient or whenever reimbursements to certain accounts, as allowed by law, are to be made. This account also provides repayable advances to the Black Lung Disability Trust Fund to make disability payments whenever the fund balance proves insufficient.

Federal Unemployment Benefits and Allowances provides for payment of benefits, training, job search, and relocation allowances as authorized by the Trade Act of 1974.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**A. Reporting Entity - Continued**

**3. Fund accounting structure - continued**

**All other funds - continued**

• **General funds - continued**

Community Service Employment for Older Americans provides part time work experience in community service activities to unemployed, low income persons aged 55 and over.

The Federal Employees' Compensation Act Special Benefit Fund provides wage replacement benefits and payment for medical services to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury. The Fund also provides for rehabilitation of injured employees to facilitate their return to work.

The Energy Employees Occupational Illness Compensation Fund was established to adjudicate, administer, and pay claims for benefits under the Energy Employees Occupational Illness Compensation Program Act of 2000. The Act authorizes lump sum payments and the reimbursement of medical expenses to employees of the Department of Energy (DOE) or of private companies under contract with DOE, who suffer from specified diseases as a result of their work in the nuclear weapons industry. The Act also authorizes compensation to the survivors of these employees under certain circumstances. The Act was amended by the Ronald Reagan National Defense Authorization Act of 2005 to provide coverage to additional claimants.

Special Benefits for Disabled Coal Miners was established under the Federal Mine Safety and Health Act to pay benefits to coal miners disabled from pneumoconiosis and to their widows and certain other dependents. Part B of the Act assigned processing of claims filed from the origination of the program until June 30, 1973 to the Social Security Administration. Part B claims processing and payment operations were transferred to DOL effective October 1, 2003.

• **Revolving funds**

The Working Capital Fund maintains and operates a program of centralized services in the national office and the field. The Fund is paid in advance by the agencies, bureaus, and offices for which centralized services are provided, at rates which return the full cost of operations.

• **Miscellaneous receipt and clearing accounts**

Miscellaneous receipt accounts hold non-entity receipts and accounts receivable from DOL activities which by law cannot be deposited into funds under DOL control. The U.S. Department of the Treasury (Treasury) automatically transfers all cash balances in these receipt accounts to the general fund of the Treasury at the end of each fiscal year.

Clearing accounts hold monies which belong to DOL, but for which a specific receipt account has not been determined.



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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued****A. Reporting Entity - Continued****3. Fund accounting structure – continued****All other funds - continued**

- Trust funds

The Longshore and Harbor Workers' Compensation Act Trust Fund, established under the authority of the Longshore and Harbor Workers' Compensation Act, provides medical benefits, compensation for lost wages, and rehabilitation services for job-related injuries and diseases or death to private sector workers in certain maritime and related employment.

The District of Columbia Workmen's Compensation Act Trust Fund, established under the authority District of Columbia Workmen's Compensation Act, provides compensation and medical payments to District of Columbia employees for work-related injuries or death which occurred prior to July 26, 1982.

- Deposit funds

Deposit funds account for monies held temporarily by DOL until ownership is determined, or monies held by DOL as an agent for others.

**4. Inter-departmental relationships**

DOL and Treasury are jointly responsible for the operations of the Unemployment Trust Fund and the Black Lung Disability Trust Fund. DOL is responsible for the administrative oversight and policy direction of the programs financed by these trust funds. Treasury acts as custodian over monies deposited into the funds and also invests amounts in excess of disbursing requirements in Treasury securities on behalf of DOL. DOL consolidates the financial results of the Unemployment Trust Fund and the Black Lung Disability Trust Fund into these financial statements.

**B. Basis of Accounting and Presentation**

These consolidated financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities of the U.S. Department of Labor, in accordance with U.S. generally accepted accounting principles and the form and content requirements of OMB Circular No. A-136, "Financial Reporting Requirements." Except as described in the following paragraphs, they have been prepared from the books and records of DOL, and include the accounts of all funds under the control of the DOL reporting entity. All interfund balances and transactions have been eliminated, except in the Statement of Budgetary Resources. OMB Circular No. A-136 requires that the Statement of Budgetary Resources be presented on a combined basis.

Effective for FY 2007, OMB Circular A-136 has removed the Statement of Financing as a Principle Financial Statement. The purpose of this Statement was to explain how budgetary resources obligated during the period relate to the net cost of operations for a reporting entity. OMB decided that this reconciliation would be better placed and understood as a note rather than as a principle statement. This reconciliation is disclosed in Note 19, Reconciliation of Budgetary Resources Obligated to Net Cost of Operations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**B. Basis of Accounting and Presentation - Continued**

DOL is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

For fiscal years prior to 2007, OMB Circular No. A-136 required budget authority and other resources allocated to another agency to be reported by the transferor of the appropriation in its financial statements unless the allocation transfer was material to the recipient's financial statements. The activity relating to the allocation was reported in all of the recipient's financial statements, except the Statement of Budgetary Resources, when the allocation transfer was material to the recipient's financial statements. The transferor continued to report the appropriation and the related budgetary activity in its Statement of Budgetary Resources. Effective in FY 2007, OMB Circular No. A-136 requires the parent to report all budgetary and proprietary activity in its financial statements, whether material to the child, or not.

DOL allocates appropriations to the Department of Agriculture and the Department of Interior to provide funds for youth training programs. These Departments considered this activity material to their respective financial statements; therefore, DOL reported this activity only in the Combined Statement of Budgetary Resources in FY 2006. All activity for these allocation accounts is included in the DOL financial statements for FY 2007 in accordance with the new requirements. The effect on beginning cumulative results of operations and unexpended appropriations is reflected as a change in accounting principle on the Consolidated Statement of Changes in Net Position.

Appropriations have been allocated to DOL from the Environmental Protection Agency, the General Services Administration, and the Agency for International Development, which DOL considered to be immaterial in FY 2006. These amounts have not been included in the DOL financial statements for FY 2007 or FY 2006.

U.S. generally accepted accounting principles encompass both accrual and budgetary transactions. Under accrual accounting, revenues are recognized when earned, and expenses are recognized when liabilities are incurred. Budgetary accounting facilitates compliance with legal constraints on, and controls over, the use of federal funds. These consolidated financial statements are prepared by DOL pursuant to OMB directives and used to monitor DOL's use of budgetary resources.

**C. Funds with U.S. Treasury**

DOL's cash receipts and disbursements are processed by the U.S. Treasury. Funds with U.S. Treasury represent obligated and unobligated balances available to finance allowable expenditures and restricted balances, including amounts related to expired authority and amounts not available for DOL. (See Note 2)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued****D. Investments**

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with DOL's earmarked funds. The cash receipts collected from the public for earmarked funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Interest earning Treasury securities are issued to DOL's earmarked funds as evidence of the receipts. These Treasury securities are assets to DOL and liabilities to the U.S. Treasury. Because DOL and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. Treasury securities provide DOL with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When DOL requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Balances held in the Unemployment Trust Fund are invested in non-marketable, special issue Treasury securities (certificates of indebtedness and bonds) available for purchase exclusively by Federal government agencies and trust funds. Special issues are purchased and redeemed at face value (cost), which is equivalent to their net carrying value on the Consolidated Balance Sheet. Interest rates and maturity dates vary. Balances held in the Panama Canal Commission Compensation Fund are invested in marketable Treasury securities. These investments are stated at amortized costs that equal to their net carrying value on the Consolidated Balance Sheet. Discounts and premiums are amortized using the effective interest method. Interest rates and maturity dates vary. Management expects to hold these marketable securities until maturity; therefore, no provision is made in the financial statements for unrealized gains or losses.

Other funds also have investments in Treasury securities. Balances held in the Longshore and Harbor Workers' Compensation Act Trust Fund, the District of Columbia Workmen's Compensation Act Trust Fund, and the Energy Employees Occupational Illness Compensation Fund are invested in non-marketable Treasury one day certificates. (See Note 3)

**E. Accounts Receivable, Net of Allowance**

Accounts receivable consists of intra-governmental amounts due to DOL, as well as amounts due from the public.

**1. Intra-governmental accounts receivable**

The Federal Employees Compensation (FEC) account within the Unemployment Trust Fund provides unemployment insurance to eligible Federal workers (UCFE) and ex-service members (UCX). DOL recognizes as accounts receivable amounts due from other Federal agencies for unreimbursed UCFE and UCX benefits. DOL's Federal Employees' Compensation Act (FECA) Special Benefit Fund provides workers' compensation benefits to eligible Federal workers on behalf of other Federal agencies. DOL recognizes as accounts receivable amounts due from other Federal agencies to the Special Benefit Fund for unreimbursed FECA benefits.

DOL also has receivables from other Federal agencies for work performed on their behalf under various reimbursable agreements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**E. Accounts Receivable, Net of Allowance - Continued**

**2. Accounts receivable due from the public**

DOL recognizes as accounts receivable State unemployment taxes due from covered employers. Also recognized as accounts receivable are benefit overpayments made by DOL to individuals not entitled to receive the benefit.

DOL recognizes as accounts receivable amounts due from the public for fines and penalties levied against employers by OSHA, MSHA, ESA, and EBSA; for amounts due for backwages assessed against employers by ESA; and for amounts due from grantees and contractors for grant and contract costs disallowed by ETA.

**3. Allowance for doubtful accounts**

Accounts receivable due from the public are stated net of an allowance for uncollectible accounts. The allowance is estimated based on an aging of account balances, past collection experience, and an analysis of outstanding accounts at year-end. Intra-governmental accounts receivable are considered fully collectible. (See Note 4)

**F. Advances**

DOL advances consist primarily of payments made to State employment security agencies (SESAs), and to grantees and contractors to provide for future DOL program expenditures. These advance payments are recorded by DOL as an asset, which is reduced when actual expenditures or the accrual of unreported expenditures are recorded by DOL. (See Note 5)

**G. Property, Plant and Equipment, Net of Accumulated Depreciation**

The majority of DOL's property, plant and equipment (PP&E) is general purpose PP&E held by Job Corps centers owned and operated by DOL through a network of contractors. DOL maintains the Capital Asset Tracking and Reporting System (CATARS) to account for Job Corps' PP&E, as well as other general purpose PP&E used by the Department. Internal use software is considered general purpose PP&E.

Effective October 1, 2002, real property purchases or improvements and leasehold improvements with a cost greater than \$500,000 and a useful life of 2 or more years, internal use software with a cost greater than \$300,000 and a useful life of 2 or more years, and equipment with a cost of \$50,000 or more and a useful life of 2 or more years are capitalized. PP&E acquisitions not meeting these criteria are charged to expense at the time of purchase. For fiscal years 1996 through 2001, PP&E (excluding internal use software) with a cost greater than \$25,000 (\$5,000 for the Working Capital Fund) and a useful life of 2 or more years and internal use software with a cost greater than \$300,000 and a useful life of 2 or more years were capitalized. Prior to 2001, internally developed software in the Working Capital Fund with a cost greater than \$5,000 was capitalized, when the cost was intended to be recovered through charges to other DOL users. Prior to 1996, PP&E with a cost greater than \$5,000 and a useful life of 2 or more years were capitalized. PP&E acquisitions not meeting these criteria were charged to expense at the time of purchase.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**G. Property, Plant and Equipment, Net of Accumulated Depreciation - Continued**

PP&E purchases and additions are stated at cost. Normal repairs and maintenance are charged to expense as incurred. Plant and equipment are depreciated over their estimated useful lives using the straight-line method of depreciation.

Job Corps center construction costs are capitalized as construction-in-progress until completed. Upon completion they are reclassified as structures or facilities and depreciated over their estimated useful lives. Leasehold improvements made at Job Corps centers and DOL facilities leased from the General Services Administration are recorded at cost and amortized over their useful lives, using the straight-line method of amortization. DOL has no operating leases which extend for a period of more than one year.

Internal use software development costs are capitalized as software development in progress until the development stage has been completed and successfully tested. Upon completion and testing, software development-in-progress costs are reclassified as internal use software and amortized over their estimated useful lives.

The table below shows the major classes of DOL's depreciable plant and equipment, and the depreciation periods used for each major classification. (See Note 6)

|   | <u>Years</u> |
|---|--------------|
| Structures, facilities and improvements | 20 - 50      |
| Furniture and equipment                 | 2 - 36       |
| ADP software                            | 2 - 15       |

DOL grantees have acquired real and tangible property with Federal grant funds in which DOL has a reversionary interest when the property is disposed of or no longer used for its authorized purpose. DOL is entitled to a pro rata share of the proceeds from sale of the property or a pro rata share of the property's fair market value, if the property is retained by the grantee but no longer used for DOL purposes. The value of DOL's reversionary interest in real and tangible property acquired with Federal grant funds can not be determined until the grantee's intention to sell or convert the property is known.

**H. Non-entity Assets**

Assets held by DOL which are not available to DOL for obligation are considered non-entity assets. DOL holds non-entity assets for the Railroad Retirement Board and for transfer to the U.S. Treasury. (See Note 7)

**I. Liabilities**

Liabilities represent probable amounts to be paid by DOL as a result of past transactions, and are recognized when incurred, regardless of whether there are budgetary resources available to pay them. However, the liquidation of these liabilities will consume budgetary resources and cannot be made until available resources have been obligated. For financial reporting purposes, DOL's liabilities are classified as covered or not covered by budgetary resources.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**I. Liabilities - Continued**

Liabilities are classified as covered by budgetary resources if budgetary resources are available. Liabilities are also considered covered by budgetary resources if they are to be funded by permanent indefinite appropriations, which have been enacted and signed into law and are available for use as of the balance sheet date, provided that the resources may be apportioned by OMB without further action by the Congress and without a contingency having to be met first. Liabilities are classified as not covered by budgetary resources if budgetary resources are not available. These classifications differ from budgetary reporting, which categorizes liabilities as obligated, consuming budgetary resources, or unobligated, not consuming budgetary resources. Unobligated liabilities include those covered liabilities for which available budgetary resources have not been obligated, as well as liabilities not covered for which budgetary resources are not available. (See Notes 11 and 12)

**J. Advances from U.S. Treasury**

The Benefits Revenue Act provides for repayable advances to DOL's Black Lung Disability Trust Fund when fund resources are not adequate to meet fund obligations. Budget authority is derived from the Black Lung Disability Trust Fund's indefinite authority to borrow. Repayable advances are provided through transfers from the Advances to the Unemployment Trust Fund and Other Funds appropriation, to the extent of borrowings under the authority. Advances are repayable with interest rate equal to the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the anticipated period during which the advance will be outstanding. Advances made prior to 1982 carried rates of interest equal to the average rate borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt. Outstanding advances bear interest rates ranging from 4.500% to 13.875% at September 30, 2007 and 2006. Amounts in the trust fund shall be available, as provided by appropriation acts, for the payment of interest on, and the repayment of these repayable advances. Interest and principal are paid to the General Fund of the Treasury when the Secretary of the Treasury determines that funds are available in the trust fund for such purposes. (See Note 8)

**K. Accrued Leave**

A liability for annual and compensatory leave is accrued as leave is earned and paid when leave is taken. The balance of leave earned but not taken will be paid from future funding sources. Sick leave and other types of non-vested leave are expensed as taken.

**L. Accrued Benefits**

The financial statements include a liability for unemployment, workers' compensation, and disability benefits due and payable from various DOL funds, as discussed below. (See Note 9)

**1. Unemployment benefits payable**

The Unemployment Trust Fund provides benefits to unemployed workers who meet State and Federal eligibility requirements. Regular and extended unemployment benefits are paid from State accounts within the Unemployment Trust Fund, financed primarily by a State unemployment tax on employer payrolls.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued****L. Accrued Benefits – Continued****1. Unemployment benefits payable - continued**

Fifty percent of the cost of extended unemployment benefits is paid from the Extended Unemployment Compensation Account (EUCA) within the Unemployment Trust Fund, financed by a Federal unemployment tax on employer payrolls. Emergency benefits were paid under the Temporary Extended Unemployment Compensation Act and the Emergency Unemployment Compensation Act. Unemployment benefits to unemployed Federal workers are paid from the Federal Employment Compensation Account within the Unemployment Trust Fund. These benefit costs are reimbursed by the responsible Federal agency. A liability is recognized for unpaid unemployment benefits applicable to the current period and for benefits paid by states that have not been reimbursed by the fund. DOL also recognizes a liability for Federal employees' unemployment benefits to the extent of unpaid benefits for existing claims filed during the current period, payable in the subsequent period.

**2. Federal employees disability and 10(h) benefits payable**

The Federal Employees' Compensation Act Special Benefit Fund provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The fund is reimbursed by other Federal agencies for the FECA benefit payments made on behalf of their workers. The fund assumes the liability for unreimbursed (non-chargeable) FECA benefits, primarily for cases filed prior to 1961. The fund also provides 50% of the annual cost-of-living adjustments for pre-1972 compensation cases under the authority of Section 10(h) of the Longshore and Harbor Workers' Compensation Act and the District of Columbia Workmen's Compensation Act. A liability for FECA benefits payable by the Special Benefit Fund to the employees of DOL and other Federal agencies and for 10(h) benefits is accrued to the extent of unpaid benefits applicable to the current period.

**3. Black lung disability benefits payable**

The Black Lung Disability Trust Fund and Special Benefits for Disabled Coal Miners provide compensation and medical benefits for eligible coal miners who are disabled due to pneumoconiosis (black lung disease). DOL recognizes a liability for disability benefits to the extent of unpaid benefits applicable to the current period.

**4. Energy employees occupational illness compensation benefits payable**

The Energy Employees Occupational Illness Compensation Fund provides benefits to eligible current or former employees of the Department of Energy (DOE) and its contractors suffering from designated illnesses incurred as a result of their work with DOE. Benefits are also paid to certain survivors of those employees and contractors, as well as to certain beneficiaries of the Radiation Exposure Compensation Act (RECA). DOL recognizes a liability for disability benefits to the extent of unpaid benefits applicable to the current period.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**L. Accrued Benefits – Continued**

**5. Longshore and harbor workers' and District of Columbia disability benefits payable**

The Longshore and Harbor Workers' Compensation Act Trust Fund and the District of Columbia Workmen's Compensation Act Trust Fund provide compensation and medical benefits for work-related injuries to workers in certain maritime employment and to employees of the District of Columbia, respectively. DOL recognizes a liability for disability benefits payable by these funds to the extent of unpaid benefits applicable to the current period.

**M. Future Workers' Compensation Benefits**

The financial statements include an actuarial liability for future workers' compensation benefits payable by DOL to its employees, to employees of the Panama Canal Commission and to enrollees of the Job Corps, as well as benefits not chargeable to other Federal agencies, which must be paid by DOL's Federal Employees' Compensation Act Special Benefit Fund. The liability includes the expected payments for death, disability, medical, and miscellaneous costs for approved compensation cases, as well as a component for incurred but not reported claims. The liability is determined using historical benefit payment patterns related to injury years to predict the ultimate payments.

The actuarial methodology provides for the effects of inflation and adjusts historical payments to current year constant dollars by applying wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index-medical or CPIMs) to the calculation of projected benefits. The COLAs and CPIMs used in the projections for FY 2007 and FY 2006 were as follows:

| <u>FY</u> | <u>COLA</u> |             | <u>CPIM</u> |             |
|-----------|-------------|-------------|-------------|-------------|
|           | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| 2007      | N/A         | 3.50%       | N/A         | 4.00%       |
| 2008      | 2.63%       | 3.13%       | 3.74%       | 4.01%       |
| 2009      | 2.90%       | 2.40%       | 4.04%       | 4.01%       |
| 2010      | 2.47%       | 2.40%       | 4.00%       | 4.03%       |
| 2011      | 2.37%       | 2.43%       | 3.94%       | 4.09%       |
| 2012+     | 2.30%       | 2.43%       | 3.94%       | 4.09%       |

Projected annual payments were discounted to present value based on OMB's interest rate assumptions for ten year Treasury notes. For 2007, interest rate assumptions were 4.93% in year one and 5.08% in year two and thereafter. For 2006, interest rate assumptions were 5.17% in year one and 5.31% in year two and thereafter. (See Note 10)



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued****N. Energy Employees Occupational Illness Compensation Benefits**

The Energy Employees Occupational Illness Compensation Fund, established under the authority of the Energy Employees Occupational Illness Compensation Program Act of 2000 (EEOICPA), provides benefits to eligible current or former employees of DOE and its contractors, or to certain survivors of those employees and contractors, as well as benefits to certain beneficiaries of RECA. DOL is responsible for adjudicating and administering claims filed under the EEOICPA. Effective July 31, 2001, compensation of \$150,000 and payment of medical expenses from the date a claim is filed are available to covered individuals suffering from designated illnesses incurred as a result of their work with DOE. Prior to October 2004, compensation of \$50,000 and payment of medical expenses from the date a claim is filed are available to individuals eligible for compensation under RECA. As a result of the October 2004 changes, new RECA cases are paid the full \$150,000 under EEOICPA.

The Ronald Reagan National Defense Authorization Act of 2005 amended EEOICPA to include Subtitle E – Contractor Employee Compensation. This amendment replaces Part D of the EEOICPA, which provided assistance from DOE in obtaining state workers' compensation benefits. The new program grants workers' compensation benefits to covered employees and their families for illness and death arising from exposure to toxic substances at a DOE facility. The amendment also makes it possible for uranium workers as defined under Section 5 of RECA to receive compensation under Part E for illnesses due to toxic substance exposure at a uranium mine or mill covered under that Act. These claims were formerly administered and paid by the Department of Justice (DOJ).

DOL has recognized a \$7.5 billion and \$6.9 billion actuarial liability for estimated future benefits payable by DOL at September 30, 2007 and 2006, respectively, to eligible individuals under the EEOICPA. At September 30, 2007, the undiscounted liability is \$11.1 billion discounted to a present value liability of \$7.5 billion based on an interest rate of 5.078% projected over a 51 year period. At September 30, 2006, the undiscounted liability is \$9.8 billion discounted to a present value liability of \$6.9 billion based on an interest rate 5.313% projected over a 49 year period. The estimated liability includes the expected lump sum and estimated medical payments for approved compensation cases and cases filed pending approval, as well as claims incurred but not yet filed. The actuarial projection methodology provided an estimate of the ultimate number of reported cases as a result of estimating future claims from the historical patterns of reported claims and subsequent claim approval rates. Medical payments were derived by estimating an average benefit award per living employee claimant.

**O. Employee Health and Life Insurance Benefits**

DOL employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGSLIP). DOL matches the employee contributions to each program to pay for current benefits. During 2007, DOL's contributions to the FEHBP and FEGSLIP were \$77.9 and \$2.0 million, respectively. During 2006, DOL's contributions to the FEHBP and FEGSLIP were \$76.2 and \$2.0 million, respectively. These contributions are recognized as current operating expenses.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**P. Other Retirement Benefits**

DOL employees eligible to participate in the FEHBP and the FEGLIP may continue to participate in these programs after their retirement. DOL recognizes a current operating expense for the future cost of these other retirement benefits (ORB) at the time the employee's services are rendered. This ORB expense must be financed by OPM. Using cost factors supplied by OPM, DOL recorded ORB imputed costs and imputed financing sources of \$86.5 million in 2007 and \$80.6 million in 2006.

**Q. Employee Pension Benefits**

DOL employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). For employees participating in CSRS, 7.0% of their gross earnings is withheld and transferred to the Civil Service Retirement and Disability Fund. DOL contributes an additional 7.0% of the employee gross earnings to the CSRS Retirement and Disability Fund. For employees participating in FERS, DOL withholds 0.8% of gross earnings and makes an 11.2% employer contribution. This total is transferred to the Federal Employees' Retirement Fund. The CSRS and FERS retirement funds are administered by the OPM. DOL contributions to the CSRS and FERS are recognized as current operating expenses. FERS participants are also covered under the Federal Insurance Contribution Act (FICA) and are subject to withholdings. DOL makes matching FICA contributions, recognized as operating expenses. DOL's matching contributions were \$68.6 million in 2007 and \$65.0 million in 2006.

The Thrift Savings Plan (TSP) is a defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS. CSRS participants may contribute up to \$15,500 of their gross pay to the TSP during calendar year 2007, but there is no departmental matching contribution. FERS participants may contribute up to \$15,500 of their gross pay to the TSP during calendar year 2007. CSRS and FERS participants were limited to a \$15,000 maximum during calendar year 2006. For employees covered under FERS, DOL contributes 1% of the employees' gross pay to the TSP. DOL also matches employees' contributions dollar-for-dollar on the first 3% of pay contributed each pay period and 50 cents on the dollar for the next 2% of pay contributed. DOL contributions to the TSP are recognized as current operating expenses. Employee and employer contributions to the TSP are transferred to the Federal Retirement Thrift Investment Board.

DOL recognizes the full cost of providing future CSRS and FERS pension benefits to covered employees at the time the employees' services are rendered. The pension expense recognized in the financial statements equals the service cost for covered DOL employees, less amounts contributed by these employees. Service cost represents the actuarial present value of benefits attributed to services rendered by covered employees during the accounting period.

The measurement of service cost requires the use of actuarial cost methods to determine the percentage of the employees' basic compensation sufficient to fund their projected pension benefit. These percentages (cost factors) are provided by OPM, and applied by DOL to the basic annual compensation of covered employees to arrive at the amount of total pension expense to be recognized in DOL's financial statements.

The excess of total pension expense over the amount contributed by the Department and by DOL's employees represents the amount of pension expense which must be financed directly by OPM. DOL recognized an imputed cost and an imputed financing source equal to the excess amount. DOL does not recognize in its financial statements FERS or CSRS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees. (See Note 14)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued****R. Net Position**

DOL's net position consists of the following:

**1. Unexpended appropriations**

Unexpended appropriations include the unobligated balances and undelivered orders of DOL's appropriated funds. Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until those appropriations are closed, five years after the appropriations expire. Unexpired multi-year and no-year appropriations remain available to DOL for obligation in future periods.

**2. Cumulative results of operations**

Cumulative results of operations include the accumulated historical difference between expenses consuming budgetary resources and financing sources providing budgetary resources in DOL's trust, revolving and special funds; liabilities not consuming budgetary resources net of assets not providing budgetary resources; and DOL's net investment in capitalized assets.

**S. Net Cost of Operations****1. Operating costs**

Full operating costs are comprised of all direct costs consumed by the program and those indirect costs which can be reasonably assigned or allocated to the program. Intra-governmental costs are exchange transactions made between DOL and other entities within the Federal government. Intra-governmental costs relate to the source of goods and services purchased by DOL, and not to the classification of related revenue. With the public costs are exchange transactions made between DOL and a non-Federal entity. Full costs are reduced by exchange (earned) revenues to arrive at net program cost. The full and net operating costs of DOL's major programs are presented in the Consolidated Statements of Net Cost, and are also reported by sub-organization in Note 15 to the financial statements.

**2. Earned revenue**

Earned revenues arise from exchange transactions which occur through the provision of goods and services for a price, and are deducted from the full cost of DOL's major programs to arrive at net program cost. Earned revenues are recognized by DOL to the extent reimbursements are payable from other Federal agencies and from the public, as a result of costs incurred or services performed on their behalf. Major sources of DOL's earned revenue include reimbursements to the Federal Employees' Compensation Act Special Benefit Fund from Federal agencies for the costs of disability compensation and medical care provided to or accrued on behalf of their employees, and reimbursements to the Unemployment Trust Fund from Federal agencies for the cost of unemployment benefits provided to or accrued on behalf of their former employees.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**T. Budgetary Financing Sources**

Budgetary financing sources other than earned revenues provide funding for the Department's net cost of operations and are reported on the Consolidated Statement of Changes in Net Position. These financing sources include appropriations received, less appropriations transferred and not available, non-exchange revenue, and transfers without reimbursement, as discussed below:

**1. Appropriations received, appropriations transferred and appropriations not available**

DOL receives financing sources through congressional appropriations to support its operations. A financing source is recognized for these appropriated funds received, less appropriations transferred or not available through rescission or cancellation.

**2. Non-exchange revenue**

Non-exchange revenues arise from the Federal government's power to demand payments from the public. Non-exchange revenues are recognized by DOL on the Consolidated Statement of Changes in Net Position for the transfer of employer and excise taxes from the entities collecting these taxes and for interest from investments, as discussed below. (See Note 16)

- **Employer taxes**

Employer tax revenues are recognized on a modified cash basis, to the extent of cash transferred by the collecting entity to DOL, plus the change in inter-entity balances between the collecting entity and DOL. Inter-entity balances represent revenue received by the collecting entity, net amounts due to the collecting entity and adjustments made to previous transactions by the collecting entity which have not been transferred to DOL.

Federal and state unemployment taxes represent non-exchange revenues collected from employers based on wages paid to employees in covered employment. Federal unemployment taxes are collected by the Internal Revenue Service and transferred to designated accounts within the Unemployment Trust Fund. State unemployment taxes are collected by each State and deposited in separate State accounts within the Unemployment Trust Fund. Federal unemployment taxes are used to pay the Federal share of extended unemployment benefits and to provide for Federal and State administrative expenses related to the operation of the unemployment insurance program. State unemployment taxes are restricted in their use to the payment of unemployment benefits.

- **Interest**

The Unemployment Trust Fund, Longshore and Harbor Workers' Compensation Act Trust Fund, District of Columbia Workmen's Compensation Act Trust Fund, the Panama Canal Commission Compensation Fund, and the Energy Employees Occupational Illness Compensation Fund receive interest on fund investments. The Unemployment Trust Fund receives interest from states that had accounts with loans payable to the Federal unemployment account at the end of the prior fiscal year. Interest is also earned on Federal funds in the possession of non-Federal entities. Interest is recognized as non-exchange revenue when earned.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued****T. Budgetary Financing Sources - Continued****2. Non-exchange revenue - continued**

- Assessments

The Longshore and Harbor Workers' Compensation Act Trust Fund and District of Columbia Workmen's Compensation Act Trust Fund receive non-exchange revenues from assessments levied on insurance companies and self-insured employers. Assessments are recognized as non-exchange revenues when earned.

- Reimbursement of unemployment benefits

The Unemployment Trust Fund receives reimbursements from state and local government entities and non-profit organizations for the cost of unemployment benefits provided to or accrued on behalf of their employees. These reimbursements are recognized as other non-exchange revenue when earned.

**3. Transfers without reimbursement**

Transfers recognized as budgetary financing sources by DOL include transfers from the Department of Homeland Security H-1B Nonimmigrant Petitioner Account to H-1B Funds in ETA and ESA. Also included are transfers from various DOL general fund unexpended appropriation accounts to the Working Capital Fund's cumulative results of operations. (See Note 17)

**U. Other Financing Sources**

Other financing sources include nonexchange revenue and other items that do not represent budgetary resources.

**1. Imputed financing**

A financing source is imputed by DOL to provide for pension and other retirement benefit expenses recognized by DOL but financed by OPM. (See Notes 1-P and Q)

**2. Transfers without reimbursement**

Transfers recognized as other financing sources by DOL include the transfers of property from the General Services Administration. (See Note 17)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**V. Custodial Activity**

DOL collects and transfers to the general fund of the U.S. Treasury custodial non-exchange revenues for penalties levied against employers by OSHA, MSHA, ESA, and EBSA for regulatory violations; for ETA disallowed grant costs assessed against canceled appropriations; and for FECA administrative costs assessed against government corporations in excess of amounts reserved to finance capital improvements in the Federal Employees' Compensation Act Special Benefit Fund. These collections are not available to the agencies for obligation or expenditure. Penalties and other assessments are recognized as custodial revenues when collected or subject to collection. The source and disposition of these revenues are reported on the Consolidated Statements of Custodial Activity. (See Note 20)

**W. Significant Assumptions Used in the Statement of Social Insurance**

The Black Lung Disability Benefit Program provides for compensation, medical and survivor benefits for eligible coal miners who are disabled due to pneumoconiosis (black lung disease) arising out of their coal mine employment. The Black Lung Disability Trust Fund (BLDTF) provides benefit payments to eligible coal miners disabled by pneumoconiosis when no responsible mine operator can be assigned the liability.

Black lung disability benefit payments are funded by excise taxes from coal mine operators based on the sale of coal, as are the fund's administrative costs. These taxes are collected by the Internal Revenue Service and transferred to the BLDTF, which was established under the authority of the Black Lung Benefits Revenue Act, and administered by the U.S. Department of the Treasury. The Black Lung Benefits Revenue Act provides for repayable advances to the BLDTF from the General Fund of the Treasury, in the event that BLDTF resources are not adequate to meet program obligations.

The significant assumptions used in the projections for the Statement of Social Insurance are the number of beneficiaries, life expectancy, coal excise tax revenue estimates, the tax rate structure, Federal civilian pay raises, medical cost inflation, and the interest rate on new repayable advances from Treasury.

The Office of Tax Analysis of the Department of the Treasury provides estimates of future receipts of the black lung excise tax. Its estimates are based on projections of future coal production and sale prices prepared by the Energy Information Agency of the Department of Energy. The Department of Treasury's Office of Tax Analysis provides the first eleven years of tax receipt estimates. The remaining years are estimated using a growth rate based on both historical tax receipts and the Department of Treasury's estimated tax receipts. The coal excise tax rate structure is \$1.10 per ton of underground-mined coal and \$0.55 per ton of surface-mined coal sold, with a cap of 4.4 percent of sales price, through December 31, 2013. Starting in 2014, the tax rates revert to \$0.50 per ton of underground-mined coal and \$0.25 per ton surface-mine coal sold, and a limit of two percent of sales price.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued****W. Significant Assumptions Used in the Statement of Social Insurance - Continued**

The beneficiary population data is updated from information supplied by the program. The beneficiary population is a nearly closed universe in which attrition by death exceeds new entrants by a ratio of more than ten to one. Projections for new participants are included in the overall projections and are considered immaterial. Social Security Administration life tables are used to project the life expectancies of the beneficiary population. The Office of Management and Budget supplies assumptions for future monthly benefit rate increases based on increases in the Federal pay scale and future medical cost inflation based on increases in the consumer price index-medical, which are used to calculate future benefit costs. During the current projection period, future benefit rate increases range from 2.5% to 4.2%, and medical cost increases range from 3.8% to 4.1%. Estimates for administrative costs for the first 11 years of the projection are supplied by DOL's Budget Office, while later years are based on the number of projected beneficiaries. Estimates for future interest on advances are based on the interest rates on outstanding advances ranging from 4.500% to 13.875% and new borrowings ranging from 5.2% to 5.6%.

The projection period ends September 30, 2040, because the primary purpose of the BLDTF, which was established in 1978, is to compensate the victims of coal mine dust exposures which occurred prior to 1970. By the end of FY 2040, not only the disabled miners and their widows in that class, but also virtually all of their eligible dependent disabled adult children will be deceased. All of the current year projections are discounted using an interest rate of 4.75%, which is the last actual rate on advances taken at the end of FY 2007.

**X. Tax Exempt Status**

As an agency of the Federal government, the Department is exempt from all taxes imposed by any governing body whether it is a Federal, state, commonwealth, local, or foreign government.

**Y. Use of Estimates**

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 2 - FUNDS WITH U.S. TREASURY**

Funds with U.S. Treasury at September 30, 2007 consisted of the following:

| <b>(Dollars in thousands)</b> | <b>Entity Assets</b>                 |  |  | <b>Total Entity Assets</b> | <b>Non-entity Assets</b> | <b>Total</b>        |
|-------------------------------|--------------------------------------|--|--|----------------------------|--------------------------|---------------------|
|                               | <b>Unobligated Balance Available</b> | <b>Unobligated Balance Unavailable</b> | <b>Obligated Balance Not Yet Disbursed</b> |                            |                          |                     |
| Revolving funds               | \$ 9,254                             | \$ -                                   | \$ 37,715                                  | \$ 46,969                  | \$ -                     | \$ 46,969           |
| Trust funds                   | 172,261                              | -                                      | (28,292)                                   | 143,969                    | (115)                    | 143,854             |
| General funds                 | 2,415,351                            | 1,604,964                              | 5,692,427                                  | 9,712,742                  | -                        | 9,712,742           |
| Other                         | -                                    | -                                      | -  | -                          | 79,387                   | 79,387              |
|                               | <u>\$ 2,596,866</u>                  | <u>\$ 1,604,964</u>                    | <u>\$ 5,701,850</u>                        | <u>\$ 9,903,680</u>        | <u>\$ 79,272</u>         | <u>\$ 9,982,952</u> |

Funds with U.S. Treasury at September 30, 2006 consisted of the following:

| <b>(Dollars in thousands)</b> | <b>Entity Assets</b>                 |  |  | <b>Total Entity Assets</b> | <b>Non-entity Assets</b> | <b>Total</b>        |
|-------------------------------|--------------------------------------|--|--|----------------------------|--------------------------|---------------------|
|                               | <b>Unobligated Balance Available</b> | <b>Unobligated Balance Unavailable</b> | <b>Obligated Balance Not Yet Disbursed</b> |                            |                          |                     |
| Revolving funds               | \$ 3,946                             | \$ -                                   | \$ 35,694                                  | \$ 39,640                  | \$ -                     | \$ 39,640           |
| Trust funds                   | 141,122                              | -                                      | (41,062)                                   | 100,060                    | (159)                    | 99,901              |
| General funds                 | 2,446,785                            | 1,371,403                              | 5,696,774                                  | 9,514,962                  | -                        | 9,514,962           |
| Other                         | -                                    | -                                      | -  | -                          | 62,646                   | 62,646              |
|                               | <u>\$ 2,591,853</u>                  | <u>\$ 1,371,403</u>                    | <u>\$ 5,691,406</u>                        | <u>\$ 9,654,662</u>        | <u>\$ 62,487</u>         | <u>\$ 9,717,149</u> |

The negative fund balances reported as of September 30, 2007 and 2006 relate to the Unemployment Trust Fund (UTF) and are the result of the timing of processing the investments and redemptions of UTF. The investments and redemptions relating to the last business day of the month are not processed until the first day of the next month. This could result in a negative cash position for the preceding business day if the disbursements are greater than the receipts to the fund.

Unobligated Balance Available includes \$361 million of funds apportioned for use in the subsequent year.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 3 - INVESTMENTS**

Investments at September 30, 2007 consisted of the following:

| <u>(Dollars in thousands)</u>                | <u>Face<br/>Value</u> | <u>Premium<br/>(Discount)</u> | <u>Net<br/>Value</u> | <u>Market<br/>Value</u> |
|--|-----------------------|-------------------------------|----------------------|-------------------------|
| <b>Unemployment Trust Fund</b>               |                       |                               |                      |                         |
| <u>Non-marketable</u>                        |                       |                               |                      |                         |
| U.S. Treasury Certificates of Indebtedness   |                       |                               |                      |                         |
| 5.000% maturing June 30, 2008                | 8,208,313             | -                             | 8,208,313            | 8,208,313               |
| Special issue U.S. Treasury Bonds            |                       |                               |                      |                         |
| 4.625% maturing June 30, 2008                | 10,879,148            | -                             | 10,879,148           | 10,879,148              |
| 4.875% maturing June 30, 2008                | 10,000,000            | -                             | 10,000,000           | 10,000,000              |
| 4.875% maturing June 30, 2009                | 9,980,072             | -                             | 9,980,072            | 9,980,072               |
| 5.000% maturing June 30, 2009                | 11,000,000            | -                             | 11,000,000           | 11,000,000              |
| 5.000% maturing June 30, 2010                | 24,855,747            | -                             | 24,855,747           | 24,855,747              |
|  | <u>74,923,280</u>     | <u>-</u>                      | <u>74,923,280</u>    | <u>74,923,280</u>       |
| <b>Panama Canal Commission</b>               |                       |                               |                      |                         |
| <b>Compensation Fund</b>                     |                       |                               |                      |                         |
| <u>Marketable</u>                            |                       |                               |                      |                         |
| U.S. Treasury Bill                           |                       |                               |                      |                         |
| Maturing November 15, 2007                   | 7,170                 | (43)                          | 7,127                | 7,138                   |
| U.S. Treasury Notes                          |                       |                               |                      |                         |
| 3.625% to 5.625% various maturities          | 43,152                | (142)                         | 43,010               | 43,418                  |
| U.S. Treasury Bonds                          |                       |                               |                      |                         |
| 10.375% to 11.750% various maturities        | 27,078                | 1,013                         | 28,091               | 28,054                  |
|  | <u>77,400</u>         | <u>828</u>                    | <u>78,228</u>        | <u>78,610</u>           |
| <b>Longshore and Harbor Workers'</b>         |                       |                               |                      |                         |
| <b>Compensation Act Trust Fund</b>           |                       |                               |                      |                         |
| <u>Non-marketable</u>                        |                       |                               |                      |                         |
| One Day Certificate                          |                       |                               |                      |                         |
| 3.99% maturing October 1, 2007               | 69,979                | -                             | 69,979               | 69,979                  |
| <b>District of Columbia Workmen's</b>        |                       |                               |                      |                         |
| <b>Compensation Act Trust Fund</b>           |                       |                               |                      |                         |
| <u>Non-marketable</u>                        |                       |                               |                      |                         |
| One Day Certificate                          |                       |                               |                      |                         |
| 3.99% maturing October 1, 2007               | 6,585                 | -                             | 6,585                | 6,585                   |
| <b>Energy Employees Occupational Illness</b> |                       |                               |                      |                         |
| <b>Compensation Fund</b>                     |                       |                               |                      |                         |
| <u>Non-marketable</u>                        |                       |                               |                      |                         |
| One Day Certificate                          |                       |                               |                      |                         |
| 3.99% maturing October 1, 2007               | 53,062                | -                             | 53,062               | 53,062                  |
|  | <u>\$ 75,130,306</u>  | <u>\$ 828</u>                 | <u>\$ 75,131,134</u> | <u>\$ 75,131,516</u>    |
| <b>Entity investments</b>                    | \$ 75,022,470         | \$ 828                        | \$ 75,023,298        | \$ 75,023,680           |
| <b>Non-entity investments</b>                | <u>107,836</u>        | <u>-</u>                      | <u>107,836</u>       | <u>107,836</u>          |
|  | <u>\$ 75,130,306</u>  | <u>\$ 828</u>                 | <u>\$ 75,131,134</u> | <u>\$ 75,131,516</u>    |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 3 - INVESTMENTS - Continued**

Investments at September 30, 2006 consisted of the following:

| <u>(Dollars In thousands)</u>                | <u>Face Value</u>    | <u>Premium (Discount)</u> | <u>Net Value</u>     | <u>Market Value</u>  |
|--|----------------------|---------------------------|----------------------|----------------------|
| <b>Unemployment Trust Fund</b>               |                      |                           |                      |                      |
| <u>Non-marketable</u>                        |                      |                           |                      |                      |
| U.S. Treasury Certificates of Indebtedness   |                      |                           |                      |                      |
| 4.875% maturing June 30, 2007                | \$ 8,662,384         | \$ -                      | \$ 8,662,384         | \$ 8,662,384         |
| 5.000% maturing June 30, 2007                | 343,768              | -                         | 343,768              | 343,768              |
| Special issue U.S. Treasury Bonds            |                      |                           |                      |                      |
| 4.625% maturing June 30, 2007                | 17,927,258           | -                         | 17,927,258           | 17,927,258           |
| 4.625% maturing June 30, 2008                | 19,299,158           | -                         | 19,299,158           | 19,299,158           |
| 4.875% maturing June 30, 2008                | 10,000,000           | -                         | 10,000,000           | 10,000,000           |
| 4.875% maturing June 30, 2009                | 9,980,072            | -                         | 9,980,072            | 9,980,072            |
|  | <u>66,212,640</u>    | <u>-</u>                  | <u>66,212,640</u>    | <u>66,212,640</u>    |
| <b>Panama Canal Commission</b>               |                      |                           |                      |                      |
| <b>Compensation Fund</b>                     |                      |                           |                      |                      |
| <u>Marketable</u>                            |                      |                           |                      |                      |
| U.S. Treasury Bill                           |                      |                           |                      |                      |
| Maturing November 16, 2006                   | 13,608               | (85)                      | 13,523               | 13,016               |
| U.S. Treasury Notes                          |                      |                           |                      |                      |
| 3.625% to 6.625% various maturities          | 24,460               | 30                        | 24,490               | 24,315               |
| U.S. Treasury Bonds                          |                      |                           |                      |                      |
| 10.375% to 11.750% various maturities        | 39,738               | 2,597                     | 42,335               | 42,233               |
|  | <u>77,806</u>        | <u>2,542</u>              | <u>80,348</u>        | <u>79,564</u>        |
| <b>Longshore and Harbor Workers'</b>         |                      |                           |                      |                      |
| <b>Compensation Act Trust Fund</b>           |                      |                           |                      |                      |
| <u>Non-marketable</u>                        |                      |                           |                      |                      |
| One Day Certificate                          |                      |                           |                      |                      |
| 5.030% maturing October 2, 2006              | 73,146               | -                         | 73,146               | 73,146               |
| <b>District of Columbia Workmen's</b>        |                      |                           |                      |                      |
| <b>Compensation Act Trust Fund</b>           |                      |                           |                      |                      |
| <u>Non-marketable</u>                        |                      |                           |                      |                      |
| One Day Certificate                          |                      |                           |                      |                      |
| 5.030% maturing October 2, 2006              | 5,611                | -                         | 5,611                | 5,611                |
| <b>Energy Employees Occupational Illness</b> |                      |                           |                      |                      |
| <b>Compensation Fund</b>                     |                      |                           |                      |                      |
| <u>Non-marketable</u>                        |                      |                           |                      |                      |
| One Day Certificate                          |                      |                           |                      |                      |
| 5.030% maturing October 2, 2006              | 83,307               | -                         | 83,307               | 83,307               |
|  | <u>\$ 66,452,510</u> | <u>\$ 2,542</u>           | <u>\$ 66,455,052</u> | <u>\$ 66,454,268</u> |
| <b>Entity Investments</b>                    | \$ 66,351,966        | \$ 2,542                  | \$ 66,354,508        | \$ 66,353,724        |
| <b>Non-entity Investments</b>                | 100,544              | -                         | 100,544              | 100,544              |
|  | <u>\$ 66,452,510</u> | <u>\$ 2,542</u>           | <u>\$ 66,455,052</u> | <u>\$ 66,454,268</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 4 - ACCOUNTS RECEIVABLE, NET OF ALLOWANCE**

Accounts receivable at September 30, 2007 consisted of the following:

| <u>(Dollars in thousands)</u>           | <u>Gross<br/>Receivables</u> | <u>Allowance</u>      | <u>Net<br/>Receivables</u> |
|---|------------------------------|-----------------------|----------------------------|
| <b>Entity intra-governmental assets</b> |                              |                       |                            |
| Due for UCFE and UCX benefits           | \$ 302,723                   | \$ -                  | \$ 302,723                 |
| Due for workers' compensation benefits  | 3,754,382                    | -                     | 3,754,382                  |
| Other                                   | 11,598                       | -                     | 11,598                     |
|   | <u>4,068,703</u>             | <u>-</u>              | <u>4,068,703</u>           |
| <b>Entity assets</b>                    |                              |                       |                            |
| State unemployment taxes                | 922,643                      | (646,571)             | 276,072                    |
| Due from reimbursable employers         | 489,269                      | (30,077)              | 459,192                    |
| Benefit overpayments                    | 1,907,770                    | (1,656,975)           | 250,795                    |
| Other                                   | 8,864                        | (1,727)               | 7,137                      |
|   | <u>3,328,546</u>             | <u>(2,335,350)</u>    | <u>993,196</u>             |
| <b>Non-entity assets</b>                |                              |                       |                            |
| Fines and penalties                     | 92,805                       | (31,820)              | 60,985                     |
| Backwages                               | 10,839                       | (4,797)               | 6,042                      |
|   | <u>103,644</u>               | <u>(36,617)</u>       | <u>67,027</u>              |
|   | <u>3,432,190</u>             | <u>(2,371,967)</u>    | <u>1,060,223</u>           |
|   | <u>\$ 7,500,893</u>          | <u>\$ (2,371,967)</u> | <u>\$ 5,128,926</u>        |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 4 - ACCOUNTS RECEIVABLE, NET OF ALLOWANCE - Continued**

Accounts receivable at September 30, 2006 consisted of the following:

| <u>(Dollars in thousands)</u>           | <u>Gross<br/>Receivables</u> | <u>Allowance</u>      | <u>Net<br/>Receivables</u> |
|---|------------------------------|-----------------------|----------------------------|
| <b>Entity intra-governmental assets</b> |                              |                       |                            |
| Due for UCFE and UCX benefits           | \$ 334,738                   | \$ -                  | \$ 334,738                 |
| Due for workers' compensation benefits  | 3,696,581                    | -                     | 3,696,581                  |
| Other                                   | 14,869                       | -                     | 14,869                     |
|   | <u>4,046,188</u>             | <u>-</u>              | <u>4,046,188</u>           |
| <b>Entity assets</b>                    |                              |                       |                            |
| State unemployment taxes                | 932,626                      | (666,082)             | 266,544                    |
| Due from reimbursable employers         | 544,016                      | (32,357)              | 511,659                    |
| Benefit overpayments                    | 1,949,362                    | (1,730,343)           | 219,019                    |
| Other                                   | 8,079                        | (2,443)               | 5,636                      |
|   | <u>3,434,083</u>             | <u>(2,431,225)</u>    | <u>1,002,858</u>           |
| <b>Non-entity assets</b>                |                              |                       |                            |
| Fines and penalties                     | 81,309                       | (36,808)              | 44,501                     |
| Backwages                               | 23,966                       | (16,169)              | 7,797                      |
|   | <u>105,275</u>               | <u>(52,977)</u>       | <u>52,298</u>              |
|   | <u>3,539,358</u>             | <u>(2,484,202)</u>    | <u>1,055,156</u>           |
|   | <u>\$ 7,585,546</u>          | <u>\$ (2,484,202)</u> | <u>\$ 5,101,344</u>        |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 5 - ADVANCES**

Advances at September 30, 2007 and 2006 consisted of the following:

| <u>(Dollars in thousands)</u>   | <u>2007</u>       | <u>2006</u>       |
|---|-------------------|-------------------|
| Intra-governmental  |                   |                   |
| Advances to the Department of Justice   | \$ -              | \$ 4              |
|   | <u>-</u>          | <u>4</u>          |
| Advances to states for UI benefit payments                                      | 509,848           | 474,153           |
| Advances to grantees and contractors to finance future DOL program expenditures | 29,504            | 78,537            |
| Other   | 2,213             | 2,604             |
|   | <u>541,565</u>    | <u>555,294</u>    |
|   | <u>\$ 541,565</u> | <u>\$ 555,298</u> |

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION**

Property, plant and equipment at September 30, 2007 consisted of the following:

| <u>(Dollars in thousands)</u>                  | <u>2007</u>         |   |                           |
|--|---------------------|---|---------------------------|
|  | <u>Cost</u>         | <u>Accumulated<br/>Depreciation/<br/>Amortization</u> | <u>Net Book<br/>Value</u> |
| <b>Structures, facilities and improvements</b> |                     |   |                           |
| Structures and facilities                      | \$ 1,014,233        | \$ (409,570)  | \$ 604,663                |
| Improvements to leased facilities              | 427,769             | (228,257)   | 199,512                   |
|  | <u>1,442,002</u>    | <u>(637,827)</u>                                      | <u>804,175</u>            |
| <b>Furniture and equipment</b>                 |                     |   |                           |
| Equipment held by contractors                  | 168,049             | (161,300)   | 6,749                     |
| Furniture and equipment                        | 54,067              | (36,653)  | 17,414                    |
|  | <u>222,116</u>      | <u>(197,953)</u>                                      | <u>24,163</u>             |
| <b>ADP software</b>                            | 190,014             | (74,433)  | 115,581                   |
| <b>Construction-in-progress</b>                | 78,651              | -   | 78,651                    |
| <b>Land</b>                                    | 93,249              | -   | 93,249                    |
|  | <u>\$ 2,026,032</u> | <u>\$ (910,213)</u>                                   | <u>\$ 1,115,819</u>       |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION - Continued**

Property, plant and equipment at September 30, 2006 consisted of the following:

| <u>(Dollars in thousands)</u>                  | <u>2006</u>         |   |                           |
|--|---------------------|---|---------------------------|
|  | <u>Cost</u>         | <u>Accumulated<br/>Depreciation/<br/>Amortization</u> | <u>Net Book<br/>Value</u> |
| <b>Structures, facilities and improvements</b> |                     |   |                           |
| Structures and facilities                      | \$ 862,100          | \$ (378,086)  | \$ 484,014                |
| Improvements to leased facilities              | <u>409,521</u>      | <u>(222,152)</u>                                      | <u>187,369</u>            |
|  | <u>1,271,621</u>    | <u>(600,238)</u>                                      | <u>671,383</u>            |
| <b>Furniture and equipment</b>                 |                     |   |                           |
| Equipment held by contractors                  | 159,771             | (154,226)   | 5,545                     |
| Furniture and equipment                        | <u>62,740</u>       | <u>(39,973)</u>                                       | <u>22,767</u>             |
|  | <u>222,511</u>      | <u>(194,199)</u>                                      | <u>28,312</u>             |
| <b>ADP software</b>                            | 192,270             | (68,640)  | 123,630                   |
| <b>Construction-in-progress</b>                | 162,486             | -   | 162,486                   |
| <b>Land</b>                                    | <u>90,999</u>       | <u>-</u>  | <u>90,999</u>             |
|  | <u>\$ 1,939,887</u> | <u>\$ (863,077)</u>                                   | <u>\$ 1,076,810</u>       |

**NOTE 7 - NON-ENTITY ASSETS**

Non-entity assets consisted of the following at September 30, 2007 and 2006:

| <u>(Dollars in thousands)</u>         | <u>2007</u>       | <u>2006</u>       |
|---------------------------------------|-------------------|-------------------|
| Intra-governmental                    |                   |                   |
| Funds with U.S. Treasury              | \$ 79,272         | \$ 62,487         |
| Investments                           | 107,836           | 100,544           |
| Interest receivable from investments  | <u>1,269</u>      | <u>1,129</u>      |
|                                       | 188,377           | 164,160           |
| Accounts receivable, net of allowance | <u>67,027</u>     | <u>52,298</u>     |
|                                       | <u>\$ 255,404</u> | <u>\$ 216,458</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 8 - ADVANCES FROM U.S. TREASURY**

Advances from U.S. Treasury to the Black Lung Disability Trust Fund during 2007 consisted of the following:

| <u>(Dollars in thousands)</u>                     | <u>Balance at<br/>September 30,<br/>2006</u> | <u>Net<br/>Borrowing</u> | <u>Balance at<br/>September 30,<br/>2007</u> |
|---|--|--------------------------|--|
| Intra-governmental<br>Borrowing from the Treasury | \$ 9,631,557                                 | \$ 426,000               | \$ 10,057,557                                |

Advances from U.S. Treasury to the Black Lung Disability Trust Fund during 2006 consisted of the following:

| <u>(Dollars in thousands)</u>                     | <u>Balance at<br/>September 30,<br/>2005</u> | <u>Net<br/>Borrowing</u> | <u>Balance at<br/>September 30,<br/>2006</u> |
|---|--|--------------------------|--|
| Intra-governmental<br>Borrowing from the Treasury | \$ 9,186,557                                 | \$ 445,000               | \$ 9,631,557                                 |

Assuming the continuation of current operating conditions, repayment of these and necessary future advances will require a change in the statutory operating structure of the fund. (See Note 21)

**NOTE 9 – ACCRUED BENEFITS**

Accrued benefits at September 30, 2007 and 2006 consisted of the following:

| <u>(Dollars in thousands)</u>  | <u>2007</u>         | <u>2006</u>         |
|--|---------------------|---------------------|
| State regular and extended unemployment benefits payable                                   | \$ 1,053,055        | \$ 790,745          |
| Federal extended unemployment benefits payable   | 35,945              | 36,615              |
| Federal temporary extended unemployment benefits   | 23,641              | 24,532              |
| Federal emergency unemployment benefits payable  | 44,950              | 42,649              |
| Federal employees' unemployment benefits payable   | 30,432              | 36,725              |
| Federal employees' unemployment benefits for existing<br>claims due in the subsequent year | <u>123,576</u>      | <u>137,161</u>      |
| Total unemployment benefits payable  | 1,311,599           | 1,068,427           |
| Black lung disability benefits payable   | 43,277              | 46,329              |
| Federal employees' disability and 10(h) benefits payable                                   | 65,937              | 59,735              |
| Energy employees occupational illness compensation benefits payable                        | 24,006              | 21,492              |
| Longshore and harbor workers disability benefits payable                                   | 3,655               | 3,382               |
| District of Columbia disability benefits payable   | <u>298</u>          | <u>283</u>          |
|  | <u>\$ 1,448,772</u> | <u>\$ 1,199,648</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2007 and 2006

**NOTE 10 - FUTURE WORKERS' COMPENSATION BENEFITS**

DOL's liability for future workers' compensation benefits at September 30, 2007 and 2006 consisted of the following:

| <u>(Dollars in thousands)</u>  | <u>2007</u>         | <u>2006</u>         |
|--|---------------------|---------------------|
| <i>Projected gross liability of the Federal government for future FECA benefits</i>  | \$ 26,306,065       | \$ 25,851,505       |
| <i>Less liabilities attributed to other agencies:</i>  |                     |                     |
| U.S. Postal Service  | (8,923,407)         | (8,662,714)         |
| Department of Navy   | (2,694,074)         | (2,698,683)         |
| Department of Army   | (1,977,872)         | (1,973,869)         |
| Department of Veterans Affairs   | (1,826,564)         | (1,811,947)         |
| Department of Air Force  | (1,381,158)         | (1,369,905)         |
| Department of Transportation   | (949,465)           | (952,969)           |
| Department of Homeland Security  | (1,683,569)         | (1,519,329)         |
| Tennessee Valley Authority   | (538,096)           | (553,322)           |
| Department of Treasury   | (573,038)           | (600,737)           |
| Department of Agriculture  | (775,281)           | (807,652)           |
| Department of Justice  | (1,046,480)         | (991,560)           |
| Department of Interior   | (659,333)           | (678,923)           |
| Department of Defense, Other   | (777,041)           | (813,532)           |
| Department of Health and Human Services  | (275,776)           | (273,374)           |
| Social Security Administration   | (271,981)           | (274,763)           |
| General Services Administration  | (164,883)           | (165,051)           |
| Department of Commerce   | (164,416)           | (170,164)           |
| Department of Energy   | (105,231)           | (96,386)            |
| Department of State  | (68,078)            | (62,669)            |
| Department of Housing & Urban Development  | (81,779)            | (79,873)            |
| Department of Education  | (16,186)            | (16,952)            |
| National Aeronautics and Space Administration  | (64,060)            | (60,217)            |
| Environmental Protection Agency  | (39,786)            | (39,408)            |
| Small Business Administration  | (26,321)            | (27,045)            |
| Office of Personnel Management   | (21,020)            | (20,448)            |
| National Science Foundation  | (1,182)             | (1,287)             |
| Nuclear Regulatory Commission  | (6,833)             | (7,434)             |
| Agency for International Development   | (23,528)            | (23,438)            |
| Other  | (533,779)           | (549,540)           |
|  | <u>(25,670,217)</u> | <u>(25,303,191)</u> |
|  | <u>\$ 635,848</u>   | <u>\$ 548,314</u>   |
| <i>Projected liability of the Department of Labor for future FECA benefits</i>   |                     |                     |
| FECA benefits not chargeable to other Federal agencies payable by DOL's Federal Employees' Compensation Act Special Benefit Fund | \$ 346,299          | \$ 250,179          |
| FECA benefits due to eligible workers of DOL and Job Corps enrollees   | 237,920             | 242,525             |
| FECA benefits due to eligible workers of the Panama Canal Commission   | 51,629              | 55,610              |
|  | <u>\$ 635,848</u>   | <u>\$ 548,314</u>   |



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 11 - OTHER LIABILITIES**

Other liabilities at September 30, 2007 and 2006 consisted of the following current liabilities:

| <u>(Dollars in thousands)</u>                           | <u>2007</u>       | <u>2006</u>       |
|---|-------------------|-------------------|
| Intra-governmental                                      |                   |                   |
| Accrued benefits  | \$ 10,385         | \$ 10,070         |
| Unearned FECA assessments                               | 51,192            | 48,285            |
| Deposit and clearing accounts                           | -                 | 2                 |
| Non-entity receipts due to U.S. Treasury                | 59,615            | 44,501            |
| Amounts held for the Railroad Retirement Board          | 108,990           | 101,514           |
| Advances from other Federal agencies                    | 750               | 1,013             |
| Total intra-governmental                                | <u>230,932</u>    | <u>205,385</u>    |
| Accrued payroll and benefits                            | 48,280            | 44,968            |
| Due to Backwage recipients                              | 85,583            | 71,235            |
| Unearned assessment revenue                             | 41,965            | 42,751            |
| Deposit and clearing accounts                           | 1,216             | -                 |
| Readjustment allowances and other Job Corps liabilities | 83,330            | 58,359            |
|   | <u>260,374</u>    | <u>217,313</u>    |
|   | <u>\$ 491,306</u> | <u>\$ 422,698</u> |

**NOTE 12 - LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

Liabilities not covered by budgetary resources at September 30, 2007 and 2006 consisted of the following:

| <u>(Dollars in thousands)</u>                           | <u>2007</u>          | <u>2006</u>          |
|---|----------------------|----------------------|
| Intra-governmental                                      |                      |                      |
| Advances from U.S. Treasury                             | \$ 10,057,557        | \$ 9,631,557         |
| Future workers' compensation benefits                   | 237,920              | 242,525              |
| Accrued annual leave                                    | 96,014               | 92,506               |
| Readjustment allowances and other Job Corps liabilities | 83,330               | 58,359               |
|   | <u>417,264</u>       | <u>393,390</u>       |
|   | <u>\$ 10,474,821</u> | <u>\$ 10,024,947</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2007 and 2006

**NOTE 13 – CONTINGENCIES**

The Department is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Department are paid by the Department of Justice. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial position.

**NOTE 14 - PENSION EXPENSE**

Pension expense in 2007 consisted of the following:

| <u>(Dollars in thousands)</u>        | <u>Employer<br/>Contributions</u> | <u>Costs Imputed<br/>by OPM</u> | <u>Total<br/>Pension<br/>Expense</u> |
|--------------------------------------|-----------------------------------|---------------------------------|--------------------------------------|
| Civil Service Retirement System      | \$ 24,503                         | \$ 39,287                       | \$ 63,790                            |
| Federal Employees' Retirement System | 94,390                            | -                               | 94,390                               |
| Thrift Savings Plan                  | 36,092                            | -                               | 36,092                               |
|                                      | <u>\$ 154,985</u>                 | <u>\$ 39,287</u>                | <u>\$ 194,272</u>                    |

Pension expense in 2006 consisted of the following:

| <u>(Dollars in thousands)</u>        | <u>Employer<br/>Contributions</u> | <u>Costs Imputed<br/>by OPM</u> | <u>Total<br/>Pension<br/>Expense</u> |
|--------------------------------------|-----------------------------------|---------------------------------|--------------------------------------|
| Civil Service Retirement System      | \$ 26,506                         | \$ 42,476                       | \$ 68,982                            |
| Federal Employees' Retirement System | 86,876                            | -                               | 86,876                               |
| Thrift Savings Plan                  | 33,003                            | -                               | 33,003                               |
|                                      | <u>\$ 146,385</u>                 | <u>\$ 42,476</u>                | <u>\$ 188,861</u>                    |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 15 - PROGRAM COST**

Schedules A, B, and C present detailed cost and revenue information by suborganization (responsibility segment) for programs in the Department, the Employment and Training Administration, and the Employment Standards Administration in support of the summary information presented in the Consolidated Statement of Net Cost for 2007.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 15 - PROGRAM COST - Continued**

**A. Consolidating Statement of Net Cost by Suborganization**

Net cost by suborganization for the year ended September 30, 2007 consisted of the following:

| <u>(Dollars in thousands)</u>                  | <u>Employment<br/>and Training<br/>Administration</u> | <u>Employment<br/>Standards<br/>Administration</u> | <u>Occupational<br/>Safety and Health<br/>Administration</u> | <u>Bureau of<br/>Labor<br/>Statistics</u> |
|--|---|--|--|---|
| <b>CROSSCUTTING PROGRAMS</b>                   |   |  |  |   |
| <b>Income maintenance</b>                      |   |  |  |   |
| Intra-governmental                             | \$ 233,861  | \$ 916,551   | \$ -   | \$ -                                      |
| With the public                                | 36,917,255  | 5,148,596  | -  | -   |
| Gross cost                                     | <u>37,151,116</u>                                     | <u>6,065,147</u>                                   | <u>-</u>   | <u>-</u>                                  |
| Intra-governmental earned revenue              | (732,135)   | (2,554,992)  | -  | -   |
| Public earned revenue                          | (1,253)   | -  | -  | -   |
| Less earned revenue                            | <u>(733,388)</u>                                      | <u>(2,554,992)</u>                                 | <u>-</u>   | <u>-</u>                                  |
| Net program cost                               | <u>36,417,728</u>                                     | <u>3,510,155</u>                                   | <u>-</u>   | <u>-</u>                                  |
| <b>Employment and training</b>                 |   |  |  |   |
| Intra-governmental                             | 61,577  | -  | -  | -   |
| With the public                                | 5,816,989   | -  | -  | -   |
| Gross cost                                     | <u>5,878,566</u>                                      | <u>-</u>   | <u>-</u>   | <u>-</u>                                  |
| Intra-governmental earned revenue              | (44,553)  | -  | -  | -   |
| Public earned revenue                          | (372)   | -  | -  | -   |
| Less earned revenue                            | <u>(44,925)</u>                                       | <u>-</u>   | <u>-</u>   | <u>-</u>                                  |
| Net program cost                               | <u>5,833,641</u>                                      | <u>-</u>   | <u>-</u>   | <u>-</u>                                  |
| <b>Labor, employment and pension standards</b> |   |  |  |   |
| Intra-governmental                             | -   | 120,834  | -  | -   |
| With the public                                | -   | 249,898  | -  | -   |
| Gross cost                                     | <u>-</u>  | <u>370,732</u>                                     | <u>-</u>   | <u>-</u>                                  |
| Intra-governmental earned revenue              | -   | -  | -  | -   |
| Public earned revenue                          | -   | -  | -  | -   |
| Less earned revenue                            | <u>-</u>  | <u>-</u>   | <u>-</u>   | <u>-</u>                                  |
| Net program cost                               | <u>-</u>  | <u>370,732</u>                                     | <u>-</u>   | <u>-</u>                                  |
| <b>Worker safety and health</b>                |   |  |  |   |
| Intra-governmental                             | -   | -  | 123,047  | -   |
| With the public                                | -   | -  | 406,101  | -   |
| Gross cost                                     | <u>-</u>  | <u>-</u>   | <u>529,148</u>   | <u>-</u>                                  |
| Intra-governmental earned revenue              | -   | -  | -  | -   |
| Public earned revenue                          | -   | -  | (1,292)  | -   |
| Less earned revenue                            | <u>-</u>  | <u>-</u>   | <u>(1,292)</u>   | <u>-</u>                                  |
| Net program cost                               | <u>-</u>  | <u>-</u>   | <u>527,856</u>   | <u>-</u>                                  |
| <b>OTHER PROGRAMS</b>                          |   |  |  |   |
| <b>Statistics</b>                              |   |  |  |   |
| Intra-governmental                             | -   | -  | -  | 195,947                                   |
| With the public                                | -   | -  | -  | 385,328                                   |
| Gross cost                                     | <u>-</u>  | <u>-</u>   | <u>-</u>   | <u>581,275</u>                            |
| Intra-governmental earned revenue              | -   | -  | -  | -   |
| Public earned revenue                          | -   | -  | -  | (6,083)                                   |
| Less earned revenue                            | <u>-</u>  | <u>-</u>   | <u>-</u>   | <u>(6,083)</u>                            |
| Net program cost                               | <u>-</u>  | <u>-</u>   | <u>-</u>   | <u>575,192</u>                            |
| <b>COSTS NOT ASSIGNED TO PROGRAMS</b>          |   |  |  |   |
| Gross cost                                     | -   | -  | -  | -   |
| Less earned revenue not attributed to programs | -   | -  | -  | -   |
| Net cost not assigned to programs              | <u>-</u>  | <u>-</u>   | <u>-</u>   | <u>-</u>                                  |
| <b>Net cost of operations</b>                  | <u>\$ 42,251,369</u>                                  | <u>\$ 3,880,887</u>                                | <u>\$ 527,856</u>  | <u>\$ 575,192</u>                         |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

| <u>Mine Safety<br/>and Health<br/>Administration</u> | <u>Employee Benefits<br/>Security<br/>Administration</u> | <u>Veterans'<br/>Employment<br/>and Training</u> | <u>Other<br/>Departmental<br/>Programs</u> | <u>Eliminations</u> | <u>Total</u>  |
|--|--|--|--|---------------------|---------------|
| \$ -   | \$ 11,324  | \$ -   | \$ 2,007                                   | \$ (54,911)         | \$ 1,108,832  |
| -  | 22,246   | -  | 3,137                                      | 31,754              | 42,122,988    |
| -  | 33,570   | -  | 5,144                                      | (23,157)            | 43,231,820    |
| -  | -  | -  | -  | 23,157              | (3,263,970)   |
| -  | -  | -  | -  | -                   | (1,253)       |
| -  | -  | -  | -  | 23,157              | (3,265,223)   |
| -  | 33,570   | -  | 5,144                                      | -                   | 39,966,597    |
| -  | -  | 10,043   | 448  | (20,803)            | 51,265        |
| -  | -  | 198,798  | 792  | 20,803              | 6,037,382     |
| -  | -  | 208,841  | 1,240                                      | -                   | 6,088,647     |
| -  | -  | -  | -  | -                   | (44,553)      |
| -  | -  | -  | -  | -                   | (372)         |
| -  | -  | -  | -  | -                   | (44,925)      |
| -  | -  | 208,841  | 1,240                                      | -                   | 6,043,722     |
| -  | 43,868   | 1,002  | 15,775                                     | (50,701)            | 130,778       |
| -  | 106,072  | 18,797   | 160,562                                    | 50,701              | 586,030       |
| -  | 149,940  | 19,799   | 176,337                                    | -                   | 716,808       |
| -  | (10,982)   | -  | (25)                                       | -                   | (11,007)      |
| -  | (17)   | -  | -  | -                   | (17)          |
| -  | (10,999)   | -  | (25)                                       | -                   | (11,024)      |
| -  | 138,941  | 19,799   | 176,312                                    | -                   | 705,784       |
| 108,334  | -  | -  | 4,321                                      | (53,979)            | 181,723       |
| 233,624  | -  | -  | 7,044                                      | 53,979              | 700,748       |
| 341,958  | -  | -  | 11,365                                     | -                   | 882,471       |
| -  | -  | -  | -  | -                   | -             |
| (1,113)  | -  | -  | -  | -                   | (2,405)       |
| (1,113)  | -  | -  | -  | -                   | (2,405)       |
| 340,845  | -  | -  | 11,365                                     | -                   | 880,066       |
| -  | -  | -  | 12,422                                     | (23,272)            | 185,097       |
| -  | -  | -  | 20,252                                     | 23,272              | 428,852       |
| -  | -  | -  | 32,674                                     | -                   | 613,949       |
| -  | -  | -  | -  | -                   | -             |
| -  | -  | -  | -  | -                   | (6,083)       |
| -  | -  | -  | -  | -                   | (6,083)       |
| -  | -  | -  | 32,674                                     | -                   | 607,866       |
| -  | -  | -  | 96,999                                     | (3,990)             | 93,009        |
| -  | -  | -  | (10,315)                                   | 3,990               | (6,325)       |
| -  | -  | -  | 86,684                                     | -                   | 86,684        |
| \$ 340,845   | \$ 172,511   | \$ 228,640                                       | \$ 313,419                                 | \$ -                | \$ 48,290,719 |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 15 - PROGRAM COST - Continued**

**B. Consolidating Statement of Net Cost - Employment and Training Administration**

Net cost of the Employment and Training Administration for the year ended September 30, 2007 consisted of the following:

| <u>(Dollars in thousands)</u>  | <u>Employment<br/>Security</u> | <u>Training and<br/>Employment<br/>Programs</u> | <u>Job Corps</u>    | <u>Eliminations</u> | <u>Total</u>         |
|--------------------------------|--------------------------------|---|---------------------|---------------------|----------------------|
| <b>CROSSCUTTING PROGRAMS</b>   |                                |   |                     |                     |                      |
| <b>Income maintenance</b>      |                                |   |                     |                     |                      |
| Benefits                       | \$ 32,334,443                  | \$ 72   | \$ -                | \$ -                | \$ 32,334,515        |
| Grants                         | 4,258,410                      | -   | -                   | -                   | 4,258,410            |
| Interest                       | 3,772                          | -   | -                   | -                   | 3,772                |
| Administrative and other       | 554,008                        | 17,911  | -                   | (17,500)            | 554,419              |
| Gross cost                     | 37,150,633                     | 17,983  | -                   | (17,500)            | 37,151,116           |
| Less earned revenue            | (750,888)                      | -   | -                   | 17,500              | (733,388)            |
| Net program cost               | 36,399,745                     | 17,983  | -                   | -                   | 36,417,728           |
| <b>Employment and training</b> |                                |   |                     |                     |                      |
| Benefits                       | -                              | 13,224  | 6,712               | -                   | 19,936               |
| Grants                         | -                              | 4,080,988                                       | 160,323             | -                   | 4,241,311            |
| Administrative and other       | -                              | 314,076   | 1,303,243           | -                   | 1,617,319            |
| Gross cost                     | -                              | 4,408,288                                       | 1,470,278           | -                   | 5,878,566            |
| Less earned revenue            | -                              | (43,687)  | (1,238)             | -                   | (44,925)             |
| Net program cost               | -                              | 4,364,601                                       | 1,469,040           | -                   | 5,833,641            |
| <b>Net cost of operations</b>  | <b>\$ 36,399,745</b>           | <b>\$ 4,382,584</b>                             | <b>\$ 1,469,040</b> | <b>\$ -</b>         | <b>\$ 42,251,369</b> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 15 - PROGRAM COST - Continued**

**C. Consolidating Statement of Net Cost - Employment Standards Administration**

Net cost of the Employment Standards Administration for the year ended September 30, 2007 consisted of the following:

| <u>(Dollars in thousands)</u>                  | <u>Office of<br/>Workers'<br/>Compensation<br/>Programs</u> | <u>Office of<br/>Federal<br/>Contract<br/>Compliance</u> | <u>Wage<br/>and Hour<br/>Division</u> | <u>Office of<br/>Labor<br/>Management<br/>Standards</u> | <u>Eliminations</u> | <u>Total</u>        |
|--|---|--|---------------------------------------|---|---------------------|---------------------|
| <b>CROSCUTTING PROGRAMS</b>                    |   |  |                                       |   |                     |                     |
| <b>Income maintenance</b>                      |   |  |                                       |   |                     |                     |
| Benefits                                       | \$ 4,924,372  | \$ -   | \$ -                                  | \$ -  | \$ (1,641)          | \$ 4,922,731        |
| Interest                                       | 717,214   | -  | -                                     | -   | -                   | 717,214             |
| Administrative and other                       | 425,202   | -  | -                                     | -   | -                   | 425,202             |
| Gross cost                                     | 6,066,788   | -  | -                                     | -   | (1,641)             | 6,065,147           |
| Less earned revenue                            | (2,556,633)   | -  | -                                     | -   | 1,641               | (2,554,992)         |
| Net program cost                               | <u>3,510,155</u>  | <u>-</u>   | <u>-</u>                              | <u>-</u>  | <u>-</u>            | <u>3,510,155</u>    |
| <b>Labor, employment and pension standards</b> |   |  |                                       |   |                     |                     |
| Benefits                                       | -   | 11,736   | 25,750                                | 7,261   | -                   | 44,747              |
| Grants   | -   | -  | -                                     | -   | -                   | -                   |
| Administrative and other                       | -   | 86,448   | 190,435                               | 49,102  | -                   | 325,985             |
| Gross cost                                     | -   | 98,184   | 216,185                               | 56,363  | -                   | 370,732             |
| Less earned revenue                            | -   | -  | -                                     | -   | -                   | -                   |
| Net program cost                               | <u>-</u>  | <u>98,184</u>  | <u>216,185</u>                        | <u>56,363</u>   | <u>-</u>            | <u>370,732</u>      |
| <b>Net cost of operations</b>                  | <u>\$ 3,510,155</u>   | <u>\$ 98,184</u>   | <u>\$ 216,185</u>                     | <u>\$ 56,363</u>  | <u>\$ -</u>         | <u>\$ 3,880,887</u> |

Schedules D, E and F present detailed cost and revenue information by suborganization (responsibility segment) for programs in the Department, the Employment and Training Administration, and the Employment Standards Administration in support of the summary information presented in the Consolidated Statement of Net Cost for 2006.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 15 - PROGRAM COST - Continued**

**D. Consolidating Statement of Net Cost by Suborganization**

Net cost by suborganization for the year ended September 30, 2006 consisted of the following:

| <u>(Dollars in thousands)</u>                  | <u>Employment<br/>and Training<br/>Administration</u> | <u>Employment<br/>Standards<br/>Administration</u> | <u>Occupational<br/>Safety and Health<br/>Administration</u> | <u>Bureau of<br/>Labor<br/>Statistics</u> |
|--|---|--|--|---|
| <b>CROSSCUTTING PROGRAMS</b>                   |   |  |  |   |
| <b>Income maintenance</b>                      |   |  |  |   |
| Intra-governmental                             | \$ 216,300  | \$ 871,178   | \$ -   | \$ -                                      |
| With the public                                | 35,819,765  | 3,744,938  | -  | -   |
| Gross cost                                     | 36,036,065  | 4,616,116  | -  | -   |
| Intra-governmental earned revenue              | (1,201,975)   | (2,528,201)  | -  | -   |
| Public earned revenue                          | (7,955)   | -  | -  | -   |
| Less earned revenue                            | (1,209,930)   | (2,528,201)  | -  | -   |
| Net program cost                               | 34,826,135  | 2,087,915  | -  | -   |
| <b>Employment and training</b>                 |   |  |  |   |
| Intra-governmental                             | 51,551  | -  | -  | -   |
| With the public                                | 5,451,793   | -  | -  | -   |
| Gross cost                                     | 5,503,344   | -  | -  | -   |
| Intra-governmental earned revenue              | (16,872)  | -  | -  | -   |
| Public earned revenue                          | (5,696)   | -  | -  | -   |
| Less earned revenue                            | (22,568)  | -  | -  | -   |
| Net program cost                               | 5,480,776   | -  | -  | -   |
| <b>Labor, employment and pension standards</b> |   |  |  |   |
| Intra-governmental                             | -   | 115,542  | -  | -   |
| With the public                                | -   | 246,205  | -  | -   |
| Gross cost                                     | -   | 361,747  | -  | -   |
| Intra-governmental earned revenue              | -   | -  | -  | -   |
| Public earned revenue                          | -   | (2,800)  | -  | -   |
| Less earned revenue                            | -   | (2,800)  | -  | -   |
| Net program cost                               | -   | 358,947  | -  | -   |
| <b>Worker safety and health</b>                |   |  |  |   |
| Intra-governmental                             | -   | -  | 115,929  | -   |
| With the public                                | -   | -  | 399,908  | -   |
| Gross cost                                     | -   | -  | 515,837  | -   |
| Intra-governmental earned revenue              | -   | -  | (12,466)   | -   |
| Public earned revenue                          | -   | -  | (946)  | -   |
| Less earned revenue                            | -   | -  | (13,412)   | -   |
| Net program cost                               | -   | -  | 502,425  | -   |
| <b>OTHER PROGRAMS</b>                          |   |  |  |   |
| <b>Statistics</b>                              |   |  |  |   |
| Intra-governmental                             | -   | -  | -  | 204,572                                   |
| With the public                                | -   | -  | -  | 369,207                                   |
| Gross cost                                     | -   | -  | -  | 573,779                                   |
| Intra-governmental earned revenue              | -   | -  | -  | (4,082)                                   |
| Public earned revenue                          | -   | -  | -  | (1,250)                                   |
| Less earned revenue                            | -   | -  | -  | (5,332)                                   |
| Net program cost                               | -   | -  | -  | 568,447                                   |
| <b>COSTS NOT ASSIGNED TO PROGRAMS</b>          |   |  |  |   |
| Gross cost                                     | -   | -  | -  | -   |
| Less earned revenue not attributed to programs | -   | -  | -  | -   |
| Net cost not assigned to programs              | -   | -  | -  | -   |
| <b>Net cost of operations</b>                  | <b>\$ 40,306,911</b>                                  | <b>\$ 2,446,862</b>                                | <b>\$ 502,425</b>  | <b>\$ 568,447</b>                         |



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

| <u>Mine Safety<br/>and Health<br/>Administration</u> | <u>Employee Benefits<br/>Security<br/>Administration</u> | <u>Veterans'<br/>Employment<br/>and Training</u> | <u>Other<br/>Departmental<br/>Programs</u> | <u>Eliminations</u> | <u>Total</u>  |
|--|--|--|--|---------------------|---------------|
| \$ -   | \$ 10,451  | \$ -   | \$ 2,331                                   | \$ (40,282)         | \$ 1,059,978  |
| -  | 20,711   | -  | 1,679                                      | 14,762              | 39,601,855    |
| -  | 31,162   | -  | 4,010                                      | (25,520)            | 40,661,833    |
| -  | -  | -  | -  | 25,520              | (3,704,656)   |
| -  | -  | -  | -  | -                   | (7,955)       |
| -  | -  | -  | -  | 25,520              | (3,712,611)   |
| -  | 31,162   | -  | 4,010                                      | -                   | 36,949,222    |
| -  | -  | 10,693   | 412  | (19,675)            | 42,981        |
| -  | -  | 195,538  | 754  | 19,675              | 5,667,760     |
| -  | -  | 206,231  | 1,166                                      | -                   | 5,710,741     |
| -  | -  | -  | -  | -                   | (16,872)      |
| -  | -  | -  | -  | -                   | (5,696)       |
| -  | -  | -  | -  | -                   | (22,568)      |
| -  | -  | 206,231  | 1,166                                      | -                   | 5,688,173     |
| -  | 42,270   | 1,063  | 18,139                                     | (52,259)            | 124,755       |
| -  | 113,093  | 18,570   | 174,171                                    | 52,259              | 604,298       |
| -  | 155,363  | 19,633   | 192,310                                    | -                   | 729,053       |
| -  | (10,830)   | -  | -  | -                   | (10,830)      |
| -  | (452)  | -  | -  | -                   | (3,252)       |
| -  | (11,282)   | -  | -  | -                   | (14,082)      |
| -  | 144,081  | 19,633   | 192,310                                    | -                   | 714,971       |
| 102,437  | -  | -  | 4,086                                      | (51,086)            | 171,366       |
| 230,309  | -  | -  | 6,475                                      | 51,086              | 687,778       |
| 332,746  | -  | -  | 10,561                                     | -                   | 859,144       |
| (4)  | -  | -  | -  | -                   | (12,470)      |
| (1,049)  | -  | -  | -  | -                   | (1,995)       |
| (1,053)  | -  | -  | -  | -                   | (14,465)      |
| 331,693  | -  | -  | 10,561                                     | -                   | 844,679       |
| -  | -  | -  | 11,747                                     | (23,044)            | 193,275       |
| -  | -  | -  | 18,616                                     | 23,044              | 410,867       |
| -  | -  | -  | 30,363                                     | -                   | 604,142       |
| -  | -  | -  | -  | -                   | (4,082)       |
| -  | -  | -  | -  | -                   | (1,250)       |
| -  | -  | -  | -  | -                   | (5,332)       |
| -  | -  | -  | 30,363                                     | -                   | 598,810       |
| -  | -  | -  | 94,814                                     | (9,032)             | 85,782        |
| -  | -  | -  | (16,640)                                   | 9,032               | (7,608)       |
| -  | -  | -  | 78,174                                     | -                   | 78,174        |
| \$ 331,693   | \$ 175,243   | \$ 225,864                                       | \$ 316,584                                 | \$ -                | \$ 44,874,029 |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 15 - PROGRAM COST - Continued**

**E. Consolidating Statement of Net Cost - Employment and Training Administration**

Net cost of the Employment and Training Administration for the year ended September 30, 2006 consisted of the following:

| (Dollars in thousands)         | Employment<br>Security | Training and<br>Employment<br>Programs | Job Corps           | Eliminations | Total                |
|--------------------------------|------------------------|--|---------------------|--------------|----------------------|
| <b>CROSSCUTTING PROGRAMS</b>   |                        |  |                     |              |                      |
| <b>Income maintenance</b>      |                        |  |                     |              |                      |
| Benefits                       | \$ 31,032,712          | \$ 56                                  | \$ -                | \$ -         | \$ 31,032,768        |
| Grants                         | 4,614,537              | -                                      | -                   | -            | 4,614,537            |
| Interest                       | 3,010                  | -                                      | -                   | -            | 3,010                |
| Administrative and other       | 387,879                | 371                                    | -                   | (2,500)      | 385,750              |
| Gross cost                     | 36,038,138             | 427                                    | -                   | (2,500)      | 36,036,065           |
| Less earned revenue            | (1,212,430)            | -                                      | -                   | 2,500        | (1,209,930)          |
| Net program cost               | 34,825,708             | 427                                    | -                   | -            | 34,826,135           |
| <b>Employment and training</b> |                        |  |                     |              |                      |
| Benefits                       | -                      | 14,631                                 | 2,593               | -            | 17,224               |
| Grants                         | -                      | 4,029,717                              | 415,031             | -            | 4,444,748            |
| Administrative and other       | -                      | 137,864                                | 903,508             | -            | 1,041,372            |
| Gross cost                     | -                      | 4,182,212                              | 1,321,132           | -            | 5,503,344            |
| Less earned revenue            | -                      | (17,188)                               | (5,380)             | -            | (22,568)             |
| Net program cost               | -                      | 4,165,024                              | 1,315,752           | -            | 5,480,776            |
| <b>Net cost of operations</b>  | <b>\$ 34,825,708</b>   | <b>\$ 4,165,451</b>                    | <b>\$ 1,315,752</b> | <b>\$ -</b>  | <b>\$ 40,306,911</b> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 15 - PROGRAM COST - Continued**
**F. Consolidating Statement of Net Cost - Employment Standards Administration**

Net cost of the Employment Standards Administration for the year ended September 30, 2006 consisted of the following:

| <u>(Dollars in thousands)</u>                  | <u>Office of<br/>Workers'<br/>Compensation<br/>Programs</u> | <u>Office of<br/>Federal<br/>Contract<br/>Compliance</u> | <u>Wage<br/>and Hour<br/>Division</u> | <u>Office of<br/>Labor<br/>Management<br/>Standards</u> | <u>Eliminations</u> | <u>Total</u>        |
|--|---|--|---------------------------------------|---|---------------------|---------------------|
| <b>CROSSCUTTING PROGRAMS</b>                   |   |  |                                       |   |                     |                     |
| <b>Income maintenance</b>                      |   |  |                                       |   |                     |                     |
| Benefits                                       | \$ 3,571,671  | \$ -   | \$ -                                  | \$ -  | \$ (1,707)          | \$ 3,569,964        |
| Interest                                       | 694,964   | -  | -                                     | -   | -                   | 694,964             |
| Administrative and other                       | <u>351,188</u>  | -  | -                                     | -   | -                   | <u>351,188</u>      |
| Gross cost                                     | 4,617,823   | -  | -                                     | -   | (1,707)             | 4,616,116           |
| Less earned revenue                            | <u>(2,529,908)</u>  | -  | -                                     | -   | <u>1,707</u>        | <u>(2,528,201)</u>  |
| Net program cost                               | <u>2,087,915</u>  | -  | -                                     | -   | -                   | <u>2,087,915</u>    |
| <b>Labor, employment and pension standards</b> |   |  |                                       |   |                     |                     |
| Benefits                                       | -   | 10,465   | 23,733                                | 6,266   | -                   | 40,464              |
| Grants   | -   | -  | -                                     | -   | -                   | -                   |
| Administrative and other                       | -   | <u>84,988</u>  | <u>190,051</u>                        | <u>46,244</u>   | -                   | <u>321,283</u>      |
| Gross cost                                     | -   | 95,453   | 213,784                               | 52,510  | -                   | 361,747             |
| Less earned revenue                            | -   | -  | (2,800)                               | -   | -                   | (2,800)             |
| Net program cost                               | -   | <u>95,453</u>  | <u>210,984</u>                        | <u>52,510</u>   | -                   | <u>358,947</u>      |
| <b>Net cost of operations</b>                  | <u>\$ 2,087,915</u>   | <u>\$ 95,453</u>   | <u>\$ 210,984</u>                     | <u>\$ 52,510</u>  | <u>\$ -</u>         | <u>\$ 2,446,862</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 16 - NON-EXCHANGE REVENUE**

Non-exchange revenues reported on the Consolidated Statement of Changes in Net Position in 2007 and 2006 consisted of the following:

| <u>(Dollars in thousands)</u>   | <u>2007</u>          | <u>2006</u>          |
|---|----------------------|----------------------|
| <b>Employer taxes</b>   |                      |                      |
| Unemployment Trust Fund   |                      |                      |
| Federal unemployment taxes  | \$ 7,238,283         | \$ 7,383,523         |
| State unemployment taxes  | 32,033,466           | 34,023,122           |
|   | <u>39,271,749</u>    | <u>41,406,645</u>    |
| Black Lung Disability Trust Fund excise taxes   | 639,197              | 607,387              |
|   | <u>39,910,946</u>    | <u>42,014,032</u>    |
| <b>Interest</b>   |                      |                      |
| Unemployment Trust Fund   | 3,344,577            | 2,780,114            |
| Longshore and Harbor Workers' Compensation Act Trust Fund   | 2,077                | 2,016                |
| District of Columbia Workmen's Compensation Act Trust Fund  | 250                  | 155                  |
| Panama Canal Commission Compensation Fund   | 3,537                | 3,647                |
| Energy Employees Occupational Illness Compensation Fund   | 7,215                | 5,654                |
| Black Lung Disability Trust Fund  | 463                  | 297                  |
|   | <u>3,358,119</u>     | <u>2,791,883</u>     |
| <b>Assessments</b>  |                      |                      |
| Longshore and Harbor Workers' Compensation Act Trust Fund   | 128,934              | 138,857              |
| District of Columbia Workmen's Compensation Act Trust Fund  | 11,264               | 10,789               |
| Other   | 380                  | 183                  |
|   | <u>140,578</u>       | <u>149,829</u>       |
| Reimbursement of unemployment benefits from state and local governments and non-profit organizations to the Unemployment Trust Fund | 1,632,863            | 1,855,188            |
|   | <u>\$ 45,042,506</u> | <u>\$ 46,810,932</u> |

**NOTE 17 - TRANSFERS WITHOUT REIMBURSEMENT**

Transfers from (to) other Federal agencies in 2007 and 2006 consisted of the following:

| <u>(Dollars in thousands)</u>   | <u>2007</u>       | <u>2006</u>       |
|---|-------------------|-------------------|
| <b>Budgetary financing sources</b>  |                   |                   |
| From H-1B Nonimmigrant Petitioner Account, Department of Homeland Security              | \$ 193,355        | \$ 390,823        |
| From DOL general fund unexpended appropriation accounts to the DOL Working Capital Fund | 3,000             | 3,000             |
|   | <u>196,355</u>    | <u>393,823</u>    |
| <b>Other financing sources</b>  |                   |                   |
| From General Services Administration  | 2,469             | 1,537             |
| To General Services Administration  | -                 | (209)             |
|   | <u>2,469</u>      | <u>1,328</u>      |
|   | <u>\$ 198,824</u> | <u>\$ 395,151</u> |

The balance of \$196,355 in budgetary financing sources reflects the elimination of intra-DOL transfers of \$3,663,500.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 18 - STATUS OF BUDGETARY RESOURCES**

**A. Apportionment Categories of Obligations Incurred**

Obligations incurred reported on the Combined Statement of Budgetary Resources in 2007 and 2006 consisted of the following:

| <u>(Dollars in thousands)</u>  | <u>2007</u>          | <u>2006</u>          |
|--------------------------------|----------------------|----------------------|
| Direct Obligations             |                      |                      |
| Category A                     | \$ 4,121,138         | \$ 4,063,611         |
| Category B                     | 9,068,443            | 9,247,270            |
| Exempt from apportionment      | <u>38,830,490</u>    | <u>37,033,486</u>    |
| Total direct obligations       | <u>52,020,071</u>    | <u>50,344,367</u>    |
| Reimbursable Obligations       |                      |                      |
| Category A                     | 194,918              | 188,504              |
| Category B                     | <u>2,689,784</u>     | <u>2,906,630</u>     |
| Total reimbursable obligations | <u>2,884,702</u>     | <u>3,095,134</u>     |
|                                | <u>\$ 54,904,773</u> | <u>\$ 53,439,501</u> |

**B. Permanent Indefinite Appropriations**

DOL's permanent indefinite appropriations include all trust funds, the Federal Employees' Compensation Act Special Benefit Fund, the Panama Canal Commission Compensation Fund, the Energy Employees Occupational Illness Compensation Fund, ETA and ESA H-1B funds, and portions of State Unemployment Insurance and Employment Service Operations and Federal Unemployment Benefits and Allowances. These funds are described in Note 1-A.3.

**C. Legal Arrangements Affecting Use of Unobligated Balances**

Unemployment Trust Fund receipts are reported as budget authority in the Combined Statement of Budgetary Resources. The portion of UTF receipts collected in the current year in excess of amounts needed to pay benefits and other valid obligations are precluded by law from being available for obligation. Therefore, these excess receipts are not classified as budgetary resources in the Combined Statement of Budgetary Resources. Current year excess receipts are reported as temporarily not available pursuant to Public Law. Conversely, when obligations exceed receipts in the current year, amounts are drawn from unavailable collections to meet these obligations. Cumulative excess receipts are not included in unobligated balances in the status of budgetary resources included in that Statement. All excess receipts are reported as assets of the UTF and are included in the Consolidated Balance Sheet. They will become available for obligation as needed in the future.

The cumulative amounts of excess UTF receipts are denoted as unavailable collections in the Budget of the United States Government. The cumulative amount of these excess receipts at September 30, 2007 and 2006 reclassified from unobligated balances to UTF unavailable collections is presented on the following page.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 18 - STATUS OF BUDGETARY RESOURCES – Continued**

**C. Legal Arrangements Affecting Use of Unobligated Balances - Continued**

| <u>(Dollars in millions)</u>                                      | <u>2007</u>      | <u>2006</u>      |
|---|------------------|------------------|
| <b>Unemployment Trust Fund unavailable collections, beginning</b> | \$ 63,995        | \$ 52,213        |
| Budget authority from current year appropriations                 | 44,909           | 46,725           |
| Less obligations  | <u>(36,456)</u>  | <u>(34,943)</u>  |
| Excess of budget authority over obligations                       | <u>8,453</u>     | <u>11,782</u>    |
| <b>Unemployment Trust Fund unavailable collections, ending</b>    | <u>\$ 72,448</u> | <u>\$ 63,995</u> |

**D. Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government**

The Budget of the United States Government with actual amounts for the year ended September 30, 2007 has not been published as of the issue date of these financial statements. This document will be available in February 2008. In addition, the reconciliation of the SF133 and the Combined Statement of Budgetary Resources will be performed in Fiscal Year 2008 after the Department receives the final SF133 reports from Trust Funds and allocated accounts.

A reconciliation of budgetary resources, obligations incurred and outlays, as presented in the Combined Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2006 is shown below.

| <u>(Dollars in millions)</u>  | <u>Budgetary Resources</u> | <u>Obligations Incurred</u> | <u>Gross Outlays</u> |
|---|----------------------------|-----------------------------|----------------------|
| <b>Combined Statement of Budgetary Resources</b>                                    | \$ 57,636                  | \$ 53,440                   | \$ 53,502            |
| Pension Benefit Guaranty Corporation reported separately                            | 19,405                     | 4,438                       | 4,444                |
| Accruals not reported in the budget   | (145)                      | (145)                       | -                    |
| Amounts in the budget not included in the Combined Statement of Budgetary Resources | 146                        | 131                         | 134                  |
| Amounts in the Combined Statement of Budgetary Resources not included in the budget | -                          | -                           | (24)                 |
| Expired accounts  | (1,310)                    | (88)                        | -                    |
| Other   | <u>12</u>                  | <u>13</u>                   | <u>15</u>            |
| <b>Budget of the United States Government</b>                                       | <u>\$ 75,744</u>           | <u>\$ 57,789</u>            | <u>\$ 58,071</u>     |

**E. Undelivered Orders**

Undelivered orders at September 30, 2007 and 2006 were as follows.

| <u>(Dollars in thousands)</u> | <u>2007</u>         | <u>2006</u>         |
|-------------------------------|---------------------|---------------------|
| Undelivered orders            | <u>\$ 5,678,989</u> | <u>\$ 5,773,816</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 18 - STATUS OF BUDGETARY RESOURCES – Continued**

**F. Appropriations Received**

The Combined Statements of Budgetary Resources discloses appropriations received of \$56,922 and \$58,971 million for FY 2007 and 2006, respectively. Appropriations received on the Consolidated Statements of Changes in Net Position are \$11,007 and \$10,704 million for FY 2007 and 2006, respectively. The differences of \$45,915 and \$48,267 million represent certain dedicated and earmarked receipts recognized as exchange revenue or non-exchange revenue reported on the Consolidated Statements of Net Cost or the Consolidated Statements of Changes in Net Position.

**NOTE 19 - RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS**

| <u>(Dollars in thousands)</u>   | <u>2007</u>          | <u>2006</u>          |
|---|----------------------|----------------------|
| <b>Resources used to finance activities</b>   |                      |                      |
| <b>Budgetary resources obligated</b>  |                      |                      |
| Obligations incurred  | \$ 54,904,773        | \$ 53,439,501        |
| Recoveries of prior year obligations  | (220,673)            | (399,780)            |
| Less spending authority from offsetting collections   | <u>(6,447,616)</u>   | <u>(6,740,047)</u>   |
| Obligations, net of offsetting collections and recoveries   | 48,236,484           | 46,299,674           |
| <b>Other resources</b>  |                      |                      |
| Imputed financing from costs absorbed by others   | 129,859              | 122,782              |
| Transfers, net  | 2,469                | 1,328                |
| Exchange revenue not in budget  | <u>(784,278)</u>     | <u>(929,202)</u>     |
| <b>Total resources used to finance activities</b>   | <u>47,584,534</u>    | <u>45,494,582</u>    |
| <b>Resources used to finance items not part of the net cost of operations</b>   |                      |                      |
| Change in budgetary resources obligated for goods, services and benefits ordered but not yet received or provided       | 108,524              | 139,777              |
| Resources that finance the acquisition of assets  | (129,596)            | (116,035)            |
| Allocation transfers to other agencies  | -                    | (159,098)            |
| Other resources that do not affect net cost of operations   | <u>-</u>             | <u>209</u>           |
| <b>Total resources used to finance items not part of the net cost of operations</b>                                     | <u>(21,072)</u>      | <u>(135,147)</u>     |
| <b>Total resources used to finance the net cost of operations</b>   | <u>47,563,462</u>    | <u>45,359,435</u>    |
| <b>Components of the net cost of operations that will not require or generate resources in the current period</b>       |                      |                      |
| Components requiring or generating resources in other periods   |                      |                      |
| Increase in annual leave liability  | 3,735                | 2,670                |
| Increase (decrease) in employee benefits liabilities  | 633,248              | (518,152)            |
| Other   | <u>24,250</u>        | <u>(26,068)</u>      |
| Total   | <u>661,233</u>       | <u>(541,550)</u>     |
| Components not requiring or generating resources  |                      |                      |
| Depreciation and amortization   | 61,233               | 55,449               |
| Revaluation of assets and liabilities   | 461,967              | 612,558              |
| Benefit overpayments  | <u>(457,176)</u>     | <u>(611,863)</u>     |
| Total   | <u>66,024</u>        | <u>56,144</u>        |
| <b>Total components of the net cost of operations that will not require or generate resources in the current period</b> | <u>727,257</u>       | <u>(485,406)</u>     |
| <b>Net cost of operations</b>   | <u>\$ 48,290,719</u> | <u>\$ 44,874,029</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 20 – SOURCES OF CUSTODIAL REVENUE**

Custodial revenues in 2007 consisted of the following:

| <u>(Dollars in thousands)</u> | <u>Cash<br/>Collections</u> | <u>Less<br/>Refunds</u> | <u>Net<br/>Cash<br/>Collections</u> | <u>Increase<br/>(Decrease) in<br/>Amounts to<br/>be Collected</u> | <u>Total<br/>Revenues</u> |
|-------------------------------|-----------------------------|-------------------------|-------------------------------------|---|---------------------------|
| Civil monetary penalties      |                             |                         |                                     |   |                           |
| OSHA                          | \$ 65,660                   | \$ (233)                | \$ 65,427                           | \$ 1,161  | \$ 66,588                 |
| MSHA                          | 30,357                      | -                       | 30,357                              | (1,330)   | 29,027                    |
| EBSA                          | 24,168                      | -                       | 24,168                              | 3,511   | 27,679                    |
| ESA                           | 11,689                      | -                       | 11,689                              | 395   | 12,084                    |
|                               | <u>131,874</u>              | <u>(233)</u>            | <u>131,641</u>                      | <u>3,737</u>  | <u>135,378</u>            |
| ETA disallowed grant costs    | 4,670                       | -                       | 4,670                               | 11,377  | 16,047                    |
| Other                         | <u>2,676</u>                | <u>(2)</u>              | <u>2,674</u>                        | <u>-</u>  | <u>2,674</u>              |
|                               | <u>\$ 139,220</u>           | <u>\$ (235)</u>         | <u>\$ 138,985</u>                   | <u>\$ 15,114</u>  | <u>\$ 154,099</u>         |

Custodial revenues in 2006 consisted of the following:

| <u>(Dollars in thousands)</u> | <u>Cash<br/>Collections</u> | <u>Less<br/>Refunds</u> | <u>Net<br/>Cash<br/>Collections</u> | <u>Increase<br/>(Decrease) in<br/>Amounts to<br/>be Collected</u> | <u>Total<br/>Revenues</u> |
|-------------------------------|-----------------------------|-------------------------|-------------------------------------|---|---------------------------|
| Civil monetary penalties      |                             |                         |                                     |   |                           |
| OSHA                          | \$ 80,119                   | \$ (8)                  | \$ 80,111                           | \$ (12,396)   | \$ 67,715                 |
| MSHA                          | 24,411                      | -                       | 24,411                              | (565)   | 23,846                    |
| EBSA                          | 15,751                      | -                       | 15,751                              | (551)   | 15,200                    |
| ESA                           | 11,968                      | (59)                    | 11,909                              | 529   | 12,438                    |
|                               | <u>132,249</u>              | <u>(67)</u>             | <u>132,182</u>                      | <u>(12,983)</u>   | <u>119,199</u>            |
| ETA disallowed grant costs    | 19,815                      | (2)                     | 19,813                              | 216   | 20,029                    |
| Other                         | <u>816</u>                  | <u>(7)</u>              | <u>809</u>                          | <u>-</u>  | <u>809</u>                |
|                               | <u>\$ 152,880</u>           | <u>\$ (76)</u>          | <u>\$ 152,804</u>                   | <u>\$ (12,767)</u>  | <u>\$ 140,037</u>         |



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 21 – EARMARKED FUNDS**

DOL is responsible for the operation of certain earmarked funds. Other earmarked funds include Gifts and Bequests, Panama Canal Commission Compensation Fund, and H-1B Funds. The financial position of the earmarked funds as of September 30, 2007 is shown below.

| <u>(Dollars in thousands)</u>                                | <u>Unemployment</u>  | <u>Black Lung<br/>Disability</u> | <u>Other</u>      | <u>Total</u>         |
|--|----------------------|----------------------------------|-------------------|----------------------|
| <b>Assets</b>  |                      |                                  |                   |                      |
| Intra-governmental   |                      |                                  |                   |                      |
| Funds with U.S. Treasury                                     | \$ 103,124           | \$ 40,359                        | \$ 419,245        | \$ 562,728           |
| Investments  | 74,923,280           | -                                | 78,228            | 75,001,508           |
| Interest receivable from investments                         | 881,498              | -                                | 1,833             | 883,331              |
| Accounts receivable, net                                     |                      |                                  |                   |                      |
| Due from other Federal agencies<br>for UCX and UCFE benefits | 302,912              | -                                | -                 | 302,912              |
| Total intra-governmental                                     | <u>76,210,814</u>    | <u>40,359</u>                    | <u>499,306</u>    | <u>76,750,479</u>    |
| Accounts receivable, net                                     |                      |                                  |                   |                      |
| State unemployment tax                                       | 276,072              | -                                | -                 | 276,072              |
| Due from reimbursable employers                              | 459,192              | -                                | -                 | 459,192              |
| Benefit overpayments   | 209,807              | 10,056                           | -                 | 219,863              |
| Other  | -                    | -                                | 2                 | 2                    |
| Advances   | 509,848              | -                                | 379               | 510,227              |
| Other  | -                    | -                                | 39                | 39                   |
| <b>Total assets</b>  | <u>\$ 77,665,733</u> | <u>\$ 50,415</u>                 | <u>\$ 499,726</u> | <u>\$ 78,215,874</u> |
| <b>Liabilities</b>   |                      |                                  |                   |                      |
| Intra-governmental   |                      |                                  |                   |                      |
| Accounts payable to DOL agencies                             | \$ 1,242,806         | \$ -                             | \$ -              | \$ 1,242,806         |
| Advances from U.S. Treasury                                  | -                    | 10,057,557                       | -                 | 10,057,557           |
| Amounts held for the Railroad                                |                      |                                  |                   |                      |
| Retirement Board   | 108,990              | -                                | -                 | 108,990              |
| Other  | -                    | -                                | 7,857             | 7,857                |
| Total intra-governmental                                     | <u>1,351,796</u>     | <u>10,057,557</u>                | <u>7,857</u>      | <u>11,417,210</u>    |
| Accounts payable   | -                    | -                                | 26,041            | 26,041               |
| Accrued benefits   | 1,311,599            | 20,559                           | -                 | 1,332,158            |
| Future workers' compensation benefits                        | -                    | -                                | 51,629            | 51,629               |
| Other  | -                    | -                                | 655               | 655                  |
| <b>Total liabilities</b>                                     | <u>2,663,395</u>     | <u>10,078,116</u>                | <u>86,182</u>     | <u>12,827,693</u>    |
| <b>Net position</b>  |                      |                                  |                   |                      |
| Cumulative results of operations                             | <u>75,002,338</u>    | <u>(10,027,701)</u>              | <u>413,544</u>    | <u>65,388,181</u>    |
| <b>Total liabilities and net position</b>                    | <u>\$ 77,665,733</u> | <u>\$ 50,415</u>                 | <u>\$ 499,726</u> | <u>\$ 78,215,874</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 21 – EARMARKED FUNDS – Continued**

The net results of operations of the earmarked funds for the year ended September 30, 2007 is shown below.

| <u>(Dollars in thousands)</u>            | <u>Unemployment</u>  | <u>Black Lung<br/>Disability</u> | <u>Other</u>      | <u>Total</u>         |
|--|----------------------|----------------------------------|-------------------|----------------------|
| <b>Cost, net of earned revenues</b>      |                      |                                  |                   |                      |
| Benefits                                 | \$ (32,325,084)      | \$ (285,632)                     | \$ (3,139)        | \$ (32,613,855)      |
| Grants                                   | -                    | -                                | (103,179)         | (103,179)            |
| Interest                                 | (3,772)              | (717,214)                        | -                 | (720,986)            |
| Administrative                           | (446,430)            | (593)                            | (19,615)          | (466,638)            |
|  | <u>(32,775,286)</u>  | <u>(1,003,439)</u>               | <u>(125,933)</u>  | <u>(33,904,658)</u>  |
| Earned revenue                           | 723,914              | -                                | -                 | 723,914              |
|  | <u>(32,051,372)</u>  | <u>(1,003,439)</u>               | <u>(125,933)</u>  | <u>(33,180,744)</u>  |
| <b>Net financing sources</b>             |                      |                                  |                   |                      |
| Taxes                                    | 39,271,749           | 639,197                          | -                 | 39,910,946           |
| Interest                                 | 3,344,577            | 463                              | 3,537             | 3,348,577            |
| Reimbursement of unemployment benefits   | 1,632,863            | -                                | -                 | 1,632,863            |
| Imputed financing                        | -                    | -                                | 253               | 253                  |
| Transfers-in                             |                      |                                  |                   |                      |
| Department of Homeland Security          | -                    | -                                | 193,355           | 193,355              |
| Transfers-out                            |                      |                                  |                   |                      |
| DOL entities                             | (3,604,321)          | (59,179)                         | -                 | (3,663,500)          |
|  | <u>40,644,868</u>    | <u>580,481</u>                   | <u>197,145</u>    | <u>41,422,494</u>    |
| Net results of operations                | 8,593,496            | (422,958)                        | 71,212            | 8,241,750            |
| <b>Net position, beginning of period</b> | <u>66,408,842</u>    | <u>(9,604,743)</u>               | <u>342,332</u>    | <u>57,146,431</u>    |
| <b>Net position, end of period</b>       | <u>\$ 75,002,338</u> | <u>\$ (10,027,701)</u>           | <u>\$ 413,544</u> | <u>\$ 65,388,181</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 21 – EARMARKED FUNDS - Continued**

The financial position of the earmarked funds as of September 30, 2006 is shown below.

| <u>(Dollars in thousands)</u>                                | <u>Unemployment</u>  | <u>Black Lung<br/>Disability</u> | <u>Other</u>      | <u>Total</u>         |
|--|----------------------|----------------------------------|-------------------|----------------------|
| <b>Assets</b>  |                      |                                  |                   |                      |
| Intra-governmental   |                      |                                  |                   |                      |
| Funds with U.S. Treasury                                     | \$ 60,257            | \$ 39,251                        | \$ 330,775        | \$ 430,283           |
| Investments  | 66,212,640           | -                                | 80,348            | 66,292,988           |
| Interest receivable from investments                         | 743,299              | -                                | 2,234             | 745,533              |
| Accounts receivable, net                                     |                      |                                  |                   |                      |
| Due from other Federal agencies<br>for UCX and UCFE benefits | 335,023              | -                                | -                 | 335,023              |
| Total intra-governmental                                     | <u>67,351,219</u>    | <u>39,251</u>                    | <u>413,357</u>    | <u>67,803,827</u>    |
| Accounts receivable, net                                     |                      |                                  |                   |                      |
| State unemployment tax                                       | 266,544              | -                                | -                 | 266,544              |
| Due from reimbursable employers                              | 511,659              | -                                | -                 | 511,659              |
| Benefit overpayments   | 183,437              | 8,800                            | -                 | 192,237              |
| Other  | -                    | -                                | 2                 | 2                    |
| Advances   | 474,153              | -                                | 3,525             | 477,678              |
| Other  | <u>-</u>             | <u>-</u>                         | <u>23</u>         | <u>23</u>            |
| <b>Total assets</b>  | <u>\$ 68,787,012</u> | <u>\$ 48,051</u>                 | <u>\$ 416,907</u> | <u>\$ 69,251,970</u> |
| <b>Liabilities</b>   |                      |                                  |                   |                      |
| Intra-governmental   |                      |                                  |                   |                      |
| Accounts payable to DOL agencies                             | \$ 1,208,229         | \$ -                             | \$ -              | \$ 1,208,229         |
| Advances from U.S. Treasury                                  | -                    | 9,631,557                        | -                 | 9,631,557            |
| Amounts held for the Railroad                                |                      |                                  |                   |                      |
| Retirement Board   | 101,514              | -                                | -                 | 101,514              |
| Other  | <u>-</u>             | <u>-</u>                         | <u>7,689</u>      | <u>7,689</u>         |
| Total intra-governmental                                     | <u>1,309,743</u>     | <u>9,631,557</u>                 | <u>7,689</u>      | <u>10,948,989</u>    |
| Accounts payable   | -                    | -                                | 10,654            | 10,654               |
| Accrued benefits   | 1,068,427            | 21,237                           | -                 | 1,089,664            |
| Future workers' compensation benefits                        | -                    | -                                | 55,610            | 55,610               |
| Other  | <u>-</u>             | <u>-</u>                         | <u>622</u>        | <u>622</u>           |
| <b>Total liabilities</b>                                     | <u>2,378,170</u>     | <u>9,652,794</u>                 | <u>74,575</u>     | <u>12,105,539</u>    |
| <b>Net position</b>  |                      |                                  |                   |                      |
| Cumulative results of operations                             | <u>66,408,842</u>    | <u>(9,604,743)</u>               | <u>342,332</u>    | <u>57,146,431</u>    |
| <b>Total liabilities and net position</b>                    | <u>\$ 68,787,012</u> | <u>\$ 48,051</u>                 | <u>\$ 416,907</u> | <u>\$ 69,251,970</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 21 – EARMARKED FUNDS – Continued**

The net results of operations of the earmarked funds for the year ended September 30, 2006 is shown below.

| <u>(Dollars in thousands)</u>            | <u>Unemployment</u>  | <u>Black Lung<br/>Disability</u> | <u>Other</u>      | <u>Total</u>         |
|--|----------------------|----------------------------------|-------------------|----------------------|
| <b>Cost, net of earned revenues</b>      |                      |                                  |                   |                      |
| Benefits                                 | \$ (31,025,168)      | \$ (299,479)                     | \$ (2,051)        | \$ (31,326,698)      |
| Grants                                   | -                    | -                                | (51,388)          | (51,388)             |
| Interest                                 | (3,010)              | (694,964)                        | -                 | (697,974)            |
| Administrative                           | (295,807)            | (342)                            | (15,647)          | (311,796)            |
|  | <u>(31,323,985)</u>  | <u>(994,785)</u>                 | <u>(69,086)</u>   | <u>(32,387,856)</u>  |
| Earned revenue                           | 818,294              | -                                | -                 | 818,294              |
|  | <u>(30,505,691)</u>  | <u>(994,785)</u>                 | <u>(69,086)</u>   | <u>(31,569,562)</u>  |
| <b>Net financing sources</b>             |                      |                                  |                   |                      |
| Taxes                                    | 41,406,645           | 607,387                          | -                 | 42,014,032           |
| Interest                                 | 2,780,114            | 297                              | 3,647             | 2,784,058            |
| Reimbursement of unemployment benefits   | 1,855,188            | -                                | -                 | 1,855,188            |
| Imputed financing                        | -                    | -                                | 238               | 238                  |
| Transfers-in                             |                      |                                  |                   |                      |
| Department of Homeland Security          | -                    | -                                | 390,823           | 390,823              |
| Transfers-out                            |                      |                                  |                   |                      |
| DOL entities                             | (3,623,927)          | (57,633)                         | -                 | (3,681,560)          |
|  | <u>42,418,020</u>    | <u>550,051</u>                   | <u>394,708</u>    | <u>43,362,779</u>    |
| Net results of operations                | 11,912,329           | (444,734)                        | 325,622           | 11,793,217           |
| <b>Net position, beginning of period</b> | <u>54,496,513</u>    | <u>(9,160,009)</u>               | <u>16,710</u>     | <u>45,353,214</u>    |
| <b>Net position, end of period</b>       | <u>\$ 66,408,842</u> | <u>\$ (9,604,743)</u>            | <u>\$ 342,332</u> | <u>\$ 57,146,431</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 22 – DEDICATED COLLECTIONS**

The Department administers four trust funds that receive dedicated collections. Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds, became effective in FY 2006. This standard affected former standards dealing with dedicated collections, and as a result, the Unemployment Trust Fund and the Black Lung Disability Trust Fund were classified as earmarked funds. The financial position of the two remaining trust funds as of September 30, 2007 is shown below.

| <u>(Dollars in thousands)</u>             | <u>Longshore<br/>and Harbor<br/>Workers'<br/>Compensation<br/>Act</u> | <u>District of<br/>Columbia<br/>Workmen's<br/>Compensation<br/>Act</u> |
|---|---|--|
| <b>Assets</b>                             |   |  |
| Intra-governmental                        |   |  |
| Funds with U.S. Treasury                  | \$ 154  | \$ 75  |
| Investments                               | 69,979  | 6,585  |
| Interest receivable from investments      | 16  | 1  |
| Total intra-governmental                  | <u>70,149</u>   | <u>6,661</u>   |
| Other accounts receivable, net            | <u>3,803</u>  | <u>327</u>   |
| <b>Total assets</b>                       | <u>\$ 73,952</u>  | <u>\$ 6,988</u>  |
| <b>Liabilities</b>                        |   |  |
| Accrued benefits                          | \$ 3,655  | \$ 298   |
| Other                                     | 39,408  | 2,557  |
| <b>Total liabilities</b>                  | <u>43,063</u>   | <u>2,855</u>   |
| <b>Net position</b>                       |   |  |
| Cumulative results of operations          | <u>30,889</u>   | <u>4,133</u>   |
| <b>Total liabilities and net position</b> | <u>\$ 73,952</u>  | <u>\$ 6,988</u>  |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 22 – DEDICATED COLLECTIONS - Continued**

The net results of operations of each trust fund for the year ended September 30, 2007 is shown below.

| <b>(Dollars in thousands)</b>            | <b>Longshore<br/>and Harbor<br/>Workers'<br/>Compensation<br/>Act</b> | <b>District of<br/>Columbia<br/>Workmen's<br/>Compensation<br/>Act</b> |
|--|---|--|
|  | <u>          </u>   | <u>          </u>  |
| <b>Cost, net of earned revenues</b>      |   |  |
| Benefits                                 | \$ (129,040)  | \$ (9,819)   |
| <b>Net financing sources</b>             |   |  |
| Interest                                 | 2,077   | 250  |
| Assessments                              | 128,934   | 11,264   |
| Transfers-out                            |   |  |
| DOL entities                             | (2,042)   | -  |
|  | <u>128,969</u>  | <u>11,514</u>  |
| Net results of operations                | (71)  | 1,695  |
| <b>Net position, beginning of period</b> | <u>30,960</u>   | <u>2,438</u>   |
| <b>Net position, end of period</b>       | <u>\$ 30,889</u>  | <u>\$ 4,133</u>  |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 22 – DEDICATED COLLECTIONS - Continued**

The financial position of each trust fund as of September 30, 2006 is shown below.

| <u>(Dollars in thousands)</u>             | <u>Longshore<br/>and Harbor<br/>Workers'<br/>Compensation<br/>Act</u> | <u>District of<br/>Columbia<br/>Workmen's<br/>Compensation<br/>Act</u> |
|---|---|--|
| <b>Assets</b>                             |   |  |
| Intra-governmental                        |   |  |
| Funds with U.S. Treasury                  | \$ 154  | \$ 76  |
| Investments                               | 73,146  | 5,611  |
| Interest receivable from investments      | 10  | 1  |
| Total intra-governmental                  | <u>73,310</u>   | <u>5,688</u>   |
| Other accounts receivable, net            | <u>2,431</u>  | <u>412</u>   |
| <b>Total assets</b>                       | <u>\$ 75,741</u>  | <u>\$ 6,100</u>  |
| <b>Liabilities</b>                        |   |  |
| Intra-governmental                        |   |  |
| Accounts payable to DOL agencies          | \$ 2,028  | \$ -   |
| Accrued benefits                          | 3,382   | 283  |
| Other                                     | <u>39,371</u>   | <u>3,379</u>   |
| <b>Total liabilities</b>                  | <u>44,781</u>   | <u>3,662</u>   |
| <b>Net position</b>                       |   |  |
| Cumulative results of operations          | <u>30,960</u>   | <u>2,438</u>   |
| <b>Total liabilities and net position</b> | <u>\$ 75,741</u>  | <u>\$ 6,100</u>  |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

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**NOTE 22 – DEDICATED COLLECTIONS – Continued**

The net results of operations of each trust fund for the year ended September 30, 2006 is shown below.

| <u>(Dollars in thousands)</u>            | <b>Longshore<br/>and Harbor<br/>Workers'<br/>Compensation<br/>Act</b> | <b>District of<br/>Columbia<br/>Workmen's<br/>Compensation<br/>Act</b> |
|--|---|--|
| <b>Cost, net of earned revenues</b>      |   |  |
| Benefits                                 | \$ (133,694)  | \$ (10,112)  |
| <b>Net financing sources</b>             |   |  |
| Interest                                 | 2,016   | 155  |
| Assessments                              | 138,857   | 10,789   |
| Transfers-out                            |   |  |
| DOL entities                             | (2,028)   | -  |
|  | <u>138,845</u>  | <u>10,944</u>  |
| Net results of operations                | 5,151   | 832  |
| <b>Net position, beginning of period</b> | <u>25,809</u>   | <u>1,606</u>   |
| <b>Net position, end of period</b>       | <u>\$ 30,960</u>  | <u>\$ 2,438</u>  |



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2007 and 2006

**NOTE 23 – BALANCE SHEET CLASSIFICATIONS AGGREGATED TO CONFORM WITH OMB CIRCULAR NO. A-136 CLASSIFICATIONS**

The Department's consolidated balance sheet has different classifications of certain assets and liabilities from those suggested in OMB Circular No. A-136. The following aggregate Department of Labor classifications into OMB Circular No. A-136 classifications.

| <u>(Dollars in thousands)</u>                               | <u>2007</u>         | <u>2006</u>         |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| Intra-governmental  |                     |                     |
| Other   |                     |                     |
| Interest receivable from investments                        | \$ 883,360          | \$ 745,556          |
| Advances  | -                   | 4                   |
| Total other   | <u>\$ 883,360</u>   | <u>\$ 745,560</u>   |
| Other   |                     |                     |
| Advances  | <u>\$ 541,565</u>   | <u>\$ 555,294</u>   |
| Total other   | <u>\$ 541,565</u>   | <u>\$ 555,294</u>   |
| <b>LIABILITIES</b>  |                     |                     |
| Federal employee and veteran benefits                       |                     |                     |
| Future workers' compensation benefits                       | <u>\$ 635,848</u>   | <u>\$ 548,314</u>   |
| Total Federal employee and veteran benefits                 | <u>\$ 635,848</u>   | <u>\$ 548,314</u>   |
| Other   |                     |                     |
| Energy employees occupational illness compensation benefits | \$ 7,501,838        | \$ 6,942,442        |
| Accrued leave   | 101,257             | 97,522              |
| Other liabilities   | <u>260,374</u>      | <u>217,313</u>      |
| Total other   | <u>\$ 7,863,469</u> | <u>\$ 7,257,277</u> |

**Required Supplementary Stewardship Information**

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**  
(Unaudited)

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**STEWARDSHIP INVESTMENTS IN HUMAN CAPITAL**

Stewardship investments are made by DOL on behalf of the nation, providing long term benefits that can not be measured in traditional financial reports. DOL's stewardship investments are in human capital, reported as employment and training program expenses in DOL's net cost of operations. These investments are intended to maintain or increase national economic productive capacity as demonstrated by program outputs and outcomes.

Within DOL, the Employment and Training Administration, the Office of Job Corps, and the Veterans' Employment and Training Service administer training programs that invest in human capital. The Office of Job Corps was transferred from the Employment and Training Administration to the Office of the Secretary during FY 2006. However, Job Corps' costs continue to be reported under the Employment and Training Administration and are considered to be a part of the Employment and Training Administration for this presentation. These training programs are discussed below.

***Employment and Training Administration***

The Employment and Training Administration (ETA) makes investments in human capital through job training programs authorized by the Workforce Investment Act of 1998, Title V of the Older Americans Act, the Trade Act of 1974, as amended by the Trade Adjustment Assistance Reform Act of 2002, and the National Apprenticeship Act of 1937. This investment is made for the general public, and the expenses incurred are intended to increase or maintain national economic productive capacity. In 2007, ETA invested over \$5.8 billion through these training programs, providing services to over 2.9 million participants. ETA's investments in human capital specifically exclude expenditures for employment services, unemployment insurance administration and unemployment and other benefit payments, which comprise the majority of ETA's services to the public. In 2007, ETA incurred total net costs of \$42.3 billion, providing services to over 24.9 million people. ETA's investments in human capital are discussed below:

**Program Activities****Workforce Investment Act**

ETA and the Office of Job Corps (OJC) administer training programs authorized by the Workforce Investment Act (WIA). The OJC was transferred from ETA in 2006 and established under the Office of the Secretary (OSEC) to administer the Job Corp program. In 2006 and 2007, Job Corps funding was appropriated to ETA and transferred via allotment to OSEC. For the purposes of this presentation, Job Corps investments in human capital made under WIA are reported as part of ETA. The job training programs authorized by WIA are discussed below.

- **Adult employment and training programs** – ETA awards financial assistance grants to States and territories to design and operate training and employment assistance programs for disadvantaged adults, including public assistance recipients. ETA's 2007 investment in human capital through WIA adult programs was \$893.8 million.
- **Dislocated worker employment and training programs** – ETA awards grants to provide reemployment services and retraining assistance to individuals dislocated from their employment. ETA also awards competitive grants to build training capacity and to train workers through community and technical colleges from the national reserve account. ETA's 2007 investment in human capital through WIA dislocated worker programs was \$1,466.3 million.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**

(Unaudited)

- 
- **Youth programs** – ETA awards grants to support program activities and services to prepare low-income youth for academic and employment success, including summer jobs, by linking academic and occupational learning with youth development activities. ETA's 2007 investment in human capital through WIA youth programs was \$950.7 million.
  - **Job Corps** – OJC awards contracts to support a system of primarily residential centers offering basic education, training, work experience and other support, typically to economically disadvantaged youth. Large and small corporations and non-profit organizations manage and operate 94 Job Corps centers under these contractual arrangements. The remaining 28 centers are operated through interagency agreements between DOL and the U.S. Departments of Agriculture and Interior. In addition, 20 operators are contracted to provide outreach and admissions (OA) and career transition services (CTS). OJC's 2007 investment in human capital through the WIA Job Corps program was \$1,485.6 million.
  - **Reintegration of Ex-Offenders** – ETA supports programs to help individuals exiting prison make a successful transition to community life and long term employment through the provision of mentoring and job training programs to promote the successful return of adult and juvenile ex-offenders into mainstream society. ETA's 2007 investment in human capital through WIA ex-offender programs was \$76.4 million.
  - **National Programs** – ETA's National programs provide financial assistance and support for WIA nationally administered activities for segments of the population that have special disadvantages in the labor market, including grants to Indian tribes and other Native American governments or non-profit organizations, and to Migrant and Seasonal Farmworker service organizations, to provide training, work experience and employment-related services. ETA's 2007 investment in human capital through National programs was \$219.7 million.

**Title V of the Older Americans Act, as Amended**

ETA also invests in human capital through its older worker program, authorized under Title V of the Older Americans Act, to benefit low income workers, age 55 and over. The Older Americans Act Amendments of 2006, reauthorized and provided important reforms to Title V's Community Service Employment for Older Americans Program, including an increase in the percentage of program funds available for skills training and related services.

- **Community Service Employment for Older Americans Program (CSEOA)** – An employment and training program that provides part-time training through work experience in community service activities for low-income persons age 55 and older, who wish to remain in or re-enter the workforce, with the ultimate goal of moving the participants into unsubsidized employment. ETA's 2007 investment in human capital through the CSEOA program was \$450.4 million.

**Trade Act of 1974 as Amended**

ETA makes investments in human capital through training programs authorized by the Trade Act of 1974. The Trade Adjustment Assistance Reform Act of 2002 amended the Trade Act of 1974 to consolidate the previous Trade Adjustment Assistance (TAA) and the NAFTA Trade Adjustment Assistance programs into a single, enhanced TAA program.

- **Trade Adjustment Assistance Programs** – TAA programs provide training, income support and related assistance to workers who have been adversely affected by foreign trade. Trade adjustment assistance benefit payments are classified as income maintenance program costs and are not included as investments in human capital. ETA's 2007 investment in trade adjustment assistance training programs was \$223.1 million.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**  
(Unaudited)

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**The National Apprenticeship Act**

The National Apprenticeship Act of 1937 established the foundation for development of the nation's skilled workforce through apprenticeship programs, which combine on the job learning with related technical instruction to teach workers the theoretical aspects of skilled occupations. Funding provides a national system for skilled and technical occupational training, which promotes apprentices, registers apprenticeship programs, certifies apprenticeship standards, and safeguards the welfare of apprentices. ETA's 2007 investment in apprenticeship programs was \$21.4 million.

**Program Costs and Outputs**

The full cost of ETA programs is presented in the Statement of Net Costs. The cost of ETA's investment in human capital, and the participants served, by program, are shown in the chart below.

**ETA Investments In Human Capital**  
**Program Costs (In Millions) and Participants Served (In Thousands)**  
**For The Five Year Period 2003 Through 2007**

| Program               | 2007             |                | 2006             |                | 2005             |                | 2004             |                | 2003             |                |
|-----------------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
|                       | Costs            | Part. Served   | Costs            | Part. Served   | Costs            | Part. Served   | Costs            | Part. Served   | Costs            | Part. Served   |
| <b>WIA</b>            |                  |                |                  |                |                  |                |                  |                |                  |                |
| Adult                 | \$ 893.8         | 1,760.5        | \$ 884.6         | 1,052.6        | \$ 953.9         | 441.8          | \$ 962.5         | 444.3          | \$1,069.6        | 467.3          |
| Dislocated Worker (1) | 1,466.3          | 413.1          | 1,525.1          | 398.2          | 1,538.3          | 361.4          | 1,533.1          | 364.4          | 1,757.3          | 397.6          |
| Youth                 | 950.7            | 248.9          | 1,006.2          | 272.9          | 1,146.5          | 390.8          | 1,379.9          | 423.5          | 1,450.4          | 458.2          |
| Job Corps             | 1,485.6          | 64.8           | 1,364.8          | 61.0           | 1,367.1          | 61.9           | 1,357.5          | 64.3           | 1,345.6          | 64.0           |
| Ex-Offenders (2)      | 76.4             | 15.7           | 52.1             | 11.5           | 23.7             | 6.8            | 29.4             | 5.7            | 11.8             | 2.4            |
| National Programs (3) | 219.7            | 44.0           | 267.3            | 42.1           | 178.2            | 54.7           | 297.1            | 57.6           | 276.7            | 63.7           |
| <b>Title V</b>        |                  |                |                  |                |                  |                |                  |                |                  |                |
| SCSEP                 | 450.4            | 86.4           | 313.0            | 93.5           | 621.9            | 92.1           | 429.6            | 101.4          | 388.4            | 110.1          |
| <b>Trade Act</b>      |                  |                |                  |                |                  |                |                  |                |                  |                |
| TAA Training          | 223.1            | 79.2           | 188.8            | 84.2           | 222.8            | 95.8           | 249.1            | 105.1          | 237.8            | 84.5           |
| Apprenticeship Act    |                  |                |                  |                |                  |                |                  |                |                  |                |
| Apprenticeship System | 21.4             | 309.5          | 22.4             | 237.9          | 21.5             | 196.2          | 21.4             | 198.9          | 21.1             | 230.0          |
| Other                 | 91.2             | na             | 99.1             | na             | 37.4             | na             | 93.7             | na             | 155.1            | na             |
| <b>TOTAL</b>          | <b>\$5,878.5</b> | <b>2,968.1</b> | <b>\$5,723.2</b> | <b>2,253.9</b> | <b>\$6,111.3</b> | <b>1,701.5</b> | <b>\$6,353.3</b> | <b>1,765.2</b> | <b>\$6,713.8</b> | <b>1,877.8</b> |

- (1) Dislocated Worker programs also include National Emergency Grant costs and participants.
- (2) Ex-Offender programs include the Prisoner Re-entry and Youthful Offender programs.
- (3) National Programs include the Native American and Migrant and Seasonal Farmworker programs.
- (4) Other includes training programs for high skilled occupations funded through H1-B fees, and costs for lapsed programs.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**  
(Unaudited)

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**Program Outcomes**

The overall performance of ETA programs towards the achievement of DOL's strategic goals is discussed in the Performance Section of this report. Outcomes for training programs comprising ETA's investment in human capital are shown below, for the most current year measured.

**Strategic Goal 1 – A Prepared Workforce**

▪ **Performance Goal 06.1B (Job Corps) – PY 2006**

*Improve educational achievements of Job Corps students and increase participation of Job Corps graduates in employment and education.*

This goal was not achieved. OJC did not reach targets for two of three performance indicators.

▪ **Performance Goal 06.1C (WIA Youth) – PY 2006**

*Increase placements and educational attainments for youth served through the WIA youth program.*

This goal was substantially achieved; ETA reached the target for one performance indicator and improved performance over PY 2005 results for the other performance indicator.

▪ **Performance Goal 07.1D (Apprenticeship) – FY 2007**

*Improve the registered apprenticeship system to meet the training needs of business and workers in the 21<sup>st</sup> century.*

This goal was achieved; ETA reached targets for both performance indicators.

**Strategic Goal 2 – A Competitive Workforce**

▪ **Performance Goal 06.2A (WIA Adult) – PY 2006**

*Increase the employment, retention and earnings of individuals under the WIA Adult program.*

This goal was not achieved; ETA did not reach targets for one of three performance indicators.

▪ **Performance Goal 06.2B (WIA Dislocated Workers) – PY 2006**

*Increase the employment, retention and earnings of individuals under the WIA Dislocated Worker program.*

This goal was not achieved. ETA did not reach targets for two of three performance indicators.

▪ **Performance Goal 06.2F (SCSEP) – PY 2006**

*Assist older workers to participate in a demand driven economy through the Senior Community Service Employment Program.*

This goal was achieved. ETA reached targets for both performance indicators.

▪ **Performance Goal 07.2G (TAA) – FY 2007**

*Increase the employment, retention and earnings replacement of workers dislocated in important part because of trade and who receive trade adjustment assistance benefits.*

This goal was achieved. ETA reached targets for both performance indicators.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**  
(Unaudited)

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**Veterans Employment and Training Service**

The mission of the Veterans Employment and Training Service (VETS) is to provide veterans and transitioning service members with the resources and services to succeed in the 21<sup>st</sup> century workforce, by maximizing their employment opportunities, protecting their employment rights, and meeting labor market demands with qualified veterans.

**Program Activities****Jobs for Veterans State Grants**

The Jobs for Veterans Act (JVA) of 2002, which allocates resources to the States through the Jobs for Veterans State grants program, supports the majority of VETS activities through three major VETS programs, as discussed below:

- **Disabled Veterans Outreach Program (DVOP) Specialist** – The DVOP, codified at 38 U.S.C. 4103A, awards formula grants to State Workforce Agencies (SWAs) to support DVOP specialists providing intensive services to meet the employment needs of veterans, including counseling, assessment, lifelong learning skills and referral to training, particularly veterans with disabilities or those who recently separated from the military.
- **Local Veterans Employment Representative (LVER)** – The LVER, codified at 38 U.S.C. 4104, provides grants to State Workforce Agencies (SWAs) for the appointment of LVER staff positions identified in Job Service local offices and One-Stop Career Centers, to enhance veterans' services and help them into productive employment.
- **Transition Assistance Program (TAP)** – TAP, authorized under 38 U.S.C. 4215 and 10 U.S.C. 1144, operates as a partnership between the Departments of Labor, Defense and Veterans Affairs. The program provides separating service members and their spouses or individuals retiring from military service with career counseling and training. TAP workshops are provided throughout the United States and overseas.

**Federal Management**

VETS Federal management activities provide programs and policies to meet the employment and training needs of veterans. The majority of resources are devoted to Uniformed Services Employment and Reemployment Rights and Veterans Preference Rights (USERRA) compliance and outreach. Activities, as discussed below:

- **Uniformed Services Employment and Reemployment Rights and Veterans Preference Rights** – The Uniformed Services Employment and Reemployment Rights Act (USERRA) of 1994, codified at 38 U.S.C. Chapter 43, protects civilian job rights and benefits for veterans, members of the National Guard and Reserves. Veterans Preference for Federal Employment is codified in 5 U.S.C. 2108. VETS promotes a productive relationship between employer and employee by educating both on the employment rights of the individual veterans.

**Homeless Veterans and Veterans' Workforce Investment Programs**

- **Homeless Veterans Reintegration Project (HVRP)** – The HVRP, codified at 38 U.S.C. 2021, provides employment assistance to homeless veterans through grants to States or other entities in both urban and rural areas to operate employment programs to reach out to homeless veterans and help them become employed.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**

(Unaudited)

- **Veterans Workforce Investment Program (VWIP)** - The VWIP, codified at 38 U.S.C. 2913, provides competitive grants for the training and retraining of veterans to create employment opportunities in high-skilled areas for targeted veterans.

**Program Costs and Outputs**

The full cost of VETS programs is presented in the Statement of Net Costs. The cost by major program is itemized below, to demonstrate the investment trend of VETS programs in human capital. Participants served, an output common to all VETS programs, is also presented by major program.

**VETS Investments In Human Capital  
Program Costs and Participants Served (in Thousands)  
For The Five Year Period 2003 Through 2007**

| Program      | 2007             |                | 2006             |                | 2005             |              | 2004             |                | 2003             |              |
|--------------|------------------|----------------|------------------|----------------|------------------|--------------|------------------|----------------|------------------|--------------|
|              | Costs            | Part. Served   | Costs            | Part. Served   | Costs            | Part. Served | Costs            | Part. Served   | Costs            | Part. Served |
| DVOP         | \$86,667         | 363.4          | \$86,153         | 398.1          | \$86,104         | 342.8        | \$85,151         | 507.2          | \$86,351         | na           |
| LVER         | 80,000           | 400.6          | 79,526           | 429.3          | 79,481           | 330.0        | 78,601           | 529.9          | 79,709           | na           |
| TAP          | 7,704            | 151.3          | 4,792            | 139.5          | 4,919            | 134.3        | 4,684            | 130.0          | 4,773            | 110.1        |
| USERRA       | 9,170            | 70.8           | 8,819            | 109.9          | 9,123            | 126.9        | 9,506            | 80.5           | 7,108            | 79.0         |
| HVRP         | 27,504           | 12.8           | 26,975           | 13.8           | 24,883           | 13.8         | 21,821           | 12.5           | 34,220           | 13.1         |
| VWIP         | 7,667            | 3.6            | 9,123            | 3.8            | 7,966            | 4.3          | 9,444            | 3.5            | 9,961            | 3.7          |
| <b>TOTAL</b> | <b>\$218,712</b> | <b>1,002.5</b> | <b>\$215,388</b> | <b>1,094.4</b> | <b>\$212,476</b> | <b>952.1</b> | <b>\$209,207</b> | <b>1,263.6</b> | <b>\$222,122</b> | <b>na</b>    |

**Program Outcomes**

The performance of VETS programs towards the achievement of DOL's strategic goals is discussed in the Performance Section of this report. Outcomes for 2007 are summarized below:

**Strategic Goal 1 – A Prepared Workforce**

- **Performance Goal 06.1C (VETS) – PY 2006**  
*Improve employment outcomes for veterans who receive the One-Stop Career Center services and veterans program services.*

This goal was not achieved; VETS did not meet three targets among six performance indicators.

**Strategic Goal 3 – Safe and Secure Workplaces**

- **Performance Goal 07.3C (VETS) – FY 2007**  
*Reduce employer-employee employment issues originating from service members' military obligations conflicting with their civilian employment.*

This goal was achieved. VETS exceeded the target for the performance indicator.



## **Required Supplementary Information**

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

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**DEFERRED MAINTENANCE**

The U.S. Department of Labor (DOL) maintains one hundred twenty-three (123) Job Corps centers located throughout the United States. Periodic maintenance is performed to keep these centers in acceptable condition, as determined by Job Corps management. Maintenance requirements are stratified by management into critical and non-critical projects. Critical maintenance involves life, safety, health, and environmental issues, as well as building code compliance deficiencies. Critical maintenance projects are funded and performed in the year they are identified. Non-critical maintenance projects are performed each year to the extent that funding constraints allow. Non-critical maintenance projects that cannot be funded when scheduled are deferred to a future period.

**Condition Assessment Surveys**

Condition assessment surveys are conducted every three years at each Job Corps center to determine the current condition of buildings and structures (constructed assets) and the estimated maintenance cost to correct noted deficiencies. Surveys conducted during years one and two of this three year cycle are updated annually to reflect maintenance performed, and rolled up with current assessments to provide a condition assessment for the entire Job Corps portfolio of constructed assets.

Condition assessment surveys are based on methods and standards applied on a consistent basis, including:

- condition descriptions of facilities,
- recommended maintenance schedules,
- estimated costs for maintenance actions, and
- standardized condition codes.

**Asset Condition**

Condition assessment surveys are used to estimate the current plant replacement value and deferred maintenance repair backlog for every constructed asset at each Job Corps center. Plant replacement value and repair backlog are used to calculate a Facilities Condition Index (FCI) for each building and structure. (*FCI = Repair Backlog / Plant Replacement Value -1. An FCI closer to 100 % indicates better asset condition.*)

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

The chart below ranks each asset within one of five categories of asset condition, based on the assets FCI score, for the previous five year period.

**Job Corps Center Constructed Assets**  
**Ranking of Individual Asset Condition Based on FCI Scores**  
**As of September 30, 2007**

|                        |                  | 2007          |         | 2006*         |         | 2005*         |         | 2004*         |         | 2003*         |         |
|------------------------|------------------|---------------|---------|---------------|---------|---------------|---------|---------------|---------|---------------|---------|
| <b>Asset Condition</b> | <b>FCI Score</b> | No. of Assets | Asset % | No. of Assets | Asset % | No. of Assets | Asset % | No. of Assets | Asset % | No. of Assets | Asset % |
| <b>Excellent</b>       | 90 to 100%       | 2,966         | 80.9    | 2,393         | 75.1    | 2,384         | 74.8    | 2,244         | 72.1    | 2,023         | 68.5    |
| <b>Good</b>            | 80 to 89%        | 338           | 9.2     | 389           | 12.2    | 392           | 12.3    | 286           | 9.2     | 242           | 8.2     |
| <b>Fair</b>            | 70 to 79%        | 126           | 3.4     | 131           | 4.1     | 143           | 4.5     | 137           | 4.4     | 307           | 10.4    |
| <b>Poor</b>            | 60 to 69%        | 98            | 2.7     | 121           | 3.8     | 118           | 3.7     | 146           | 4.7     | 180           | 6.1     |
| <b>Very Poor</b>       | < 60%            | 136           | 3.8     | 153           | 4.8     | 153           | 4.8     | 162           | 5.2     | 201           | 6.8     |
|                        |                  | 3,664         | 100.0   | 3,548         | 100.0   | 3,351         | 100.0   | 3,112         | 100.0   | 2,954         | 100.0   |

\* Distribution of FCI for 2003 – 2006 was estimated, based on the trend in asset condition established in 2007, when modifications to the calculation were newly implemented.

**Portfolio Condition**

These condition assessment estimates by building and structure are consolidated to calculate an FCI score for the entire portfolio of Job Corps center constructed assets, which is used to evaluate the overall asset condition of the portfolio. Job Corps has set the goal of achieving and maintaining an FCI of 90% or greater (the standard used by the National Association of College and University Business Offices) for its portfolio of Job Corps center constructed assets. During FY 2007, the Job Corps portfolio of constructed assets was comprised of 2,184 buildings and structures owned and 1,480 buildings and structures leased, for a total portfolio of 3,664 assets. The portfolio's aggregate FCI score in FY 2007 was 90.8%. Deferred maintenance costs at the end of FY 2007 to return the portfolio to an acceptable condition were \$87.4 million, as demonstrated in the table below.

**Portfolio Condition and Deferred Maintenance Costs**  
**Job Corps Center Constructed Assets – 2007**  
**As of September 30, 2007**

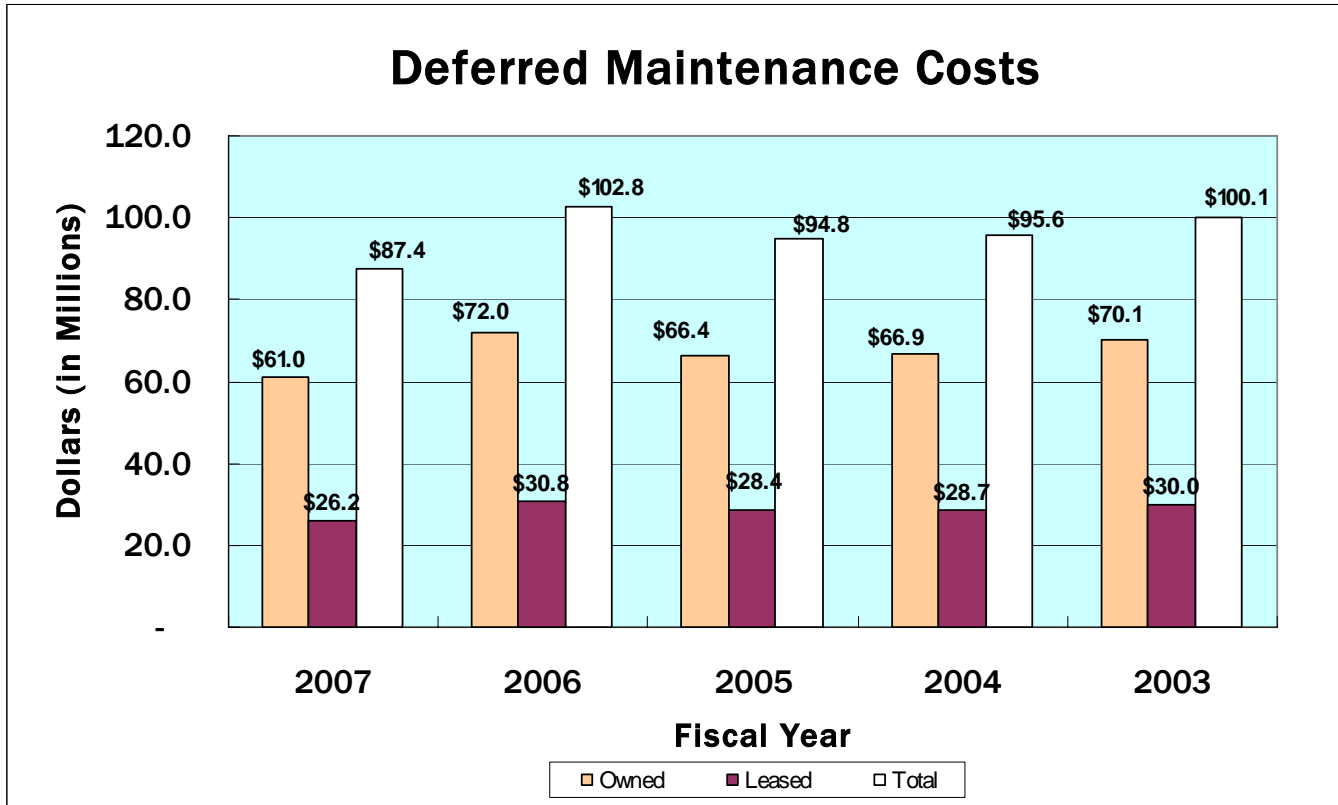
| <b>Constructed Asset</b>          | <b>Number of Assets</b> | <b>Portfolio Condition Based on Aggregate FCI Score</b> | <b>Deferred Maintenance Costs to Return Assets to an Acceptable Condition</b> |
|-----------------------------------|-------------------------|---|---|
| Buildings and Structures - Owned  | 1,480                   | Excellent - 90.5%                                       | \$61,127,338  |
| Buildings and Structures - Leased | 2,184                   | Excellent - 91.2%                                       | \$26,245,362  |
| <b>TOTAL</b>                      | <b>3,664</b>            | <b>Excellent - 90.8%</b>                                | <b>\$87,372,700</b>   |

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

**Deferred Maintenance Cost Estimates Over the Previous Five Year Period**

The final chart graphically depicts the trend in deferred maintenance costs for Job Corps center buildings and structures, owned and leased, for the five year period 2003 through 2007.

**Job Corps Center Constructed Assets  
Deferred Maintenance Costs for Buildings and Structures  
As of September 30, 2007**



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## **SOCIAL INSURANCE PROGRAMS**

The Federal Accounting Standards Advisory Board (FASAB) has classified certain government income transfer programs as social insurance programs. Recognizing that these programs have complex characteristics that do not fit traditional accounting models, the FASAB has developed accounting standards for social insurance programs which require the presentation of supplementary information to facilitate the assessment of the program's long term sustainability.

The U.S. Department of Labor operates two programs classified under Federal accounting standards as social insurance programs, the Unemployment Insurance Program and the Black Lung Disability Benefits Program. Presented below is the supplementary information for the two programs.

### **Unemployment Insurance Program**

The Unemployment Insurance (UI) Program was created in 1935 to provide income assistance to unemployed workers who lose their jobs through no fault of their own. The program protects workers during temporary periods of unemployment through the provision of unemployment compensation benefits. These benefits replace part of the unemployed worker's lost wages and, in so doing, stabilize the economy during recessionary periods by increasing the unemployed's purchasing power. The UI program operates counter cyclically, with benefits exceeding tax collections during recessionary periods and UI tax revenues exceeding benefit payments during periods of recovery.

#### **Program Administration and Funding**

The UI program is administered through a unique system of Federal-State partnerships, established in Federal law but executed through conforming State laws by State officials. The Federal government provides broad policy guidance and program direction through the oversight of the U.S. Department of Labor, while program details are established through individual State UI statutes, administered through State UI agencies.

#### **Federal and State Unemployment Taxes**

The UI program is financed through the collection of Federal and State unemployment taxes levied on subject employers and deposited in the Unemployment Trust Fund (UTF). The UTF was established to account for the receipt, investment and disbursement of unemployment taxes. Federal unemployment taxes are used to pay for the administrative costs of the UI program, including grants to each State to cover the costs of State UI operations and the Federal share of extended UI benefits. Federal unemployment taxes are also used to maintain a loan account within the UTF, from which insolvent States may borrow funds to pay UI benefits. State UI taxes are used exclusively for the payment of regular UI benefits, as well as the State's share of extended benefits.

##### **Federal Unemployment Taxes**

Under the provisions of the Federal Unemployment Tax Act (FUTA), a Federal tax is levied on covered employers, at a current rate of 6.2% of the first \$7,000 in annual wages paid to each employee. This Federal tax rate is reduced by a credit of up to 5.4%, granted to employers paying State UI taxes under conforming State UI statutes. Accordingly, in conforming States, employers pay an effective Federal tax of 0.8% (0.6% starting January 1, 2008). Federal unemployment taxes are collected by the Internal Revenue Service.

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

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**State Unemployment Taxes**

In addition to the Federal tax, individual States finance their UI programs through State tax contributions from subject employers based on the wages of covered employees. (Three States also collect contributions from employees). Within Federal confines, State tax rates are assigned in accordance with an employer's experience with unemployment. Actual tax rates vary greatly among the States and among individual employers within a State. At a minimum, these rates must be applied to the Federal tax base of \$7,000; however, States may adopt a higher wage base than the minimum established by FUTA. State UI agencies are responsible for the collection of State unemployment taxes.

**Unemployment Trust Fund**

Federal and State UI taxes are deposited into designated accounts within the Unemployment Trust Fund. The UTF was established under the authority of Title IX, Section 904 of the Social Security Act of 1935, as amended, to receive, hold, invest, loan and disburse Federal and State UI taxes. The U.S. Department of the Treasury acts as custodian over monies deposited into the UTF, investing amounts in excess of disbursing requirements in Treasury securities. The UTF is comprised of the following accounts:

**Federal Accounts**

The Employment Security Administration Account (ESAA) was established pursuant to Section 901 of the Act. All tax receipts collected under the Federal Unemployment Tax Act (FUTA) are appropriated to the ESAA and used to pay the costs of Federal and State administration of the unemployment insurance program and veterans' employment services, as well as 97 percent of the costs of the State employment services. Excess balances in ESAA, as defined under the Act, are transferred to other Federal accounts within the Fund, as described below.

The Federal Unemployment Account (FUA) was established pursuant to Section 904 of the Act. FUA is funded by any excesses from the ESAA as determined in accordance with Section 902 of the Act. Title XII, Section 1201 of the Act authorizes the FUA to loan Federal monies to State accounts that are unable to make benefit payments because the State UI account balance has been exhausted. Title XII loans must be repaid with interest. The FUA may borrow from the ESAA or EUCA, without interest, or may also receive repayable advances, with interest, from the general fund of the U.S. Treasury, when the FUA has a balance insufficient to make advances to the States.

The Extended Unemployment Compensation Account (EUCA) was established pursuant to Section 905 of the Act. EUCA provides for the payment of extended unemployment benefits authorized under the Federal-State Extended Unemployment Compensation Act of 1970, as amended. Under the extended benefits program, extended unemployment benefits are paid to individuals who have exhausted their regular unemployment benefits. These extended benefits are financed one-half by State unemployment taxes and one-half by FUTA taxes from the EUCA. The EUCA is funded by a percentage of the FUTA tax transferred from the ESAA in accordance with Section 905(b)(1) and (2) of the Act. The EUCA may borrow from the ESAA or the FUA, without interest, or may also receive repayable advances from the general fund of the Treasury when the EUCA has a balance insufficient to pay the Federal share of extended benefits. During periods of sustained high unemployment, the EUCA may also receive payments and non-repayable advances from the general fund of the Treasury to finance emergency unemployment compensation benefits. Emergency unemployment benefits require Congressional authorization.

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

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The Federal Employees Compensation Account (FEC) was established pursuant to Section 909 of the Act. The FEC account provides funds to States for unemployment compensation benefits paid to eligible former Federal civilian personnel and ex-service members. Generally, benefits paid are reimbursed to the Federal Employees Compensation Account by the various Federal agencies. Any additional resources necessary to assure that the account can make the required payments to States, due to the timing of the benefit payments and subsequent reimbursements, will be provided by non-repayable advances from the general fund of the Treasury.

**State Accounts**

Separate State Accounts were established for each State and territory depositing monies into the Fund, in accordance with Section 904 of the Act. State unemployment taxes are deposited into these individual accounts and may be used only to pay State unemployment benefits. States may receive repayable advances from the FUA when their balances in the Fund are insufficient to pay benefits.

**Railroad Retirement Accounts**

The Railroad UI Account and Railroad UI Administrative Account were established under Section 904 of the Act to provide for a separate unemployment insurance program for railroad employees. This separate unemployment insurance program is administered by the Railroad Retirement Board, an agency independent of DOL. DOL is not responsible for the administrative oversight or solvency of the railroad unemployment insurance system. Receipts from taxes on railroad payrolls are deposited in the Railroad UI Account and the Railroad UI Administrative Account to meet benefit payment and related administrative expenses.

**UI Program Benefits**

The UI program provides regular and extended benefit payments to eligible unemployed workers. Regular UI program benefits are established under State law, payable for a period not to exceed a maximum duration. In 1970, Federal law began to require States to extend this maximum period of benefit duration by fifty percent during periods of high unemployment. These extended benefit payments are paid equally from Federal and State accounts.

**Regular UI Benefits**

There are no Federal standards regarding eligibility, amount or duration of regular UI benefits. Eligibility requirements, as well as benefit amounts and benefit duration are determined under State law. Under State laws, worker eligibility for benefits depends on experience in covered employment during a past base period, which attempts to measure the workers' recent attachment to the labor force. Three factors are common to State eligibility requirements: (1) a minimum duration of recent employment and earnings during a base period prior to unemployment, (2) unemployment not the fault of the unemployed, and (3) availability of the unemployed for work.

Benefit payment amounts under all State laws vary with the worker's base period wage history. Generally, States compute the amount of weekly UI benefits as a percentage of an individual's average weekly base period earnings, within certain minimum and maximum limits. Most States set the duration of UI benefits by the amount of earnings an individual has received during the base period. Currently, almost all States have established the maximum duration for regular UI benefits at 26 weeks. Regular UI benefits are paid by the State UI agencies from monies drawn down from the State's account within the Unemployment Trust Fund.

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

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**Extended UI Benefits**

The Federal/State Extended Unemployment Compensation Act of 1970 provides for the extension of the duration of UI benefits during periods of high unemployment. When the insured unemployment level within a State, or in some cases total unemployment, reaches certain specified levels, the State must extend benefit duration by fifty percent, up to a combined maximum of 39 weeks. Fifty percent of the cost of extended unemployment benefits is paid from the Extended Unemployment Compensation Account within the UTF, and fifty percent by the State, from the State's UTF account.

**Emergency UI Benefits**

During prolonged periods of high unemployment, Congress may authorize the payment of emergency unemployment benefits to supplement extended UI benefit payments. Emergency benefits were last authorized in 2002 under the Temporary Extended Unemployment Compensation Act. Payments in excess of \$23 billion were paid under the program which ended in January, 2005. Prior to that, emergency benefits were authorized in 1991 under the Emergency Unemployment Compensation Act. Emergency benefit payments in excess of \$28 billion were paid over the three year period ended in 1994.

**Federal UI Benefits**

Unemployment benefits to unemployed Federal workers are paid from the Federal Employment Compensation Account within the Unemployment Trust Fund. These benefit costs are reimbursed by the responsible Federal agency and are not considered to be social insurance benefits. Federal unemployment compensation benefits are not included in this discussion of social insurance programs.

**Program Finances and Sustainability**

At September 30, 2007, total assets within the UTF exceeded liabilities by \$75.0 billion. This fund balance approximates the accumulated surplus of tax revenues and earnings on these revenues over benefit payment expenses and is available to finance benefit payments in future periods when tax revenues may be insufficient. Treasury invests this accumulated surplus in Federal securities. The net value of these securities at September 30, 2007 was \$74.9 billion. These investments accrue interest, which is distributed to eligible State and Federal accounts within the UTF. Interest income from these investments during FY 2007 was \$3.3 billion. Federal and State UI tax and reimbursable revenues of \$40.9 billion and regular, extended and emergency benefit payment expense of \$32.3 billion were recognized for the year ended September 30, 2007.

As discussed in Note 1.L.1 to the consolidated financial statements, DOL recognized a liability for regular and extended unemployment benefits to the extent of unpaid benefits applicable to the current period and for benefits paid by States that have not been reimbursed by the UTF. Accrued unemployment benefits payable at September 30, 2007 were \$1.3 billion.



**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

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**Effect of Projected Cash Inflows and Outflows on the Accumulated Net Assets of the UTF**

The ability of the UI program to meet a participant's future benefit payment needs depends on the availability of accumulated taxes and earnings within the UTF. The Department measures the effect of projected benefit payments on the accumulated net assets of the UTF, under an open group scenario, which includes current and future participants in the UI program. Future estimated cash inflows and outflows of the UTF are tracked by the Department for budgetary purposes. These projections allow the Department to monitor the sensitivity of the UI program to differing economic conditions, and to predict the program's sustainability under varying economic assumptions. The significant assumptions used in the projections include total unemployment rates, civilian labor force levels, percent of unemployed receiving benefits, total wages, distribution of benefit payments by state, state tax rate structures, state taxable wage bases and interest rates on UTF investments.

Presented on the following pages is the effect of projected economic conditions on the net assets of the UTF, excluding the Federal Employees Compensation Account.

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

**Expected Economic Conditions**

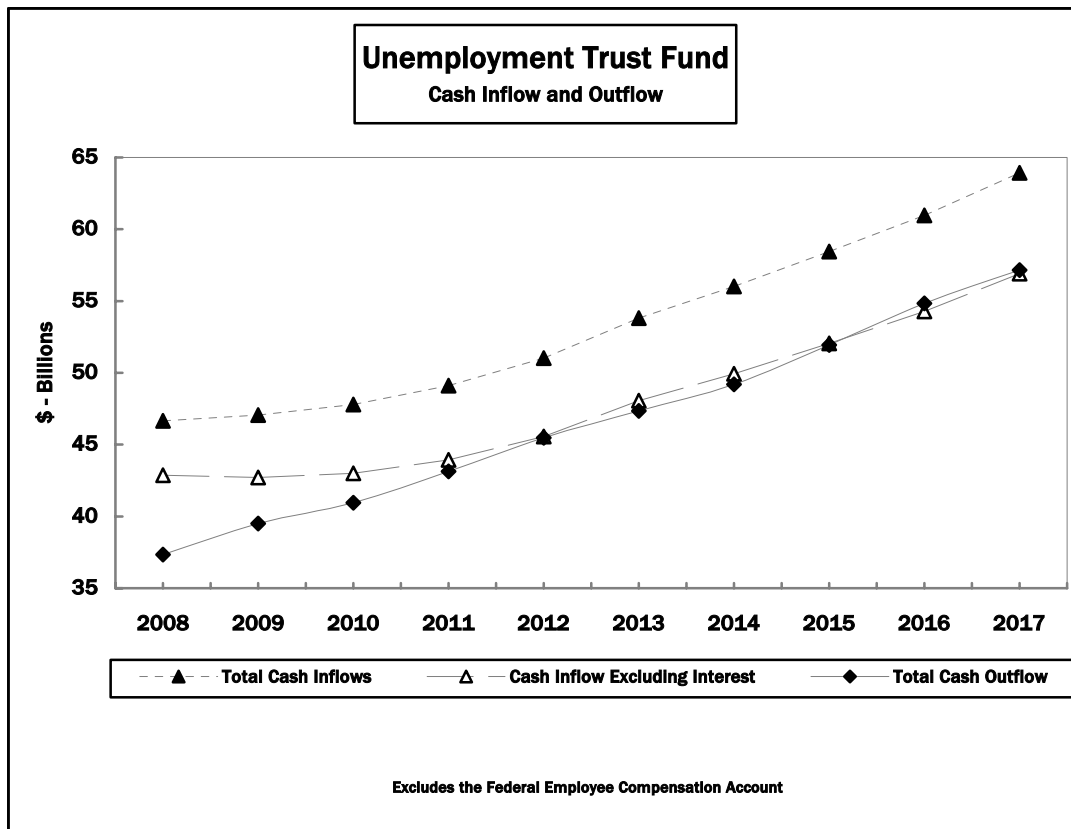
Charts I and II graphically depict the effect of expected economic conditions on the UTF over the next ten years.

Projected Cash Inflows and Outflows Under Expected Economic Conditions

Chart I depicts projected cash inflows and outflows of the UTF over the next ten years under expected economic conditions. Both cash inflows and cash inflows excluding interest earnings are displayed. Current estimates by the Department are based on an expected unemployment rate of 4.65% during FY 2008, increasing to 4.80% in FY 2009 and thereafter. Total cash inflows exceed total cash outflows for all years projected. The net inflow decreases from \$9.3 billion in FY 2008 to \$5.6 billion in FY 2012, leveling off at the \$6.0 billion to \$7.0 billion range after that, indicating that most States have replenished their funds to desired levels. The net inflow is sustained by the excess of Federal tax collections over Federal expenditures.

These projections, excluding interest earnings, indicate decreasing net cash inflows from FY 2008 to FY 2012, then approximately equal inflows and outflows through 2017.

Chart I



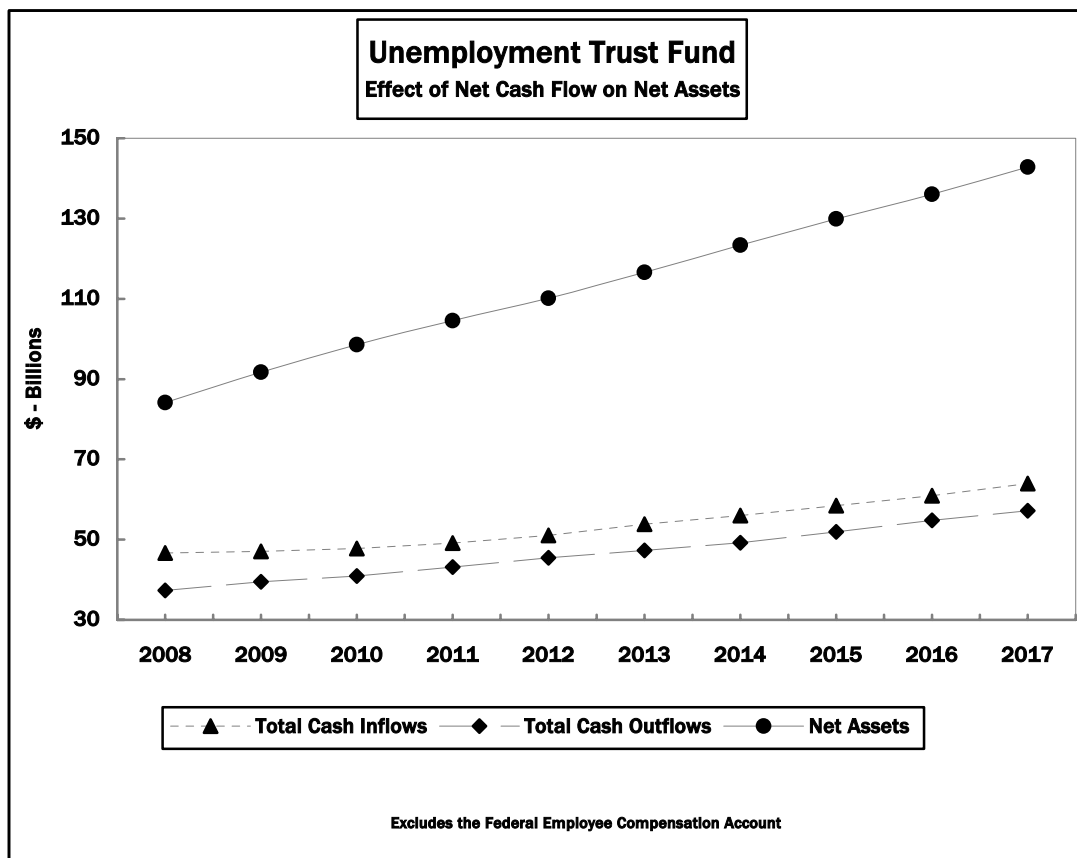
**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

Effect of Expected Cash Flows on UTF Assets

Chart II demonstrates the effect of these expected cash inflows and outflows on the net assets of the UTF over the ten year period ended September 30, 2017. Yearly projected total cash inflows, including interest earnings, and cash outflows are depicted, as well as the net effect of this cash flow on UTF assets.

Total cash inflows exceed cash outflows for all years projected, with this excess peaking in FY 2008. Starting at \$84.2 billion in FY 2008, net UTF assets increase by 69.6% over the next nine years to \$142.8 billion by the end of FY 2017.

Chart II



**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

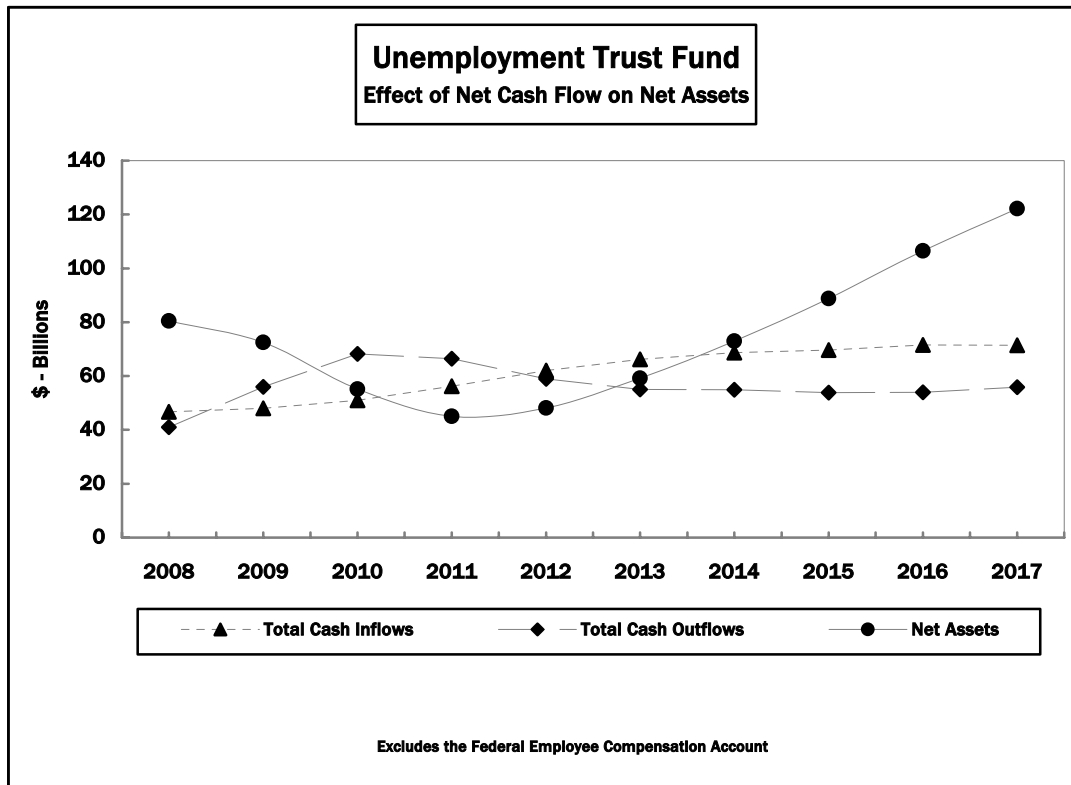
**Recessionary Scenarios**

Charts III and IV demonstrate the effect on accumulated UTF assets of projected total cash inflows and cash outflows of the UTF over the ten year period ending September 30, 2017, under mild and severe recession scenarios. Each scenario uses an open group, which includes current and future participants in the UI program. Charts III and IV assume increased rates of unemployment during mild and deep periods of recession.

Effect on UTF Assets of Mild Recession

The Department projects the effect of moderate recession on the cash inflows and outflows of the UTF. Under this scenario, which utilizes an unemployment rate peaking at 7.43% in FY 2010, net cash outflows are projected in FY 2009 through FY 2011. Net cash inflows are reestablished in FY 2012 and peak in FY 2016 with a drop in the unemployment rate to 4.80%. Net assets never fall below \$45.0 billion and are within \$20.7 billion of the balance under expected economic conditions by 2017. The crossover pattern remains the same when interest earnings are excluded.

Chart III



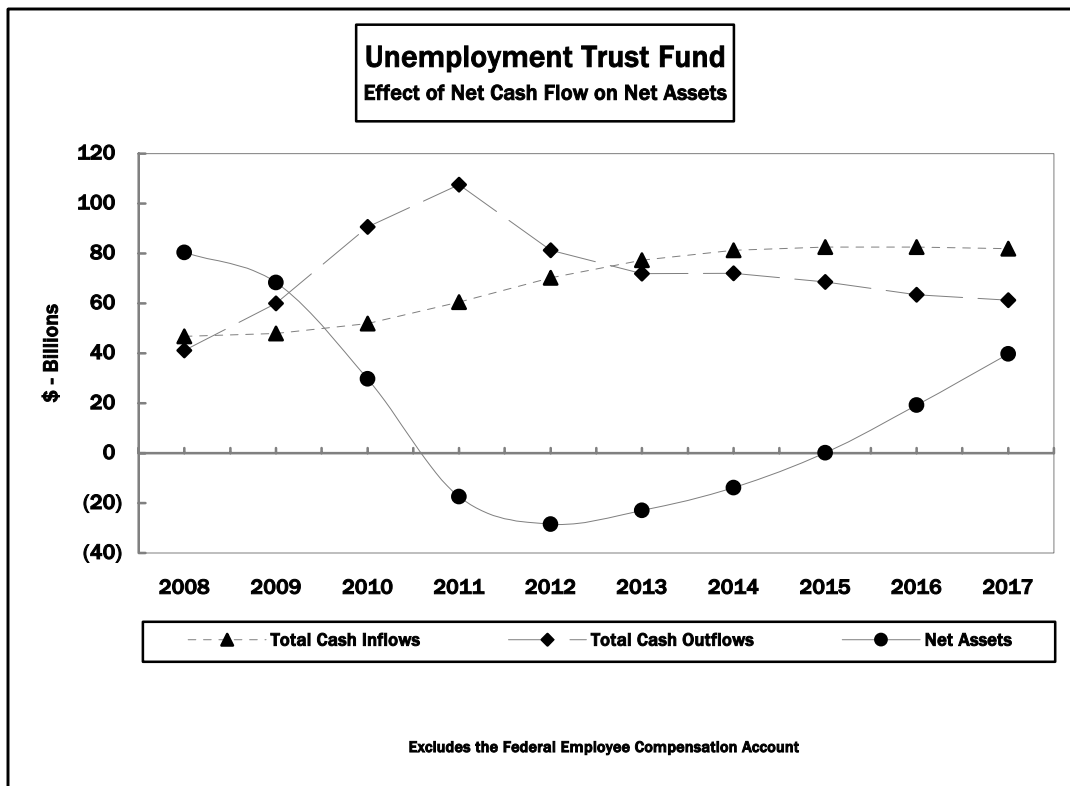
**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

**Effect on UTF Assets of Deep Recession**

The Department also estimates the effect of severe recession on the cash inflows and outflows of the UTF. This scenario assumes a rising unemployment rate peaking at 10.14% in FY 2011. Under this scenario, net cash outflows are projected in FY 2009 through FY 2012, with the fund in a deficit situation from 2011 to 2014. The net assets of the UTF decrease from \$80.4 billion in FY 2008 to negative \$28.4 billion in 2012, a decline of \$108.8 billion. State accounts without sufficient reserve balances to absorb negative cash flows would be forced to borrow funds from the FUA to meet benefit payment requirements. State borrowing demands could also deplete the FUA, which borrows from the ESAA and the EUCA until they are depleted. The FUA would then require advances from the general fund of the U.S. Treasury to provide for State borrowings. (See discussion of State solvency measures following)

Net cash inflows are reestablished in FY 2013, with a drop in the unemployment rate to 7.26%. By the end of FY 2017, this positive cash flow has replenished UTF account balances to \$39.8 billion. This example demonstrates the counter cyclical nature of the UI program, which experiences net cash outflows during periods of recession to be replenished through net cash inflows during periods of recovery. However, at the end of the projection period, net assets are \$103.0 billion less than under expected economic conditions.

Chart IV



**U.S. DEPARTMENT OF LABOR  
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION  
CASH INFLOW AND OUTFLOW OF THE  
UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT  
FOR THE TEN YEAR PERIOD ENDING SEPTEMBER 30, 2017**

(1) EXPECTED ECONOMIC CONDITIONS

| (Dollars in thousands)   | 2008                 | 2009                 | 2010                 | 2011                 | 2012                 | 2013                 | 2014                 | 2015                 | 2016                 | 2017                 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Balance, start of year</b>  | \$ 74,843,649        | \$ 84,154,730        | \$ 91,711,431        | \$ 98,553,909        | \$104,529,448        | \$110,093,855        | \$116,572,491        | \$123,382,794        | \$129,887,297        | \$136,033,960        |
| <b>Cash Inflow</b>   |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| State unemployment taxes   | 36,493,000           | 36,755,000           | 36,879,000           | 37,562,000           | 38,927,000           | 41,420,000           | 43,027,000           | 44,844,000           | 46,740,000           | 48,869,000           |
| Federal unemployment taxes   | 6,277,000            | 5,850,000            | 5,996,000            | 6,249,000            | 6,506,000            | 6,503,000            | 6,724,000            | 6,997,000            | 7,279,000            | 7,712,000            |
| Interest on loans  | 3,000                | 5,000                | 7,000                | 10,000               | 15,000               | 23,000               | 47,000               | 72,000               | 122,000              | 187,000              |
| Deposits by the Railroad Retirement Board                              | 95,400               | 105,800              | 111,600              | 113,400              | 118,800              | 125,000              | 127,400              | 130,000              | 131,600              | 134,600              |
| <b>Total cash inflow excluding interest</b>                            | <b>42,868,400</b>    | <b>42,715,800</b>    | <b>42,993,600</b>    | <b>43,934,400</b>    | <b>45,566,800</b>    | <b>48,071,000</b>    | <b>49,925,400</b>    | <b>52,043,000</b>    | <b>54,272,600</b>    | <b>56,902,600</b>    |
| Interest on Federal securities   | 3,790,042            | 4,333,837            | 4,796,439            | 5,184,672            | 5,465,165            | 5,746,137            | 6,087,682            | 6,395,417            | 6,700,550            | 7,025,221            |
| <b>Total cash inflow</b>   | <b>46,658,442</b>    | <b>47,049,637</b>    | <b>47,790,039</b>    | <b>49,119,072</b>    | <b>51,031,965</b>    | <b>53,817,137</b>    | <b>56,013,082</b>    | <b>58,438,417</b>    | <b>60,973,150</b>    | <b>63,927,821</b>    |
| <b>Cash outflow</b>  |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| State unemployment benefits  | 33,511,000           | 35,711,000           | 37,185,000           | 39,315,000           | 41,592,000           | 43,425,000           | 45,257,000           | 47,956,000           | 50,817,000           | 53,109,000           |
| State administrative costs   | 3,519,499            | 3,461,000            | 3,435,000            | 3,491,000            | 3,532,000            | 3,564,000            | 3,591,000            | 3,619,000            | 3,646,000            | 3,679,000            |
| Federal administrative costs   | 214,725              | 213,109              | 214,711              | 219,344              | 222,010              | 225,710              | 228,444              | 230,213              | 233,017              | 236,858              |
| Interest on tax refunds  | 2,568                | 2,479                | 2,602                | 2,750                | 2,863                | 2,861                | 2,959                | 3,079                | 3,203                | 3,393                |
| Railroad Retirement Board withdrawals                                  | 99,569               | 105,348              | 110,248              | 115,439              | 118,685              | 120,930              | 123,376              | 125,622              | 127,267              | 129,213              |
| <b>Total cash outflow</b>  | <b>37,347,361</b>    | <b>39,492,936</b>    | <b>40,947,561</b>    | <b>43,143,533</b>    | <b>45,467,558</b>    | <b>47,338,501</b>    | <b>49,202,779</b>    | <b>51,933,914</b>    | <b>54,826,487</b>    | <b>57,157,464</b>    |
| Excess of total cash inflow excluding interest over total cash outflow | 5,521,039            | 3,222,864            | 2,046,039            | 790,867              | 99,242               | 732,499              | 722,621              | 109,086              | (553,887)            | (254,864)            |
| Excess of total cash inflow over total cash outflow                    | 9,311,081            | 7,556,701            | 6,842,478            | 5,975,539            | 5,564,407            | 6,478,636            | 6,810,303            | 6,504,503            | 6,146,663            | 6,770,357            |
| <b>Balance, end of year</b>  | <b>\$ 84,154,730</b> | <b>\$ 91,711,431</b> | <b>\$ 98,553,909</b> | <b>\$104,529,448</b> | <b>\$110,093,855</b> | <b>\$116,572,491</b> | <b>\$123,382,794</b> | <b>\$129,887,297</b> | <b>\$136,033,960</b> | <b>\$142,804,317</b> |
| <b>Total unemployment rate</b>   | <b>4.65%</b>         | <b>4.80%</b>         | <b>4.80%</b>         | <b>4.80%</b>         | <b>4.80%</b>         | <b>4.80%</b>         | <b>4.80%</b>         | <b>4.80%</b>         | <b>4.80%</b>         | <b>4.80%</b>         |

**U.S. DEPARTMENT OF LABOR  
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION  
CASH INFLOW AND OUTFLOW OF THE  
UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT  
FOR THE TEN YEAR PERIOD ENDING SEPTEMBER 30, 2017**

**(2) MILD RECESSIONARY UNEMPLOYMENT RATE**

| (Dollars in thousands)   | 2008          | 2009          | 2010          | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          | 2017          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Balance, start of year</b>  | \$ 74,843,649 | \$ 80,486,451 | \$ 72,462,252 | \$ 55,202,091 | \$ 45,019,332 | \$ 48,112,156 | \$ 59,209,657 | \$ 72,993,092 | \$ 88,769,801 | \$106,469,752 |
| <b>Cash inflow</b>   |               |               |               |               |               |               |               |               |               |               |
| State unemployment taxes   | 36,593,000    | 38,290,000    | 41,551,000    | 46,615,000    | 50,805,000    | 53,278,000    | 54,342,000    | 54,405,000    | 53,820,000    | 52,679,000    |
| Federal unemployment taxes   | 6,245,000     | 5,739,000     | 5,815,000     | 6,062,000     | 7,239,000     | 8,547,000     | 9,826,000     | 10,086,000    | 12,002,000    | 12,366,000    |
| General revenue appropriation  | -             | 44,000        | 99,000        | 68,000        | 2,000         | -             | -             | -             | -             | -             |
| Interest on loans  | 3,000         | 18,000        | 251,000       | 869,000       | 1,216,000     | 1,228,000     | 1,083,000     | 934,000       | 723,000       | 516,000       |
| Deposits by the Railroad Retirement Board                              | 95,400        | 105,800       | 111,600       | 113,400       | 118,800       | 125,000       | 127,400       | 130,000       | 131,600       | 134,600       |
| Total cash inflow excluding interest                                   | 42,936,400    | 44,196,800    | 47,827,600    | 53,727,400    | 59,380,800    | 63,178,000    | 65,378,400    | 65,555,000    | 66,676,600    | 65,695,600    |
| Interest on Federal securities   | 3,734,700     | 3,802,840     | 3,141,172     | 2,538,741     | 2,657,204     | 2,990,102     | 3,350,028     | 4,036,882     | 4,920,866     | 5,779,955     |
| Total cash inflow  | 46,671,100    | 47,999,640    | 50,968,772    | 56,266,141    | 62,038,004    | 66,168,102    | 68,728,428    | 69,591,882    | 71,597,466    | 71,475,555    |
| <b>Cash outflow</b>  |               |               |               |               |               |               |               |               |               |               |
| State unemployment benefits  | 37,084,000    | 51,956,000    | 64,070,000    | 62,280,000    | 54,845,000    | 51,008,000    | 50,893,000    | 49,793,000    | 49,881,000    | 51,763,000    |
| State administrative costs   | 3,627,449     | 3,746,950     | 3,831,450     | 3,831,450     | 3,756,300     | 3,712,200     | 3,695,850     | 3,661,900     | 3,650,950     | 3,679,000     |
| Federal administrative costs   | 214,725       | 213,109       | 214,711       | 219,344       | 222,010       | 225,710       | 228,444       | 230,213       | 233,017       | 236,858       |
| Interest on tax refunds  | 2,555         | 2,432         | 2,524         | 2,667         | 3,185         | 3,761         | 4,323         | 4,438         | 5,281         | 5,441         |
| Railroad Retirement Board withdrawals                                  | 99,569        | 105,348       | 110,248       | 115,439       | 118,685       | 120,930       | 123,376       | 125,622       | 127,267       | 129,213       |
| Total cash outflow   | 41,028,298    | 56,023,839    | 68,228,933    | 66,448,900    | 58,945,180    | 55,070,601    | 54,944,993    | 53,815,173    | 53,897,515    | 55,813,512    |
| Excess of total cash inflow excluding interest over total cash outflow | 1,908,102     | (11,827,039)  | (20,401,333)  | (12,721,500)  | 435,620       | 8,107,399     | 10,433,407    | 11,739,827    | 12,779,085    | 9,882,088     |
| Excess of total cash inflow over total cash outflow                    | 5,642,802     | (8,024,199)   | (17,260,161)  | (10,182,759)  | 3,092,824     | 11,097,501    | 13,783,435    | 15,776,709    | 17,699,951    | 15,662,043    |
| <b>Balance, end of year</b>  | \$ 80,486,451 | \$ 72,462,252 | \$ 55,202,091 | \$ 45,019,332 | \$ 48,112,156 | \$ 59,209,657 | \$ 72,993,092 | \$ 88,769,801 | \$106,469,752 | \$122,131,795 |
| Total unemployment rate  | 5.05%         | 6.61%         | 7.43%         | 7.09%         | 6.35%         | 5.61%         | 5.47%         | 5.09%         | 4.80%         | 4.80%         |

U.S. DEPARTMENT OF LABOR  
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION  
CASH INFLOW AND OUTFLOW OF THE  
UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT  
FOR THE TEN YEAR PERIOD ENDING SEPTEMBER 30, 2017

(3) DEEP RECESSIONARY UNEMPLOYMENT RATE

| (Dollars In thousands)   | 2008          | 2009          | 2010          | 2011            | 2012            | 2013            | 2014            | 2015            | 2016          | 2017          |
|--|---------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|---------------|
| <b>Balance, start of year</b>  | \$ 74,843,649 | \$ 80,418,792 | \$ 68,360,578 | \$ 29,696,768   | \$ (17,398,550) | \$ (28,421,399) | \$ (23,000,905) | \$ (13,873,821) | \$ 160,860    | \$ 19,198,947 |
| <b>Cash inflow</b>   |               |               |               |                 |                 |                 |                 |                 |               |               |
| State unemployment taxes   | 36,714,000    | 38,397,000    | 43,198,000    | 50,515,000      | 57,906,000      | 62,496,000      | 64,186,000      | 63,881,000      | 62,779,000    | 61,255,000    |
| Federal unemployment taxes   | 6,239,000     | 5,697,000     | 5,679,000     | 5,874,000       | 7,229,000       | 9,387,000       | 11,506,000      | 13,092,000      | 13,929,000    | 14,707,000    |
| General revenue appropriation  | -             | 50,000        | 109,000       | 133,000         | 49,000          | -               | -               | -               | -             | -             |
| Interest on loans  | 3,000         | 21,000        | 529,000       | 2,225,000       | 3,595,000       | 3,852,000       | 3,739,000       | 3,538,000       | 3,259,000     | 2,855,000     |
| Deposits by the Railroad Retirement Board                              | 95,400        | 105,800       | 111,600       | 113,400         | 118,800         | 125,000         | 127,400         | 130,000         | 131,600       | 134,600       |
| Total cash inflow excluding interest                                   | 43,051,400    | 44,270,800    | 49,626,600    | 58,860,400      | 68,897,800      | 75,860,000      | 79,558,400      | 80,641,000      | 80,098,600    | 78,951,600    |
| Interest on Federal securities   | 3,722,589     | 3,724,057     | 2,349,364     | 1,667,200       | 1,358,977       | 1,459,214       | 1,678,367       | 1,986,577       | 2,424,100     | 2,967,387     |
| Total cash inflow  | 46,773,989    | 47,994,857    | 51,975,964    | 60,527,600      | 70,256,777      | 77,319,214      | 81,236,767      | 82,627,577      | 82,522,700    | 81,918,987    |
| <b>Cash outflow</b>  |               |               |               |                 |                 |                 |                 |                 |               |               |
| State unemployment benefits  | 37,252,000    | 55,893,000    | 86,089,000    | 102,122,000     | 75,055,000      | 65,472,000      | 65,991,000      | 62,950,000      | 58,420,000    | 56,883,000    |
| State administrative costs   | 3,629,999     | 3,839,200     | 4,223,350     | 4,363,550       | 4,080,750       | 3,975,950       | 3,961,800       | 3,881,300       | 3,798,200     | 3,774,200     |
| Federal administrative costs   | 214,725       | 213,109       | 214,711       | 219,344         | 222,010         | 225,710         | 228,444         | 230,213         | 233,017       | 236,858       |
| Interest on tax refunds  | 2,553         | 2,414         | 2,465         | 2,585           | 3,181           | 4,130           | 5,063           | 5,761           | 6,129         | 6,471         |
| Interest on General Fund advances                                      | -             | -             | -             | 800,000         | 1,800,000       | 2,100,000       | 1,800,000       | 1,400,000       | 900,000       | 300,000       |
| Railroad Retirement Board withdrawals                                  | 99,569        | 105,348       | 110,248       | 115,439         | 118,685         | 120,930         | 123,376         | 125,622         | 127,267       | 129,213       |
| Total cash outflow   | 41,198,846    | 60,053,071    | 90,639,774    | 107,622,918     | 81,279,626      | 71,898,720      | 72,109,683      | 68,592,896      | 63,484,613    | 61,329,742    |
| Excess of total cash inflow excluding interest over total cash outflow | 1,852,554     | (15,782,271)  | (41,013,174)  | (48,762,518)    | (12,381,826)    | 3,961,280       | 7,448,717       | 12,048,104      | 16,613,987    | 17,621,858    |
| Excess of total cash inflow over total cash outflow                    | 5,575,143     | (12,058,214)  | (38,663,810)  | (47,095,318)    | (11,022,849)    | 5,420,494       | 9,127,084       | 14,034,681      | 19,038,087    | 20,589,245    |
| <b>Balance, end of year</b>  | \$ 80,418,792 | \$ 68,360,578 | \$ 29,696,768 | \$ (17,398,550) | \$ (28,421,399) | \$ (23,000,905) | \$ (13,873,821) | \$ 160,860      | \$ 19,198,947 | \$ 39,788,192 |
| Total unemployment rate  | 5.05%         | 6.93%         | 9.10%         | 10.14%          | 7.82%           | 7.26%           | 7.05%           | 6.43%           | 5.62%         | 5.25%         |



**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

### States Minimally Solvent

Each State's accumulated UTF net assets or reserve balance should provide a defined level of benefit payments over a defined period. To be minimally solvent, a State's reserve balance should provide for one year's projected benefit payment needs based on the highest levels of benefit payments experienced by the State over the last twenty years. A ratio of 1.0 or greater prior to a recession indicates a state is minimally solvent. States below this level are vulnerable to exhausting their funds in a recession. States exhausting their reserve balance must borrow funds from the Federal Unemployment Account (FUA) to make benefit payments. During periods of high-sustained unemployment, balances in the FUA may be depleted. In these circumstances, FUA is authorized to borrow from the Treasury general fund.

Chart V presents the State by State results of this analysis at September 30, 2007 in descending order by ratio. As the table below illustrates, 25 state funds were below minimal solvency ratio at September 30, 2007.

Chart V

| Minimally Solvent    |       | Not Minimally Solvent |       |
|----------------------|-------|-----------------------|-------|
| State                | Ratio | State                 | Ratio |
| New Mexico           | 2.97  | Virgin Islands        | 0.96  |
| Mississippi          | 2.92  | Virginia              | 0.95  |
| Montana              | 2.42  | Colorado              | 0.90  |
| Oklahoma             | 2.41  | Tennessee             | 0.80  |
| Utah                 | 2.40  | Idaho                 | 0.74  |
| Wyoming              | 2.01  | Illinois              | 0.68  |
| Louisiana            | 1.95  | Wisconsin             | 0.61  |
| Nebraska             | 1.92  | South Dakota          | 0.60  |
| Hawaii               | 1.91  | Connecticut           | 0.59  |
| Washington           | 1.89  | Indiana               | 0.58  |
| Oregon               | 1.88  | Minnesota             | 0.56  |
| Maine                | 1.77  | Texas                 | 0.55  |
| Iowa                 | 1.69  | Pennsylvania          | 0.54  |
| Arizona              | 1.61  | Massachusetts         | 0.53  |
| Kansas               | 1.60  | Arkansas              | 0.52  |
| District of Columbia | 1.49  | South Carolina        | 0.49  |
| Vermont              | 1.49  | Kentucky              | 0.47  |
| Nevada               | 1.47  | Rhode Island          | 0.44  |
| New Hampshire        | 1.44  | California            | 0.40  |
| North Dakota         | 1.42  | North Carolina        | 0.36  |
| Georgia              | 1.34  | Ohio                  | 0.33  |
| Puerto Rico          | 1.26  | New Jersey            | 0.27  |
| Alaska               | 1.25  | Missouri              | 0.17  |
| Florida              | 1.18  | New York              | 0.13  |
| Delaware             | 1.16  | Michigan              | 0.04  |
| Maryland             | 1.09  |                       |       |
| West Virginia        | 1.01  |                       |       |
| Alabama              | 1.00  |                       |       |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**(Unaudited)**

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**Black Lung Disability Benefit Program**

The Black Lung Disability Benefit Program provides for compensation, medical and survivor benefits for eligible coal miners who are disabled due to pneumoconiosis (black lung disease) arising out of their coal mine employment. The U.S. Department of Labor operates the Black Lung Disability Benefit Program. The Black Lung Disability Trust Fund (BLDTF) provides benefit payments to eligible coal miners disabled by pneumoconiosis when no responsible mine operator can be assigned the liability.

**Program Administration and Funding**

Black lung disability benefit payments are funded by excise taxes from coal mine operators based on the sale of coal, as are the fund's administrative costs. These taxes are collected by the Internal Revenue Service and transferred to the BLDTF, which was established under the authority of the Black Lung Benefits Revenue Act, and administered by the U.S. Department of the Treasury. The Black Lung Benefits Revenue Act provides for repayable advances to the BLDTF from the general fund of the Treasury, in the event that BLDTF resources are not adequate to meet program obligations.

**Program Finances and Sustainability**

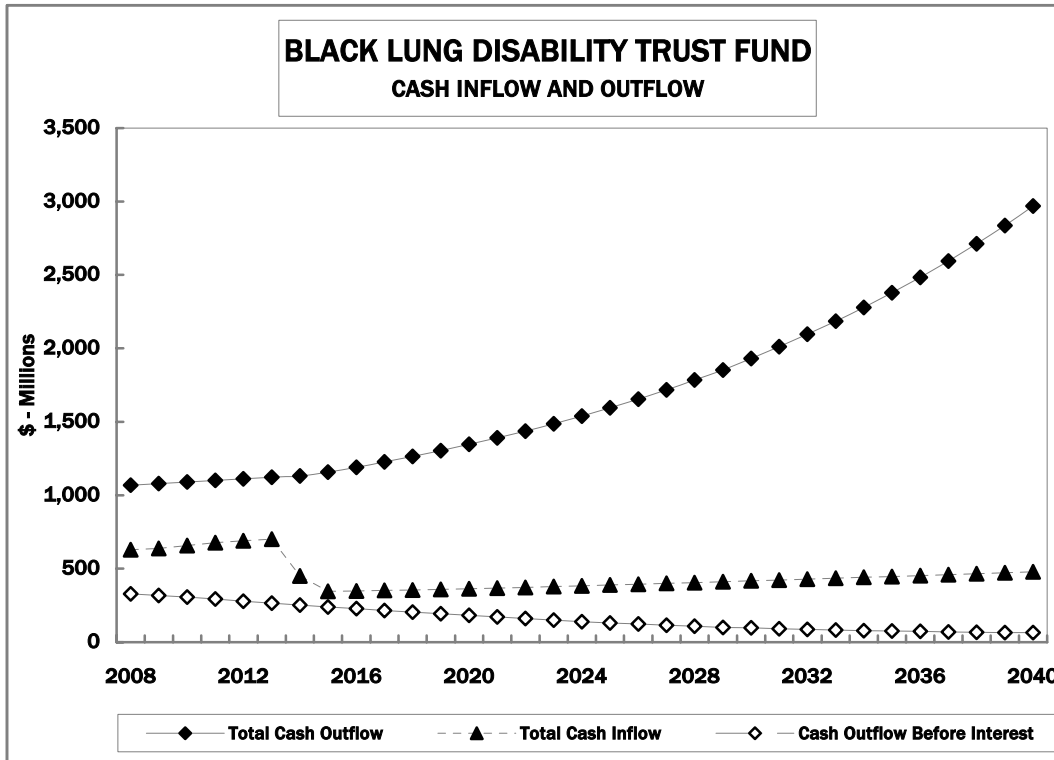
At September 30, 2007, total liabilities of the Black Lung Disability Trust Fund exceeded assets by \$10.0 billion. This deficit fund balance represented the accumulated shortfall of excise taxes necessary to meet benefit payment and interest expenses. This shortfall was funded by repayable advances to the BLDTF, which are repayable with interest. Outstanding advances at September 30, 2007 were \$10.1 billion, bearing interest rates ranging from 4.500 to 13.875 percent. Excise tax revenues of \$639.2 million, benefit payment expense of \$285.6 million and interest expense of \$717.2 million were recognized for the year ended September 30, 2007.

As discussed in Note 1.L.3, DOL recognized a liability for disability benefits to the extent of unpaid benefits applicable to the current period. Accrued disability benefits payable at September 30, 2007 were \$20.6 million. Although no liability was recognized for future payments to be made to present and future program participants beyond the due and payable amounts accrued at year end, future estimated cash inflows and outflows of the BLDTF are tracked by the Department for budgetary purposes. The significant assumptions used in the projections are coal excise tax revenue estimates, number of beneficiaries, life expectancy, medical cost inflation, Federal civilian pay raises, and the interest rate on new repayable advances from Treasury. These projections are sensitive to changes in the tax rate and changes in interest rates on repayable advances from Treasury.

These projections, made over the thirty-three year period ending September 30, 2040, indicate that cash inflows from excise taxes will exceed cash outflows for benefit payments and administrative expenses for each period projected. Cumulative net cash inflows are projected to reach \$15.0 billion by the year 2040. However, when interest payments required to finance the BLDTF's repayable advances are applied against this surplus cash inflow, the BLDTF's cash flow turns negative during each of the thirty-three periods included in the projections. Net cash outflows after interest payments are projected to reach \$56.1 billion by the end of the year 2040, increasing the BLDTF's deficit to \$51.2 billion at September 30, 2040. (See Chart I on following page)

The net present value of future projected benefit payments and other cash inflow and outflow activities together with the fund's deficit positions as of September 30, 2007, 2006, 2005, 2004, and 2003 are presented in the Statement of Social Insurance.

Chart I



The projected decrease in cash inflows in the year 2014 and thereafter is the result of a scheduled reduction in the tax rate on the sale of coal. This rate reduction is projected to result in a fifty-one percent decrease in the amount of excise taxes collected between the years 2013 and 2015. The cumulative effect of this change is estimated to be in excess of \$11.7 billion by the year 2040.

Yearly cash inflows and outflows are presented in the table on the following page.

**U.S. DEPARTMENT OF LABOR**  
**SUPPLEMENTARY SOCIAL INSURANCE INFORMATION**  
**CASH INFLOW AND OUTFLOW OF THE BLACK LUNG DISABILITY TRUST FUND**  
**FOR THE THIRTY-THREE YEAR PERIOD ENDING SEPTEMBER 30, 2040**

| (Dollars in thousands)                                    | 2008            | 2009            | 2010            | 2011            | 2012            | 2013 - 2040     | Total           |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Balance, start of year</b>                             | \$ (10,027,701) | \$ (10,467,581) | \$ (10,908,546) | \$ (11,343,114) | \$ (11,768,902) | \$ (12,190,913) | \$ (10,027,701) |
| <b>Cash inflow</b>  |                 |                 |                 |                 |                 |                 |                 |
| Excise taxes  | 628,000         | 638,000         | 657,000         | 676,000         | 690,000         | 11,703,703      | 14,992,703      |
| Total cash inflow   | 628,000         | 638,000         | 657,000         | 676,000         | 690,000         | 11,703,703      | 14,992,703      |
| <b>Cash outflow</b>                                       |                 |                 |                 |                 |                 |                 |                 |
| Disabled coal miners benefits                             | 271,007         | 257,576         | 244,437         | 230,842         | 217,222         | 2,706,171       | 3,927,255       |
| Administrative costs                                      | 58,237          | 59,967          | 62,206          | 62,206          | 62,206          | 1,137,021       | 1,441,843       |
| Cash outflows before interest payments                    | 329,244         | 317,543         | 306,643         | 293,048         | 279,428         | 3,843,192       | 5,369,098       |
| Cash inflow over cash outflow<br>before interest payments | 298,756         | 320,457         | 350,357         | 382,952         | 410,572         | 7,860,511       | 9,623,605       |
| Interest on advances                                      | 738,636         | 761,422         | 784,925         | 808,740         | 832,583         | 46,839,453      | 50,765,759      |
| Total cash outflow  | 1,067,880       | 1,078,965       | 1,091,568       | 1,101,788       | 1,112,011       | 50,682,645      | 56,134,857      |
| Total cash outflow over total cash inflow                 | (439,880)       | (440,965)       | (434,568)       | (425,788)       | (422,011)       | (38,978,942)    | (41,142,154)    |
| <b>Balance, end of year</b>                               | \$ (10,467,581) | \$ (10,908,546) | \$ (11,343,114) | \$ (11,768,902) | \$ (12,190,913) | \$ (51,169,855) | \$ (51,169,855) |

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**STATEMENT OF BUDGETARY RESOURCES**

The principal Statement of Budgetary Resources combines the availability, status and outlay of DOL's budgetary resources during FY 2007 and 2006. Presented on the following pages is the disaggregation of this combined information for each of the Department's major budget accounts.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**(Unaudited)**
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
**For the Year Ended September 30, 2007**

| <b>(Dollars in thousands)</b>   | <b>Employment<br/>and Training<br/>Administration</b> | <b>Employment<br/>Standards<br/>Administration</b> | <b>Occupational<br/>Safety and Health<br/>Administration</b> |
|---|---|--|--|
| <b>BUDGETARY RESOURCES</b>  |   |  |  |
| Unobligated balance, brought forward, October 1                                     | \$ 2,387,191  | \$ 1,715,502                                       | \$ 21,835  |
| Recoveries of prior year unpaid obligations   | 160,292   | 9,100  | 8,739  |
| Budget authority  |   |  |  |
| Appropriations received   | 52,188,334  | 2,903,394  | 486,925  |
| Borrowing authority   | 426,000   | -  | -  |
| Spending authority from offsetting collections                                      |   |  |  |
| Earned  |   |  |  |
| Collected   | 74,576  | 2,501,508  | 2,766  |
| Change in receivables from Federal sources  | (1)   | (2,564)  | (1,027)  |
| Change in unfilled customer orders  |   |  |  |
| Advance received  | -   | 2,907  | -  |
| Without advance from Federal sources  | -   | -  | -  |
| Expenditure transfers from trust funds  | 3,328,586   | 35,620   | -  |
| Total budget authority  | 56,017,495  | 5,440,865  | 488,664  |
| Nonexpenditure transfers, net   | (822,728)   | 425,460  | (1,589)  |
| Temporarily not available pursuant to Public Law                                    | (8,454,205)   | (19,799)   | -  |
| Permanently not available   | (105,951)   | (2,804)  | (7,243)  |
| <b>Total budgetary resources</b>  | <b>\$ 49,182,094</b>                                  | <b>\$ 7,568,324</b>                                | <b>\$ 510,406</b>  |
| <b>STATUS OF BUDGETARY RESOURCES</b>  |   |  |  |
| Obligations incurred  |   |  |  |
| Direct  | \$ 46,722,026   | \$ 3,108,239                                       | \$ 492,669   |
| Reimbursable  | 56,308  | 2,622,340  | 1,451  |
| Total obligations incurred  | 46,778,334  | 5,730,579  | 494,120  |
| Unobligated balances available  |   |  |  |
| Apportioned   | 1,000,005   | 1,414,932  | 58   |
| Exempt from apportionment   | -   | 178,811  | -  |
| Total unobligated balances available  | 1,000,005   | 1,593,743  | 58   |
| Unobligated balances not available  | 1,403,755   | 244,002  | 16,228   |
| <b>Total status of budgetary resources</b>  | <b>\$ 49,182,094</b>                                  | <b>\$ 7,568,324</b>                                | <b>\$ 510,406</b>  |
| <b>CHANGE IN OBLIGATED BALANCE</b>  |   |  |  |
| Obligated balance, net  |   |  |  |
| Unpaid obligations, brought forward, October 1                                      | \$ 8,004,128  | \$ 295,434   | \$ 85,115  |
| Less uncollected customer payments from Federal sources, brought forward, October 1 | (1,208,324)   | (5,618)  | (9,126)  |
| Total unpaid obligated balance, net   | 6,795,804   | 289,816  | 75,989   |
| Obligations incurred, net   | 46,778,334  | 5,730,579  | 494,120  |
| Less gross outlays  | (46,251,217)  | (5,724,706)  | (474,804)  |
| Less recoveries of prior year unpaid obligations, actual                            | (160,292)   | (9,100)  | (8,739)  |
| Change in uncollected customer payments from Federal sources                        | (34,576)  | 4,591  | 1,027  |
| Obligated balance, net, end of period   |   |  |  |
| Unpaid obligations  | 8,370,953   | 292,207  | 95,692   |
| Less uncollected customer payments from Federal sources                             | (1,242,900)   | (1,027)  | (8,099)  |
| Total unpaid obligated balance, net, end of period                                  | \$ 7,128,053  | \$ 291,180   | \$ 87,593  |
| <b>NET OUTLAYS</b>  |   |  |  |
| Gross outlays   | \$ 46,251,217   | \$ 5,724,706                                       | \$ 474,804   |
| Less offsetting collections   | (3,368,584)   | (2,542,063)  | (2,766)  |
| Less distributed offsetting receipts  | (761,562)   | (6,388)  | (170)  |
| Net outlays   | \$ 42,121,071   | \$ 3,176,255                                       | \$ 471,868   |

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

| <u>Bureau of<br/>Labor<br/>Statistics</u> | <u>Mine Safety<br/>and Health<br/>Administration</u> | <u>Employee Benefits<br/>Security<br/>Administration</u> | <u>Veterans'<br/>Employment<br/>and Training</u> | <u>Other<br/>Departmental<br/>Programs</u> | <u>Total</u>         |
|---|--|--|--|--|----------------------|
| \$ 9,057                                  | \$ 22,740  | \$ 2,077   | \$ 2,848   | \$ 35,036                                  | \$ 4,196,286         |
| 7,130                                     | 2,971  | 2,798  | 4,428  | 25,215                                     | 220,673              |
| 471,056                                   | 301,570  | 141,573  | 29,244   | 399,705                                    | 56,921,801           |
| -   | -  | -  | -  | -  | 426,000              |
| 6,636                                     | 1,322  | 11,142   | 65   | 189,572                                    | 2,787,587            |
| -   | (15)   | -  | -  | (1,687)                                    | (5,294)              |
| -   | -  | -  | -  | (3,126)                                    | (219)                |
| -   | -  | -  | -  | -  | -                    |
| 75,930                                    | -  | -  | 193,945  | 31,461                                     | 3,665,542            |
| 553,622                                   | 302,877  | 152,715  | 223,254  | 615,925                                    | 63,795,417           |
| (244)                                     | (147)  | 6,849  | -  | 2,772                                      | (389,627)            |
| -   | -  | -  | -  | -  | (8,474,004)          |
| (2,505)                                   | (628)  | (1,163)  | (1,334)  | (10,563)                                   | (132,191)            |
| <u>\$ 567,060</u>                         | <u>\$ 327,813</u>                                    | <u>\$ 163,276</u>  | <u>\$ 229,196</u>                                | <u>\$ 668,385</u>                          | <u>\$ 59,216,554</u> |
| \$ 551,634                                | \$ 325,427   | \$ 135,303   | \$ 223,675                                       | \$ 461,098                                 | \$ 52,020,071        |
| 6,366                                     | 1,115  | 10,997   | -  | 186,125                                    | 2,884,702            |
| 558,000                                   | 326,542  | 146,300  | 223,675  | 647,223                                    | 54,904,773           |
| 305                                       | 170  | 14,098   | 677  | 10,744                                     | 2,440,989            |
| -   | -  | -  | -  | 137  | 178,948              |
| 305                                       | 170  | 14,098   | 677  | 10,881                                     | 2,619,937            |
| 8,755                                     | 1,101  | 2,878  | 4,844  | 10,281                                     | 1,691,844            |
| <u>\$ 567,060</u>                         | <u>\$ 327,813</u>                                    | <u>\$ 163,276</u>  | <u>\$ 229,196</u>                                | <u>\$ 668,385</u>                          | <u>\$ 59,216,554</u> |
| \$ 74,100                                 | \$ 24,067  | \$ 43,819  | \$ 60,111  | \$ 433,670                                 | \$ 9,020,444         |
| -   | (15)   | -  | -  | (13,769)                                   | (1,236,852)          |
| 74,100                                    | 24,052   | 43,819   | 60,111   | 419,901                                    | 7,783,592            |
| 558,000                                   | 326,542  | 146,300  | 223,675  | 647,223                                    | 54,904,773           |
| (549,681)                                 | (299,028)  | (147,149)  | (223,258)  | (665,173)                                  | (54,335,016)         |
| (7,130)                                   | (2,971)  | (2,798)  | (4,428)  | (25,215)                                   | (220,673)            |
| -   | 15   | -  | -  | 4,427                                      | (24,516)             |
| 75,289                                    | 48,610   | 40,172   | 56,100   | 390,505                                    | 9,369,528            |
| -   | -  | -  | -  | (9,342)                                    | (1,261,368)          |
| <u>\$ 75,289</u>                          | <u>\$ 48,610</u>                                     | <u>\$ 40,172</u>   | <u>\$ 56,100</u>                                 | <u>\$ 381,163</u>                          | <u>\$ 8,108,160</u>  |
| \$ 549,681                                | \$ 299,028   | \$ 147,149   | \$ 223,258                                       | \$ 665,173                                 | \$ 54,335,016        |
| (82,566)                                  | (1,322)  | (11,142)   | (194,010)  | (217,907)                                  | (6,420,360)          |
| (12)                                      | (49)   | (24,168)   | -  | (2,662)                                    | (795,011)            |
| <u>\$ 467,103</u>                         | <u>\$ 297,657</u>                                    | <u>\$ 111,839</u>  | <u>\$ 29,248</u>                                 | <u>\$ 444,604</u>                          | <u>\$ 47,119,645</u> |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**(Unaudited)**
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
**For the Year Ended September 30, 2006**

| <b>(Dollars in thousands)</b>   | <b>Employment<br/>and Training<br/>Administration</b> | <b>Employment<br/>Standards<br/>Administration</b> | <b>Occupational<br/>Safety and Health<br/>Administration</b> |
|---|---|--|--|
| <b>BUDGETARY RESOURCES</b>  |   |  |  |
| Unobligated balance, brought forward, October 1                                     | \$ 2,337,790  | \$ 1,457,962                                       | \$ 26,227  |
| Recoveries of prior year unpaid obligations   | 360,070   | 3,252  | 5,910  |
| Budget authority  |   |  |  |
| Appropriations received   | 54,309,862  | 2,848,124  | 477,199  |
| Borrowing authority   | -   | 445,000  | -  |
| Spending authority from offsetting collections                                      |   |  |  |
| Earned  |   |  |  |
| Collected   | 420,424   | 2,482,312  | 6,285  |
| Change in receivables from Federal sources  | (336)   | (54,713)   | 8,261  |
| Change in unfilled customer orders  |   |  |  |
| Advance received  | (7,500)   | 3,937  | -  |
| Without advance from Federal sources  | -   | -  | -  |
| Expenditure transfers from trust funds  | 3,348,647   | 35,078   | -  |
| Total budget authority  | 58,071,097  | 5,759,738  | 491,745  |
| Nonexpenditure transfers, net   | (550,309)   | (399)  | (684)  |
| Temporarily not available pursuant to Public Law                                    | (11,818,837)  | (1,145)  | -  |
| Permanently not available   | (404,686)   | (6,399)  | (11,029)   |
| <b>Total budgetary resources</b>  | <b>\$ 47,995,125</b>                                  | <b>\$ 7,213,009</b>                                | <b>\$ 512,169</b>  |
| <b>STATUS OF BUDGETARY RESOURCES</b>  |   |  |  |
| Obligations incurred  |   |  |  |
| Direct  | \$ 45,195,012   | \$ 3,029,425                                       | \$ 476,928   |
| Reimbursable  | 412,922   | 2,468,082  | 13,406   |
| Total obligations incurred  | 45,607,934  | 5,497,507  | 490,334  |
| Unobligated balances available  |   |  |  |
| Apportioned   | 1,200,743   | 1,301,054  | 27   |
| Exempt from apportionment   | -   | 212,482  | -  |
| Total unobligated balances available  | 1,200,743   | 1,513,536  | 27   |
| Unobligated balances not available  | 1,186,448   | 201,966  | 21,808   |
| <b>Total status of budgetary resources</b>  | <b>\$ 47,995,125</b>                                  | <b>\$ 7,213,009</b>                                | <b>\$ 512,169</b>  |
| <b>CHANGE IN OBLIGATED BALANCE</b>  |   |  |  |
| Obligated balance, net  |   |  |  |
| Unpaid obligations, brought forward, October 1                                      | \$ 8,350,330  | \$ 358,151   | \$ 73,694  |
| Less uncollected customer payments from Federal sources, brought forward, October 1 | (1,407,365)   | (58,780)   | (865)  |
| Total unpaid obligated balance, net   | 6,942,965   | 299,371  | 72,829   |
| Obligations incurred, net   | 45,607,933  | 5,497,508  | 490,334  |
| Less gross outlays  | (45,594,065)  | (5,556,973)  | (473,003)  |
| Less recoveries of prior year unpaid obligations, actual                            | (360,070)   | (3,252)  | (5,910)  |
| Change in uncollected customer payments from Federal sources                        | 199,041   | 53,162   | (8,261)  |
| Obligated balance, net, end of period   |   |  |  |
| Unpaid obligations  | 8,004,128   | 295,434  | 85,115   |
| Less uncollected customer payments from Federal sources                             | (1,208,324)   | (5,618)  | (9,126)  |
| Total unpaid obligated balance, net, end of period                                  | \$ 6,795,804  | \$ 289,816   | \$ 75,989  |
| <b>NET OUTLAYS</b>  |   |  |  |
| Gross outlays   | \$ 45,594,065   | \$ 5,556,973                                       | \$ 473,003   |
| Less offsetting collections   | (3,960,279)   | (2,519,775)  | (6,285)  |
| Less distributed offsetting receipts  | (847,937)   | (7,809)  | -  |
| Net outlays   | \$ 40,785,849   | \$ 3,029,389                                       | \$ 466,718   |



**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

| <u>Bureau of<br/>Labor<br/>Statistics</u> | <u>Mine Safety<br/>and Health<br/>Administration</u> | <u>Employee Benefits<br/>Security<br/>Administration</u> | <u>Veterans'<br/>Employment<br/>and Training</u> | <u>Other<br/>Departmental<br/>Programs</u> | <u>Total</u>         |
|---|--|--|--|--|----------------------|
| \$ 11,171                                 | \$ 3,762   | \$ 2,167   | \$ 3,938   | \$ 29,058                                  | \$ 3,872,075         |
| 4,868                                     | 2,754  | 3,789  | 1,499  | 17,638                                     | 399,780              |
| 464,678                                   | 306,090  | 134,900  | 29,499   | 400,650                                    | 58,971,002           |
| -   | -  | -  | -  | -  | 445,000              |
| 6,103                                     | 1,292  | 11,544   | 40   | 178,611                                    | 3,106,611            |
| -   | (20)   | -  | -  | (702)                                      | (47,510)             |
| -   | -  | -  | -  | 1,747                                      | (1,816)              |
| -   | -  | -  | -  | (825)                                      | (825)                |
| 76,533                                    | -  | -  | 192,886  | 30,443                                     | 3,683,587            |
| 547,314                                   | 307,362  | 146,444  | 222,425  | 609,924                                    | 66,156,049           |
| (598)                                     | (355)  | (121)  | -  | 29,735                                     | (522,731)            |
| -   | -  | -  | -  | -  | (11,819,982)         |
| (8,629)                                   | (4,369)  | (2,353)  | (1,228)  | (10,711)                                   | (449,404)            |
| <u>\$ 554,126</u>                         | <u>\$ 309,154</u>                                    | <u>\$ 149,926</u>  | <u>\$ 226,634</u>                                | <u>\$ 675,644</u>                          | <u>\$ 57,635,787</u> |
| \$ 539,715                                | \$ 285,352   | \$ 136,567   | \$ 223,786                                       | \$ 457,582                                 | \$ 50,344,367        |
| 5,354                                     | 1,062  | 11,282   | -  | 183,026                                    | 3,095,134            |
| 545,069                                   | 286,414  | 147,849  | 223,786  | 640,608                                    | 53,439,501           |
| 414                                       | 3,851  | 31   | 196  | 21,752                                     | 2,528,068            |
| -   | -  | -  | -  | 147  | 212,629              |
| 414                                       | 3,851  | 31   | 196  | 21,899                                     | 2,740,697            |
| 8,643                                     | 18,889   | 2,046  | 2,652  | 13,137                                     | 1,455,589            |
| <u>\$ 554,126</u>                         | <u>\$ 309,154</u>                                    | <u>\$ 149,926</u>  | <u>\$ 226,634</u>                                | <u>\$ 675,644</u>                          | <u>\$ 57,635,787</u> |
| \$ 67,729                                 | \$ 30,160  | \$ 48,663  | \$ 59,980  | \$ 494,125                                 | \$ 9,482,832         |
| -   | (35)   | -  | -  | (6,635)                                    | (1,473,680)          |
| 67,729                                    | 30,125   | 48,663   | 59,980   | 487,490                                    | 8,009,152            |
| 545,069                                   | 286,413  | 147,849  | 223,786  | 640,609                                    | 53,439,501           |
| (533,830)                                 | (289,752)  | (148,904)  | (222,156)  | (683,426)                                  | (53,502,109)         |
| (4,868)                                   | (2,754)  | (3,789)  | (1,499)  | (17,638)                                   | (399,780)            |
| -   | 20   | -  | -  | (7,134)                                    | 236,828              |
| 74,100                                    | 24,067   | 43,819   | 60,111   | 433,670                                    | 9,020,444            |
| -   | (15)   | -  | -  | (13,769)                                   | (1,236,852)          |
| <u>\$ 74,100</u>                          | <u>\$ 24,052</u>                                     | <u>\$ 43,819</u>   | <u>\$ 60,111</u>                                 | <u>\$ 419,901</u>                          | <u>\$ 7,783,592</u>  |
| \$ 533,830                                | \$ 289,752   | \$ 148,904   | \$ 222,156                                       | \$ 683,426                                 | \$ 53,502,109        |
| (82,637)                                  | (1,292)  | (11,544)   | (192,925)  | (210,799)                                  | (6,985,536)          |
| -   | -  | -  | -  | -  | (855,746)            |
| <u>\$ 451,193</u>                         | <u>\$ 288,460</u>                                    | <u>\$ 137,360</u>  | <u>\$ 29,231</u>                                 | <u>\$ 472,627</u>                          | <u>\$ 45,660,827</u> |



## Appendices

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## 1. Improper Payments Information Act Reporting Details

### I. Risk Assessment

The Department's risk assessment for FY 2007 was developed by establishing criteria for determining levels of risk and evaluating all major programs against these criteria. Different methodologies were necessary for assessing the risks of improper payments for benefit and grant programs and other outlays because of the differences in their administration and the availability of data.

#### Benefit Programs

The Department performed the risk assessment for benefit programs according to the criteria defined below:

##### *1. Programs with outlays less than \$200 million*

The Department assumed a low risk of improper payments unless a known weakness existed in program management, based on reports issued by oversight agencies such as the Department's Office of Inspector General and/or the Government Accountability Office. Unless such weaknesses were identified, the Department made an assumption that the improper payment rate for these programs would not exceed the IPIA defined threshold of 2.5 percent. As a result of this review, no programs with outlays less than \$200 million were deemed to be susceptible to high risk of improper payments.

##### *2. Programs with outlays greater than \$200 million*

The Department sampled FY 2007 data in order to determine improper payment rates. The sampling details, including sampling methodology and sampling selection, are provided in the next section. The Department sampled Federal Employees Compensation Act (FECA), Unemployment Insurance (UI), Black Lung Disability Trust Fund, and Energy Employees Occupational Illness Compensation programs. The Department applied the improper payment rate for these programs determined through sampling to the program outlays for FY 2007 in order to determine whether the amount of potential improper payments for these programs exceeded the threshold. UI was the only benefit program deemed to be susceptible to high risk as a result of this approach. Per the Office of Management and Budget's (OMB) guidelines, the Department is also reporting FECA's improper payment rate, even though its improper payment rate is well below the 2.5% threshold.

#### Grant Programs

The Department used a separate methodology to assess the risk of improper payments in grant programs because these are administered differently than benefit programs. Unlike the benefit programs, data are not readily available to allow the Department to directly sample grant payments to develop a statistically valid estimate of improper payments. This is because the grant programs' funding stream makes it very difficult to assess the improper payment rate on payments to final recipients.

The Department provides grants to states, cities, counties, private non-profits, and other organizations to operate programs, and relies significantly on Single Audit Act Reports (as required by the Single Audit Act of 1996<sup>2</sup>) to monitor funding to all grant recipients. Therefore, these Single Audit Act Reports were utilized to determine the improper payment rate for the grant programs – the WIA program, the State Unemployment

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<sup>1</sup>The Single Audit Act of 1996 provides for consolidated financial and single audits of state, local, non-profit entities, and Indian tribes administering programs with Federal funds. Since 1997, all non-Federal entities that expend over \$300,000 (\$500,000 for fiscal years after December 31, 2003) or more of Federal awards in a year are subject to a consolidated financial single audit; any non-Federal entities that do not meet this threshold are not required to have a single audit. All non-Federal entities are required to submit all single audit reports to a Federal Audit Clearinghouse (Clearinghouse) that is administered by the Census Bureau.

Insurance and Employment Service Operations (SUIESO) program, and all other grants as a group. The sampling details, including sampling methodology and sampling selection, are provided in the next section.

The Department reviewed FY 2005 Single Audit Act Reports with Department of Labor-related findings from the Federal Audit Clearinghouse and identified all questioned costs included in such reports. FY 2005 reports were the most recent reports available for review. Based on a review of the definition of questioned costs in OMB Circular A-133 and OMB's IPIA implementation guidance, the Department determined that questioned costs can be used as a proxy for improper payments.

To determine an approximate rate of improper payments for the grant programs, the Department divided the amount of questioned costs by the direct program outlays from the FY 2005 Single Audit Act Reports. The resulting improper payment rates (assumed to be representative of the FY 2007 rates) were applied to the program outlays for FY 2007 to determine the estimated improper payment amounts for FY 2007.

No grant programs were determined to be susceptible to high risk as a result of this approach. However, like FECA, the Department is also reporting on WIA's improper payment rate as required by OMB guidelines, even though its improper payment rate is well below the 2.5 percent threshold.

### Other Outlays

The Department sampled FY 2007 payments in order to determine improper payment rates for DOL payroll costs and for non-payroll costs for the operation and administration of programs and headquarters' activities. The sampling details, including sampling methodology and sampling selection, are provided in the next section.

### Results

Based on the risk assessment methods as described above, only one program, UI, was determined to be high risk. Two other programs, FECA and WIA, were classified as high risk in former Section 57 of OMB's Circular A-11, although their risk assessments do not support such a high risk designation. The Department plans to continue to identify corrective actions to reduce improper payments in these programs and has established improper payment reduction and overpayment recovery targets in accordance with IPIA and associated OMB guidance.

*Table 2: Department of Labor's High Risk Programs*

| <b>DOL Program/Activity</b>               | <b>Risk</b> | <b>Reason for High Risk Classification</b>                               | <b>Type of Program</b> |
|---|-------------|--|------------------------|
| Unemployment Insurance (UI)               | High        | Exceeds OMB Threshold; Designated High Risk Program by former Section 57 | Benefit                |
| Federal Employees Compensation Act (FECA) | High        | Designated High Risk Program by former Section 57                        | Benefit                |
| Workforce Investment Act (WIA)            | High        | Designated High Risk Program by former Section 57                        | Grant                  |

The Department also sampled the programs in Table 3 below in FY 2007 despite their low risk status in prior years.

**Table 3: Additional programs that were sampled**

| <b>DOL Program/Activity</b>   | <b>Type of Program</b> | <b>Risk</b> |
|---|------------------------|-------------|
| Black Lung Disability Trust Fund  | Benefit                | Low         |
| Energy Employees Occupational Illness Compensation Program (EEOICP)             | Benefit                | Low         |
| State Unemployment Insurance and Employment Service Operations (SUIESO) program | Grant                  | Low         |
| Other grants as a group   | Grant                  | Low         |
| DOL Payroll Costs   | Other                  | Low         |
| DOL Non Payroll Costs   | Other                  | Low         |

**II. Statistical Sampling**

The Department's risk assessment identified only the UI program as being risk susceptible based on the OMB guidance threshold. However, as noted, two additional programs, WIA and FECA, were added to this list as required by OMB guidelines. In addition, the Department sampled several other programs that did not qualify as risk-susceptible programs.

**Unemployment Insurance (UI)**

**Sampling Methodology:** Improper payment rates are obtained from the Benefit Accuracy Measurement (BAM) program. It is designed to determine the accuracy of paid and denied claims in the three largest permanently authorized unemployment compensation (UC) programs: State Unemployment Insurance (State UI), Unemployment Compensation for Federal Employees (UCFE), and Unemployment Compensation for Ex-Service Members (UCX). BAM provides two rates of improper payments. The first, the Annual Report Overpayment Rate, includes estimates of nearly every divergence from what state law and policy dictate the payment should have been. The second rate, the Operational Overpayment Rate, includes only recoverable overpayments states are most likely to detect through ordinary overpayment detection and recovery procedures, known as Benefit Payment Control (BPC) procedures. Operational overpayments are the most likely to be detected and established for eventual recovery and returned to the Trust Fund.

BAM reconstructs the UI claims process for randomly selected weekly samples of payments and denied claims using data verified by trained investigators. For claims that were overpaid, underpaid, or improperly denied, BAM determines the amount of benefits the claimant should have received, the cause of and the party responsible for the error, the point in the UI claims process at which the error was detected, and actions taken by the agency and employer prior to the error.

In reconstructing each sampled payment, the BAM program retroactively investigates the accuracy of the UI claim's monetary and separation determination as well as all information relevant to determining weekly eligibility for the sampled payment, including the claimant's efforts to find suitable work, ability and availability for work, and earnings from casual employment or other income sources, such as pensions. By 2008, all BAM investigations will incorporate a crossmatch with New Hire data to improve the ability to detect overpayments due to beneficiaries who claim benefits after returning to work, the largest single cause of UI overpayments.

Using the same methodology applied to paid claims, the Denied Claim Accuracy module of BAM assesses the accuracy of denial decisions made at the monetary, separation, and continuing eligibility levels of eligibility determination.

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**Sample Selection:** The universe (population) is the payments and denials under the State UI, UCFE, and UCX programs. State UI, UCFE and UCX account for approximately 95% of UC programs activity in an average year. Data on overpayment and underpayment rates for FY 2007 shown in the Improper Payment Reduction Outlook Table are for the period July 1, 2006, to June 30, 2007. Data are shown for this period rather than the Fiscal Year because they are more complete and thus more precise. Based on historical data, those BAM cases requiring the most time to complete are more likely to have payment errors. The BAM program standard is to complete 95% of the cases within 90 days. Over 99.9% of the BAM cases for the period shown are complete. The paid claim accuracy completed sample consisted of 24,565 payments. For Denied Claims Accuracy (DCA), states sampled 150 cases for each of the monetary, separation, and non-separation denials; the allocated sample for each type is 7,800 cases per test per year. A total of 48,600 items were selected and investigated for the BAM samples for the period July 1, 2006, to June 30, 2007.

### Grants Programs

**Sampling Methodology:** The Department selected and reviewed 100 percent of FY 2005 Single Audit Act Reports in which DOL grants programs were classified as having questioned costs (according to the Census Bureau's Clearinghouse database, which is the national repository of Single Audit Act Reports). Because the Department did a 100 percent review of these reports, a statistical projection of the total amount of questioned costs was not necessary.

As additional evidence that no other audit reports included questioned costs for the DOL grants programs, the Department selected and reviewed random samples of audit reports classified in the Clearinghouse database as not having any questioned costs.

**Sample Selection:** The universe consisted of all FY 2005 Single Audit Act Reports covering DOL's grants from the Federal Audit Clearinghouse. The Department stratified this universe of audit reports into four strata or categories based on criteria contained in the database. The four strata were:

- **Stratum #1:** Audit reports in which the grants programs were audited as major programs and the report identified questioned costs for one or more Federal programs (not necessarily the DOL grant program).
- **Stratum #2:** Audit reports in which the grants programs were audited as major program and the report identified a reportable condition but no questioned costs for one or more Federal programs (not necessarily the DOL grant program).
- **Stratum #3:** Audit reports in which the grants programs were audited as major program and the report identified no questioned costs or reportable conditions for any Federal program, including the DOL grant program.
- **Stratum #4:** Audit reports in which the grants programs were audited as a non-major program.

For strata #1 and #2, the Department obtained copies of 100 percent of the audit reports from the Clearinghouse database and reviewed them to determine whether the DOL grants programs were among those reported to have questioned costs. For strata #3 and #4, the Department reviewed *random samples* of the audit reports from the Clearinghouse database.

### Federal Employees' Compensation Act (FECA)

**Sampling Methodology:** A Monetary Unit Sampling approach was applied to estimate improper payments for both medical bill payments and compensation payments. For medical payments, sampling was designed to test payment issues such as duplicate payments, appropriate receipts, consistency with regional allowances, payments made for appropriate procedures, and eligibility at date of service. The compensation payment sampling was designed to test payment issues such as consistency with identified injury, current medical

evidence supporting continued compensation payments, eligibility requirements, and calculations of compensation amounts.

**Sample Selection:** The population of the FECA compensation and medical payments from which the sample was selected included payments made during the period July 1, 2006 through June 30, 2007. The population was stratified for compensation payments and medical payments. Samples of 103 items from compensation payments and of 149 items from medical payments were selected and tested.

**Black Lung Disability Trust Fund**

**Sampling Methodology:** A Monetary Unit Sampling approach was applied to estimate improper payments for both medical bill payments and benefit payments. The medical bill payment sampling was designed to test payment issues such as duplicate payments, eligibility at date of service, procedure covered by program, and appropriate receipts and paperwork. The compensation payment sampling was designed to test issues such as eligibility requirements, calculations of compensation amounts, and calculations of compensation offsets due to dependants.

**Sample Selection:** The population of the medical and benefit payments from which the sample was selected, included payments made during the period July 1, 2006 through June 30, 2007. Samples of 81 benefit payments and 80 medical bill payments were selected and tested.

**Energy Employees Occupational Illness Compensation Program**

**Sampling Methodology:** The sampling approach for Energy's compensation and medical bill payments consisted of Monetary Unit Sampling to estimate improper payments. The payment sampling was designed to determine that the benefits paid were in accordance with specified policies and procedures, that eligibility requirements were followed, and that payments were made in the correct amount.

**Sample Selection:** The population of the compensation payments and medical bill payments from which the sample was selected, included payments made during the period July 1, 2006 through June 30, 2007. Samples of 86 compensation payments and 90 medical bill payments were selected and tested.

**Department of Labor Payroll Costs**

**Sampling Methodology:** To accomplish the sampling for the payroll, a stratified approach was applied. The testing criteria consisted of testing items such as employee's eligibility, earnings and leave tracked correctly, time card consistent with payment, and pay rate calculated correctly.

**Sample Selection:** The population of the Department's payroll costs from which the sample was selected, included payments made during the period July 1, 2006 through June 30, 2007. The sample was stratified by pay period. A sample of 78 items from the Department's payroll transactions was selected and tested.

**Department of Labor Non Payroll Costs**

**Sampling Methodology:** DOL non payroll costs consist of department expenses related to the operation and administration of programs' and headquarters' activities. These transactions were separated into property, plant and equipment transactions and other transactions. The sampling approach for both types of transactions consisted of Monetary Unit Sampling (MUS) to estimate improper payments. The sample for property, plant and equipment transactions also included a stratified random sample in order to select one invoice per transaction from the sample previously selected using MUS. For non payroll costs, sample testing focused on testing criteria such as: (1) appropriate contracts used, (2) payments supported with invoices, (3) invoices correct, and (4) whether or not the purchase was allowable under program costs.



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*Sample Selection:* The population from which the sample was selected included payments made during the period July 1, 2006 through June 30, 2007. A sample of 140 items were selected and tested.

### III. Corrective Actions

#### Unemployment Insurance

The Department's analytical studies indicate that earlier detection of recoverable overpayments is the most cost-effective way to address improper payments. Early detection allows agencies to stop payments for a claimant who has returned to work and to recover these overpayments more readily. The Department estimates that the forty-five states that crossmatch UI beneficiaries with the State Directory of New Hires (SDNH) or the National Directory of New Hires (NDNH) instead of UI wage records prevented approximately \$75 million of overpayments in each of the past two fiscal years. A pilot study showed that a cross-match using the NDNH is more effective than the SDNH in identifying individuals no longer eligible to receive UI benefits, by including benefit year earnings for out-of-state employers, Federal agencies, and multi-state employers that report all of their new hires to a single state. The Department provided states with funds to implement these NDNH cross-matches; as of September 30, 2007, thirty-five states have implemented the NDNH crossmatch, and seven others have signed the computer-matching agreement with HHS that is the prelude to connecting with the NDNH. The remaining states are in the planning process. All States are required to use NDNH crossmatches as part of their BAM programs by January 1, 2008.

In FY 2005, the Department began providing States funds to conduct Reemployment and Eligibility Assessment (REAs) with UI beneficiaries to reduce improper payments both by speeding claimants' return to work and by detecting and preventing eligibility violations. Twenty states received funds to continue REAs during FY 2006, and the Department has sought \$40 million to expand the number to about forty in FY 2008. A solicitation of grant applications has been sent to all States. The REAs in the twenty states are estimated to return about \$66 million to the UI trust fund. An impact evaluation of nine states' REA programs will be released in fall 2007.

To address the second largest cause of overpayments - errors in handling separation issues- the department has two efforts underway. First, funding has been provided to states to support the training of approximately 400 adjudicators to address improper payments that result from nonmonetary determination errors. Secondly, the department is facilitating the design and implementation of an automated system - Unemployment Insurance Separation Information Data Exchange System (UI SIDES). UI SIDES is expected to provide more timely and complete separation information from large multi-state employers or Third Party Agencies (TPAs) to make more accurate benefit eligibility decisions.

#### Federal Employees' Compensation Act

The FECA program continues its progress in improving medical bill processing using an outsourced bill processing service. Significant attributes of the service include the ability to better match treatments to work related injury or illness and more sophisticated bill editing techniques. The bill processing service uses automated front-end editing operations to check for provider and claimant eligibility, accepted condition and treatment type, billing form and content, and duplications. The service uses proprietary software to screen professional medical and outpatient hospital bills to check for certain improper billing practices. Furthermore, on-site process audits resulted in clearer instructions and corrective action plans. This year's implementation of in-house audits of bill samples will provide the program with additional information about bill processing performance and will also identify weaknesses.

Additional causes of improper payments for FECA include: (1) incorrect or incomplete information submitted for the claims record (such as pay rate, night differential rate, retirement plan, etc.); (2) Office of Workers'

Compensation Programs (OWCP)<sup>3</sup> errors including mistakes in judgment or interpretation in making decisions; (3) miscalculations in making payments; and (4) claimant fraud or misrepresentation. OWCP's integrity initiatives to address these issues are as follows:

- Medical bill processing performance is reviewed as a routine function of National Office oversight of the central bill processing contract and is used to score against performance requirements specified in the contract.
- Samples of medical payments are audited monthly by FECA district office staff for both financial and procedural errors.
- Compensation payment performance is reviewed by FECA district office managers, line supervisors, and fiscal operations staff; frequency of review varies according to need (e.g., supervisors and fiscal staff look at performance almost on a per-transaction basis; whereas, summary performance is reviewed daily, weekly, or quarterly by supervisors and managers). Results are monitored in the National Office and used to design procedural revisions or corrective action plans for the District Offices. The National Office also conducts formal biennial accountability reviews to rate each District Office for quality and accuracy. System reports used to analyze payment information include the Report on Receivables Due from the Public (Schedule 9), Accounts Receivable Aging Schedule and Performance reports. Regular matching of death records is done to reduce improper payments.
- Case management techniques are used to monitor ongoing entitlement to benefits and payment accuracy. For example, FECA's Periodic Roll Management (PRM) units monitor cases receiving long-term disability benefits. Changes in medical condition or ability to return to work are identified by regular ongoing PRM review of the cases, and compensation benefits may be reduced or terminated. Benefit reductions also result from new information reported about changes in status, such as the death of a claimant. The key outcome measure for PRM is the annual amount of benefit savings generated from these case actions. Benefits savings can also be compared directly to PRM administrative costs.
- Improvements continue in documentation quality and faster transmission of notice of injury and claims for compensation from the agencies to OWCP. Progress in submitting these forms more quickly yields faster and more accurate adjudication and payment and fewer customer service problems. More than a quarter of new claims are now received via Electronic Data Interchange from the Departments of Labor, Defense, Treasury, Transportation, Veterans Affairs, and Homeland Security. That percentage is expected to grow in the future.

### Workforce Investment Act

Ensuring proper fund stewardship is of primary importance to the WIA program. ETA currently uses a multi-step approach to ensure proper administration and effective program performance of WIA grants. First, ETA starts its review/oversight process by conducting a structured risk assessment of all new grants and grantees. Risk assessments are periodically revised as new information about a grant and grantee becomes available through desk reviews, onsite reviews or other sources of information. Second, ETA Federal Project Officers (FPOs) conduct quarterly desk reviews of the financial and program performance of each grant. The results of these activities are contained in the Grants e-Management Solution (GEMS), an electronic tracking and grant management system. This serves as an early warning system to detect potential financial management and/or programmatic performance issues and allows ETA to target technical assistance more effectively. Finally, ETA staff (FPOs, financial management and others) conduct periodic onsite reviews of grantees. ETA attempts to conduct an onsite review of each grantee at least once every three years, but actual review schedules are based on the results of the risk assessments and desk reviews. Onsite reviews are conducted using ETA's Core Monitoring Guide as well as program specific and technical guide supplements designed to provide a more detailed review of program requirements and financial activities. Results of the onsite monitoring activities are also cataloged in the GEMS system. For grantees with large numbers of sub-recipients (e.g., WIA formula grantees), the onsite review conducted using the formula program supplement to the Core Guide includes an assessment of the grantee's sub-recipient monitoring activities. In addition, ETA

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<sup>2</sup> OWCP oversees the administration of four federal employee compensation programs. These programs are the Energy Employees Occupational Illness Compensation program, the Federal Employees' Compensation program, the Longshore and Harbor Workers' Compensation program, and the Coal Mine Workers' Compensation program.

conducts onsite review of local areas as part of its review of the state grantee. The results of the onsite monitoring are also catalogued in the GEMS system. ETA now has the capability to review trends or issues that arise in a more comprehensive and consistent manner. Whenever deficiencies or problems are identified as a result of a desk review, onsite review, or an independent audit, ETA immediately begins working with the grantee to obtain appropriate corrective actions. Corrective actions undertaken by the grantee are tracked by ETA and follow-up technical assistance and reviews are scheduled as needed.

## IV. Improper Payment Reduction Outlook FY 2006– FY 2010 (\$ in millions)

| Program                                   | FY 2006  |        |         | FY 2007  |       |         | FY 2008     |       |         | FY 2009     |       |         | FY 2010     |       |         |
|---|----------|--------|---------|----------|-------|---------|-------------|-------|---------|-------------|-------|---------|-------------|-------|---------|
|   | Outlays  | %      | \$      | Outlays  | %     | \$      | Est Outlays | %     | \$      | Est Outlays | %     | \$      | Est Outlays | %     | \$      |
| <b>Unemployment Insurance</b>             | \$30,976 |        |         | \$31,530 |       |         | \$32,020    |       |         | \$34,900    |       |         | \$36,970    |       |         |
| Operational Rate                          |          | 5.63%  | \$1,744 |          | 5.95% | \$1,876 |             | 6.8%  | \$2,177 |             | 6.8%  | \$2,373 |             | 6.5%  | \$2,403 |
| Annual Report Rate Over- payment          |          | 10.00% | \$3,168 |          | 9.71% | \$3,062 |             | 10.9% | \$3,490 |             | 10.9% | \$3,804 |             | 10.5% | \$3,882 |
| Underpayment                              |          | 0.67%  | \$208   |          | 0.59% | \$186   |             | 0.64% | \$205   |             | 0.64% | \$223   |             | 0.64% | \$237   |
|   |          |        |         |          |       |         |             |       |         |             |       |         |             |       |         |
| <b>Federal Employees Compensation Act</b> | \$2,555  | 0.03%  | \$0.722 | \$2,654  | 0.1%  | \$2.6   | \$2,701     | 0.24% | \$6.5   | \$2,863     | 0.24% | \$6.9   | \$2,896     | 0.24% | \$7.0   |
|   |          |        |         |          |       |         |             |       |         |             |       |         |             |       |         |
| <b>Workforce Investment Act</b>           | \$3,763  | 0.17%  | \$6.4   | \$3,606  | 0.08% | \$2.9   | \$3,292     | 0.19% | \$6.3   | \$2,918     | 0.19% | \$5.5   | \$2,898     | 0.19% | \$5.5   |

Note: The rates were determined as described in the preceding pages and applied to the outlays for the fiscal year.

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## V. Recovery Auditing

Recovery auditing is a control technique to identify improper contractor payments and initiate recovery actions where appropriate. Recovery auditing involves data analysis and detailed reviews of the documentation supporting contract payments, including purchase orders, invoices, vendor statements/correspondence, procurement records, contracts, contract modifications, payment transaction records, vendor master files, paid history files, etc.

The Department's sampling and testing of non-payroll costs consisting of department expenses, including contract payments, related to the operation and administration of programs' and headquarters' activities for the current and prior fiscal years found no improper payments among the contract payments. Based on these results, the Department decided that a recovery auditing program was not warranted in FY 2007.

In FY 2008, DOL plans to implement a recovery auditing program for contract payments. The Department will report the recovery audit actions, costs, and amounts recovered on an annual basis.

## VI. Management Accountability

Existing control processes and the implementation of the revised OMB Circular A-123 requirements continue to ensure that the Department's internal controls over financial reporting and systems are well documented, sufficiently tested, and properly assessed. In turn, improved internal controls enhance safeguards against improper payments, fraud, waste, and abuse and better ensure that the Department's resources continue to be used effectively and efficiently to meet the intended program objectives. Furthermore, this Department-wide effort will support the Secretary of Labor's annual certification of internal controls in the PAR. The OCFO continues with the quarterly financial management certifications and reviews with each agency in the Department. These controls began in fiscal year 2003. The primary objectives of this oversight are to obtain assurances of DOL compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA), the Federal Financial Management Improvement Act of 1996 (FFMIA), and IPIA, to enhance the Department's internal financial controls, and to resolve financial management issues in a more efficient and timely manner. The quarterly certification process allows for an open discussion of each agency's progress in resolving internal control issues, audit findings, and improper payments, as well as establishing a formal, early warning process to identify and address other potential problem areas.

## VII. Information Systems and Infrastructure

### Unemployment Insurance

ETA believes that in most cases the states have the information systems and infrastructure they need for improper payment reduction. States are implementing systems to exchange data with the Social Security Administration (SSA) and interface with their SDNH. Four fifths of the states are now using the SDNH, and thirty-five are using the NDNH. Seven others have signed the computer-matching agreement with HHS that is the prelude to connecting with the NDNH, and the others are in the planning stage for NDNH. By January 1, 2008, all states must use the NDNH as part of the BAM process.

### Federal Employees' Compensation Act

The Office of Worker's Compensation Programs (OWCP) has deployed an integrated FECA management information and compensation benefit system that will enhance both compensation payment accuracy and medical bill processing accuracy. Resources are included in the FY 2008 budget request for this system.

### Workforce Investment Act

ETA currently has multiple technology projects underway in an effort to improve grants management. The WIA program utilizes these tools to execute the risk management process to assess and monitor grantees. They include the web-based EBSS (Enterprise Business Support System), with its GEMS (Grants e-Management Solution). EBSS is the Enterprise Business Support System, a web-based solution used to track and manage grants. A component of the EBSS is the automated grant cost reporting system that captures grant costs and obligations, which improves fiscal integrity. The combination of the two is part of the cradle-

to-grave E-grants solution for the entire Department. The GEMS system, mentioned also in Section III of this appendix is an online grants management tool meant to provide web accessible, customizable, role based context access to grant related information from multiple sources. The utilization of the GEMS system by the Federal Project Officers and program management and financial staff allows ETA a more coordinated and comprehensive repository of grant specific information. A GEMS technology project has recently been undertaken to provide for a report writing module and the cataloging of the Core Monitoring Guide and supplements. This will allow ETA staff to customize and target their oversight efforts.

## **VIII. Statutory or Regulatory Barriers**

### **Unemployment Insurance**

The UI program has several statutory barriers to reducing improper payments. First, States administer the UI program and set operational priorities. The Department has limited authority to ensure they pursue improper payment reduction activities. Second, the "immediate deposit" requirement (Sec. 3304(a)(3), Federal Unemployment Tax Act (FUTA) and Sec 303(a)(4), Social Security Act (SSA)) and the "withdrawal standard" (Sec. 3304(a)(4), FUTA and Sec 303(a)(5), SSA) preclude the use of recovery auditing techniques and affect recovery efforts.

The "immediate deposit" requirement dictates that all employer contributions (unemployment taxes) must be paid immediately into the trust fund and the "withdrawal standard" says that money in the trust fund can only be used for UI benefits. There are certain exceptions to the "immediate deposit" requirement, but they do not apply to recouped benefit overpayments. These requirements preclude State UI agencies from using funds recovered from overpayments to be used for administrative or operational efforts to improve prevention, detection, and recovery efforts. In addition, Title IV-D of the SSA, which established the state and national directories of new hires for the purposes of locating individuals who were delinquent in paying child support, does not require employers to report the date of hire. Having this date greatly increases the efficiency of using crossmatches with the SDNH or NDNH to detect UI beneficiaries who continue to claim benefits despite having returned to work.

Elements of the Unemployment Compensation Integrity Act, transmitted to Congress as part of the President's 2008 budget request, would relax the barriers posed by the "immediate deposit" requirement and the "withdrawal standard" to provide additional funding for recovery and other integrity activities. It would permit states (a) to use up to 5% of all recovered overpayments to augment Benefit Payment Control (BPC) activities (b) to use up to 25% of fraud overpayments recovered or delinquent contributions collected by a collection agency to be retained by that agency, and (c) to use up to 5% of certain tax collections to implement provisions of the law relating to employer fraud or tax evasion, such as the SUTA Dumping Prevention Act of 2004. It would also amend the SSA to require states to impose a penalty of at least 15% on fraudulent overpayments, and use the penalties to fund BPC activities. The Integrity Act would also prohibit states from non-charging employer accounts if the agency determined the employer's "fault" — e.g., a late or missing response — caused an overpayment, and would allow the recovery of benefit overpayments, delinquent taxes, and unpaid penalties and interest by intercept of Federal income tax refunds. Finally, it would mandate that states require all employers to report the date of first earnings or "start work" date to the SDNH, and that the state transmit this information to the NDNH.

### **Federal Employees' Compensation Act**

With regard to the FECA program, legislation does not currently permit FECA to verify employment earnings with the SSA without the claimant's written permission. Compensation benefits may be overpaid if an employee has unreported earnings and does not grant permission for the program to verify earnings with SSA.

### **Workforce Investment Act**

No statutory or regulatory barriers exist that limit WIA's ability to address and reduce improper payments. The WIA program has the legal authority to establish receivables and implement actions to collect those receivables.

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**IX. Additional Comments**

The Department continues to consider the most appropriate ways to define reportable UI overpayments. The Operational Overpayment rate, in use since 2002, was defined to measure recoverable overpayments readily detected by normal agency operations for establishment and recovery. Although the total or "Annual Report" rate used in this report has the virtue of measuring the value of all payments that exceed what State law and policy prescribe, it may be excessively broad. It includes many "technical" overpayments (e.g., that may not involve any conscious act or omission on the part of claimants or employers), or whose causes may have a weak, if any, relationship to achievement of other goals of the UI program such as swift return to suitable work. Overpayments due to failure to register with the Employment Service (approximately 0.8 percent of UI payments and 8 percent of all overpayments in CY 2006) are a good example. About one-fourth of all UI overpayments are also not subject to recovery, a typical criterion in other public programs. Two other integrity rates that the Department regularly monitors are total fraud and nonfraud recoverable overpayments (7.81% of UI benefits paid in CY 2006), and the fraud rate (2.73% of UI benefits paid in CY 2006).

## 2. Acronyms

|                |  |              |   |
|----------------|--|--------------|---|
| <b>ACSI</b>    | American Customer Satisfaction Index               | <b>LVER</b>  | Local Veterans' Employment Representative                           |
| <b>BLS</b>     | Bureau of Labor Statistics                         | <b>MSHA</b>  | Mine Safety and Health Administration                               |
| <b>CAM</b>     | Cost Analysis Manager                              | <b>OASAM</b> | Office of the Assistant Secretary for Administration and Management |
| <b>CATARS</b>  | Capital Asset Tracking and Reporting System        | <b>OASP</b>  | Office of the Assistant Secretary for Policy                        |
| <b>CFO</b>     | Chief Financial Officer                            | <b>OCFO</b>  | Office of the Chief Financial Officer                               |
| <b>CY</b>      | Calendar Year                                      | <b>OCIA</b>  | Office of Congressional and Intergovernmental Affairs               |
| <b>DBA</b>     | Davis-Bacon Act                                    | <b>ODEP</b>  | Office of Disability Employment Policy                              |
| <b>DOD</b>     | U.S. Department of Defense                         | <b>OFCCP</b> | Office of Federal Contract Compliance Programs                      |
| <b>DOL</b>     | U.S. Department of Labor                           | <b>OIG</b>   | Office of Inspector General   |
| <b>DOLAR\$</b> | Department of Labor Accounting and Related Systems | <b>OLMS</b>  | Office of Labor-Management Standards                                |
| <b>DVOP</b>    | Disabled Veterans' Outreach Program                | <b>OMB</b>   | Office of Management and Budget                                     |
| <b>EBSA</b>    | Employee Benefits Security Administration          | <b>O*NET</b> | Occupational Information Network                                    |
| <b>EEO</b>     | Equal Employment Opportunity                       | <b>OPA</b>   | Office of Public Affairs  |
| <b>ERISA</b>   | Employee Retirement Income Security Act            | <b>OSHA</b>  | Occupational Safety and Health Administration                       |
| <b>ESA</b>     | Employment Standards Administration                | <b>OWCP</b>  | Office of Workers' Compensation Programs                            |
| <b>ETA</b>     | Employment and Training Administration             | <b>PART</b>  | Program Assessment Rating Tool                                      |
| <b>FASAB</b>   | Federal Accounting Standards Advisory Board        | <b>PBGC</b>  | Pension Benefit Guaranty Corporation                                |
| <b>FECA</b>    | Federal Employees' Compensation Act                | <b>PMA</b>   | President's Management Agenda                                       |
| <b>FFMIA</b>   | Federal Financial Management Improvement Act       | <b>PPI</b>   | Producer Price Index  |
| <b>FMFIA</b>   | Federal Managers' Financial Integrity Act          | <b>PY</b>    | Program Year  |
| <b>FLSA</b>    | Fair Labor Standards Act                           | <b>SOL</b>   | Office of the Solicitor   |
| <b>FMLA</b>    | Family Medical Leave Act                           | <b>SSA</b>   | Social Security Administration                                      |
| <b>FTE</b>     | Full Time Equivalent                               | <b>SWA</b>   | State Workforce Agencies  |
| <b>FUTA</b>    | Federal Unemployment Tax Act                       | <b>TAA</b>   | Trade Adjustment Assistance   |
| <b>FY</b>      | Fiscal Year  | <b>TAP</b>   | Transition Assistance Program                                       |
| <b>GAO</b>     | U.S. Government Accountability Office              | <b>UI</b>    | Unemployment Insurance  |
| <b>GPRA</b>    | Government Performance and Results Act             | <b>USPS</b>  | U.S. Postal Service   |
| <b>GSA</b>     | General Services Administration                    | <b>UTF</b>   | Unemployment Trust Fund   |
| <b>HVRP</b>    | Homeless Veterans' Reintegration Program           | <b>VA</b>    | U.S. Department of Veterans Affairs                                 |
| <b>ILAB</b>    | Bureau of International Labor Affairs              | <b>VETS</b>  | Veterans' Employment and Training Service                           |
| <b>IPIA</b>    | Improper Payments Information Act                  | <b>WB</b>    | Women's Bureau  |
| <b>IRS</b>     | Internal Revenue Service                           | <b>WHD</b>   | Wage and Hour Division  |
| <b>IT</b>      | Information Technology                             | <b>WIA</b>   | Workforce Investment Act  |
| <b>JFMIP</b>   | Joint Financial Management Improvement Program     |              |   |
| <b>LMRDA</b>   | Labor-Management Reporting and Disclosure Act      |              |   |
| <b>LPD</b>     | Lost Production Days                               |              |   |



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## 3. Internet Links

### Employment Information (For Workers and Employers)

America's Career InfoNet <http://www.acinet.org/acinet/>  
 Occupational Outlook Handbook <http://www.bls.gov/oco/>  
 Job Corps <http://jobcorps.doleta.gov/>  
 DOL Jobs <http://www.dol.gov/dol/jobs.htm>  
 DisabilityInfo.gov <http://www.disabilityinfo.gov>  
 Job Accommodation Network (JAN) <http://www.jan.wvu.edu/>  
 Small Business and Self Employment Service (SBSES) <http://janweb.icdi.wvu.edu/sbses/>  
 Employer Assistance & Recruiting Network (EARN) <http://www.earnworks.com>  
 Women's Bureau GEM-Nursing Project <http://www.gem-nursing.org>

### Workplace Laws and Related Information

DOL Compliance Assistance <http://www.dol.gov/compliance>  
 Employment Laws Assistance for Workers and Small Businesses <http://www.dol.gov/elaws/>  
 State Labor Laws and Offices <http://www.dol.gov/esa/programs/whd/state/state.htm>  
 Minimum Wage Q&A <http://www.dol.gov/esa/minwage/q-a.htm>  
 Fair Labor Standards Act <http://www.dol.gov/esa/regs/statutes/whd/allfair.htm>  
 Family & Medical Leave Act <http://www.dol.gov/esa/whd/fmla/>  
 Small Business Compliance Assistance <http://www.dol.gov/osbp/sbrefa/>  
 Union Reporting and Public Disclosure <http://www.dol.gov/esa/regs/compliance/olms/rrlo/lmrda.htm>

### Statistical Information

Consumer Price Indexes <http://www.bls.gov/cpi/>  
 Bureau of Labor Statistics Most Requested Data <http://www.bls.gov/data/>  
 Current Population Survey <http://www.bls.gov/cps/>  
 Workplace Injury, Illness & Fatality Statistics <http://www.osha.gov/oshstats/work.html>  
 Employment Projections <http://www.bls.gov/emp>  
 International comparisons <http://www.bls.gov/fls/>  
 Employment, Hours, and Earnings <http://www.bls.gov/ces/>

### Safety and Health Information

OSHA's Partnership Page <http://www.osha.gov/dcsp/partnerships/index.html>  
 The Workers' Page <http://www.osha.gov/as/opa/worker/index.html>  
 OSHA Regulations and Compliance Links <http://www.osha.gov/comp-links.html>  
 OSHA Standard Industrial Classification Search <http://www.osha.gov/oshstats/sicser.html>  
 OSHA Reading Room <http://www.osha.gov/readingroom.html>  
 MSHA's Accident Prevention Program [http://www.msha.gov/Accident\\_Prevention/appmain.htm](http://www.msha.gov/Accident_Prevention/appmain.htm)  
 Health Hazard Information (MSHA) <http://www.msha.gov/hhicm.htm>  
 To report a safety or health hazard to MSHA <http://www.msha.gov/codeaphone/codeaphonenew.htm>

### Labor Department History

History at the Dept of Labor <http://www.dol.gov/oasam/programs/history/main.htm>  
 Annals of the Dept of Labor <http://www.dol.gov/oasam/programs/history/webannalspage.htm>

### Labor Agencies

Bureau of International Labor Affairs <http://www.dol.gov/ILAB/>  
 Bureau of Labor Statistics <http://www.bls.gov/>  
 Employee Benefits Security Administration <http://www.dol.gov/ebsa/>  
 Employment Standards Administration <http://www.dol.gov/esa/>  
 Employment and Training Administration <http://www.doleta.gov>  
 Mine Safety and Health Administration <http://www.msha.gov>  
 Occupational Safety and Health Administration <http://www.osha.gov/index.html>  
 Office of Disability Employment Policy (ODEP) <http://www.dol.gov/odep/>  
 Veterans' Employment and Training Service <http://www.dol.gov/vets/>  
 Women's Bureau – A Voice for Working Women <http://www.dol.gov/wb>







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