



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.



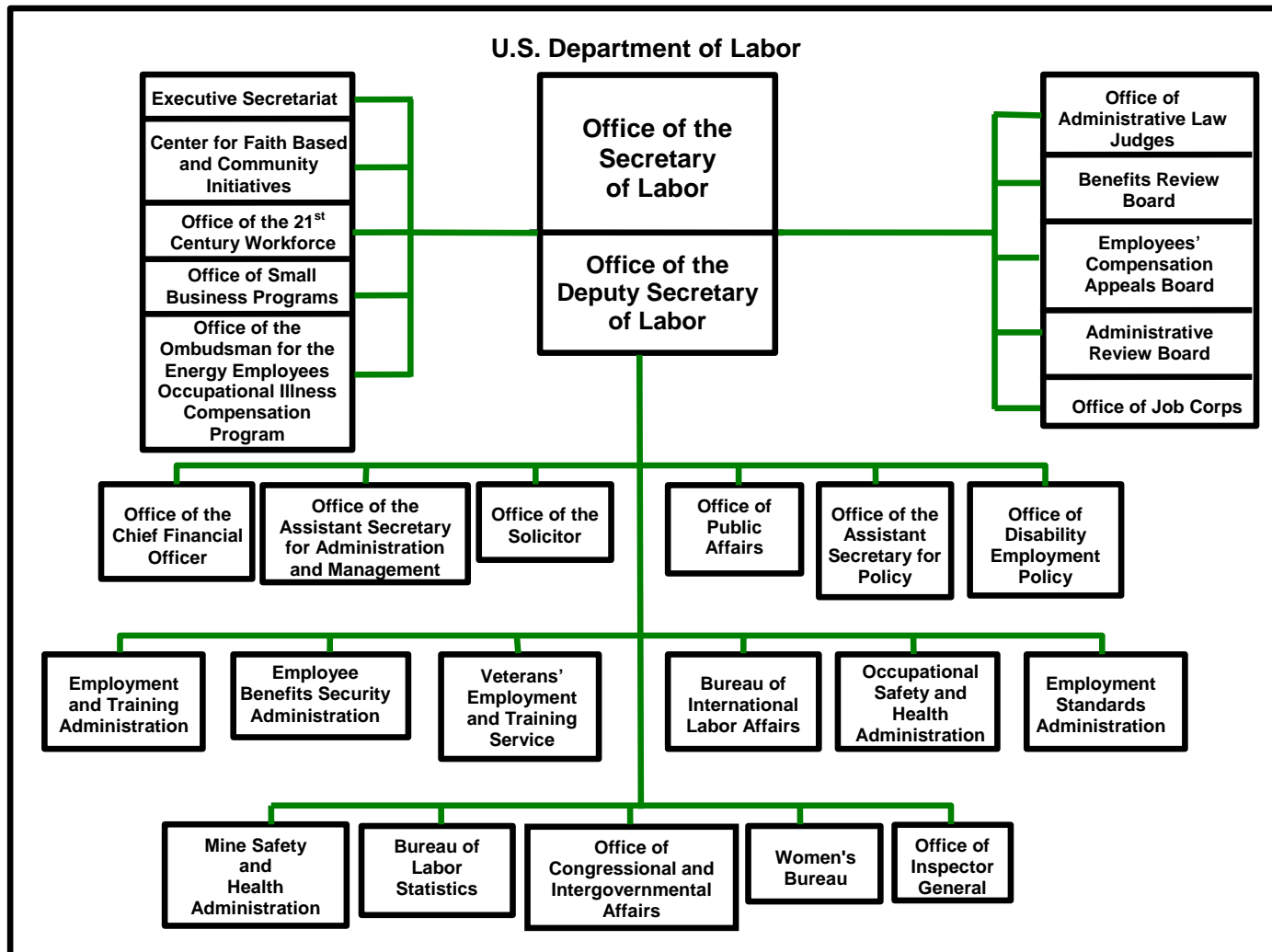
The seal of the Department of Labor was approved by President Woodrow Wilson on June 21, 1913. The seal is a gold shield divided horizontally by a red band. The gold color denotes integrity; the red color is for courage and endurance.

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)¹, 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.

¹ 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 goals² were selected for inclusion in the FY 2008 Performance Budget Overview.³ 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.⁴

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				Percent Achieved or Substantially Achieved
	Goals Achieved	Substantially Achieved	Not Achieved	Total	
Goal 1 – A Prepared Workforce: <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%
Goal 2 – A Competitive Workforce: <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%
Goal 3 – Safe and Secure Workplaces: <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%
Goal 4 – Strengthened Economic Protections: <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%
Total	11	5	9	25	64%

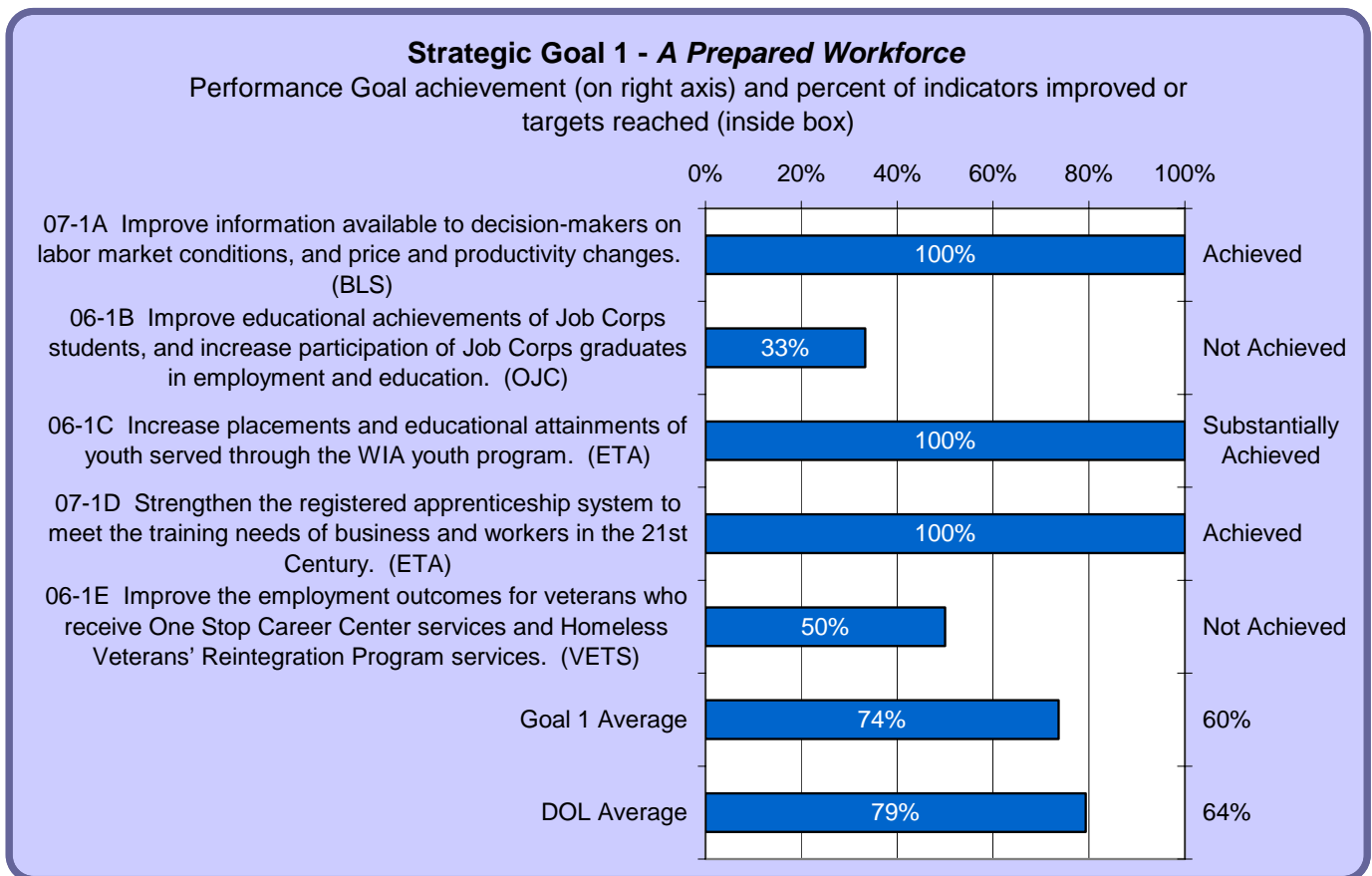
² See the DOL FY 2006-2011 Strategic Plan at http://www.dol.gov/_sec/stratplan/main.htm

³ http://www.dol.gov/_sec/Budget2007/overview-pb.htm#app1

⁴ 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.

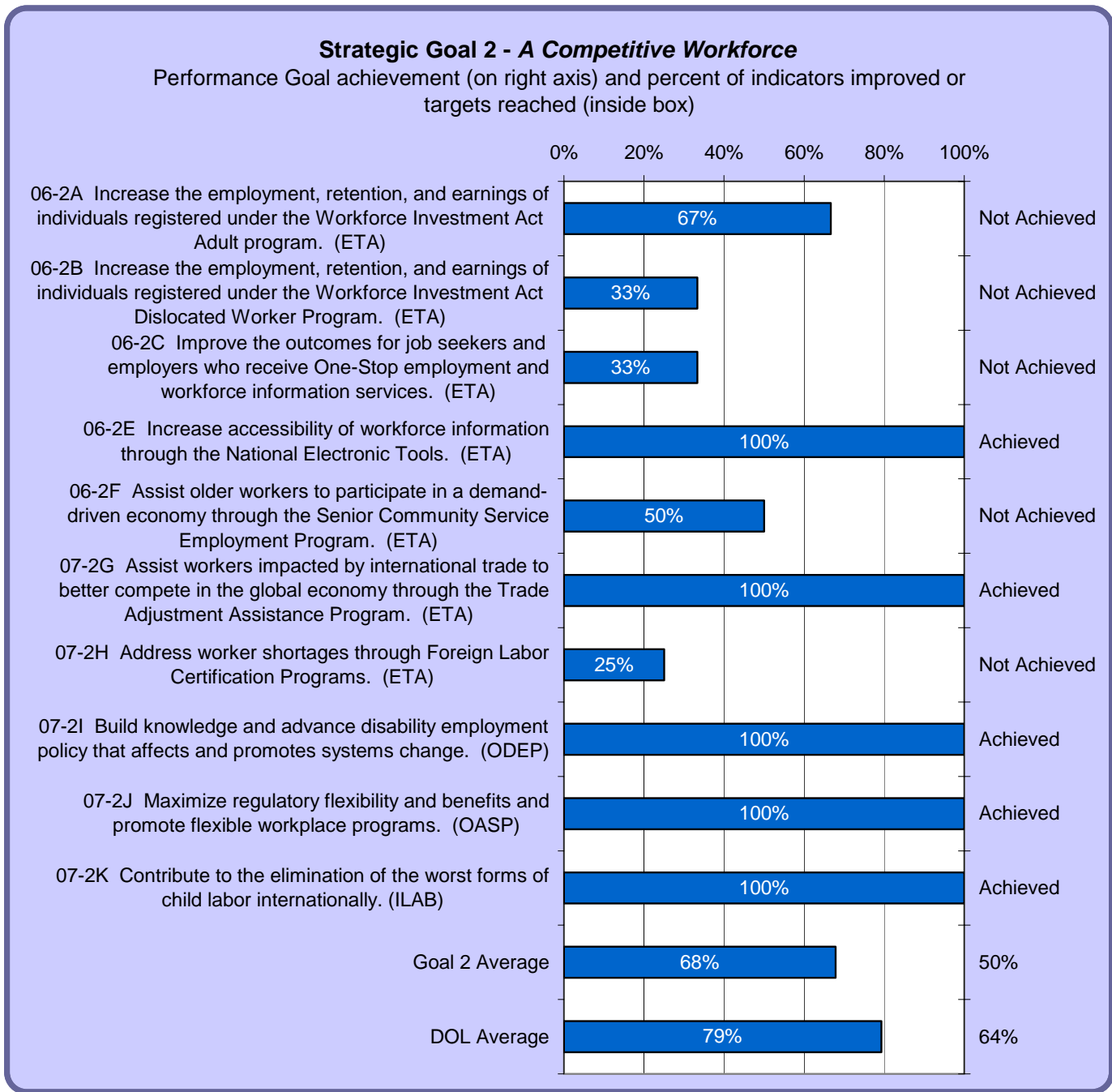
Charts below present, by strategic goal, FY 2007 achievement as measured by performance indicators and performance goals. The performance goal number,⁵ goal statement, and responsible agency appear on the left axis, the total percentage of indicator targets reached or improved is indicated in the horizontal 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

⁵ 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.

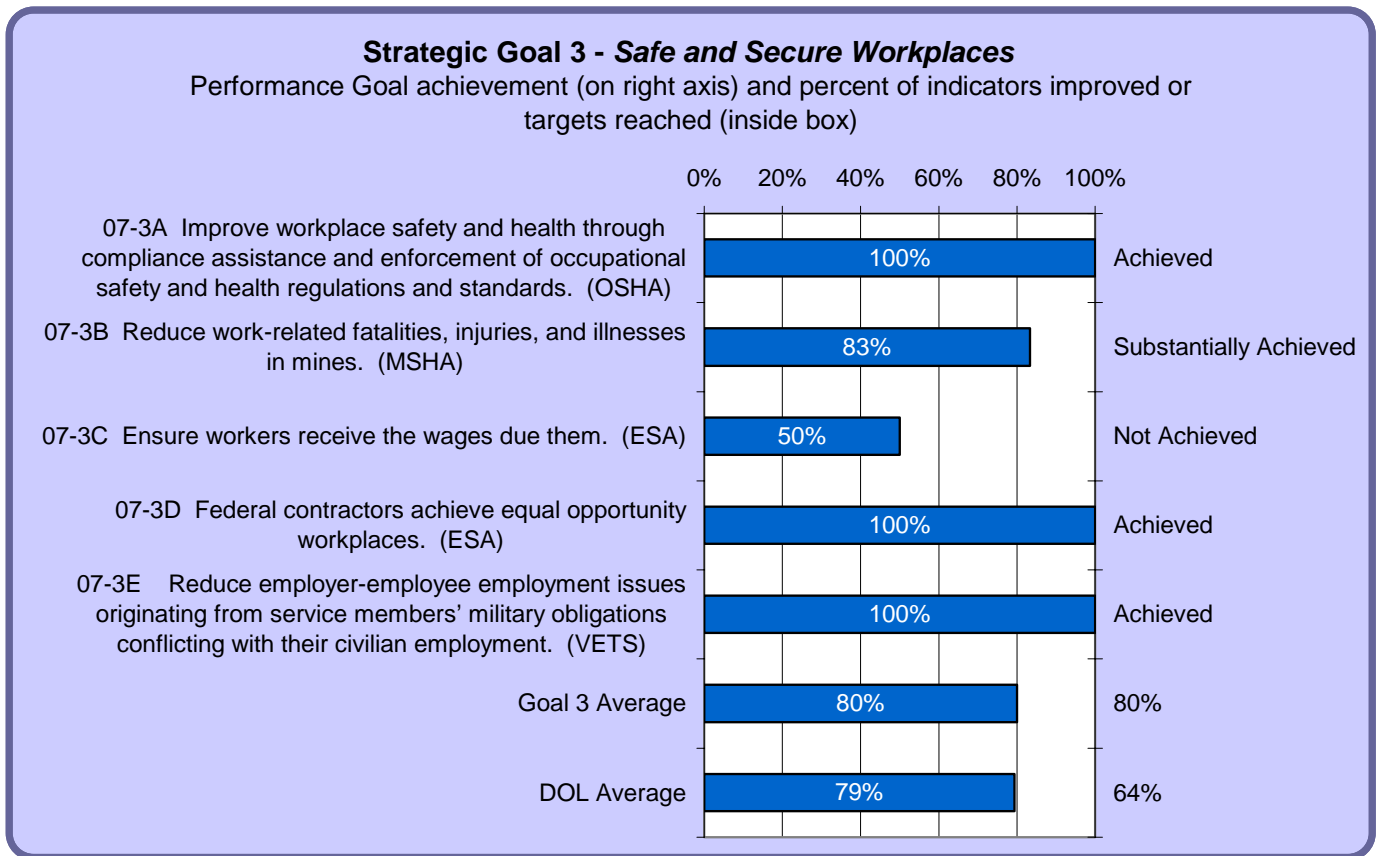


DOL achieved or substantially achieved five of ten performance goals (50 percent) in Strategic Goal 2, which is below the Department's average of 64 percent. The WIA Adult program goal was not achieved, but two of the three Federal job training program common measure⁶ targets were reached. The WIA Dislocated Worker

⁶ 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.

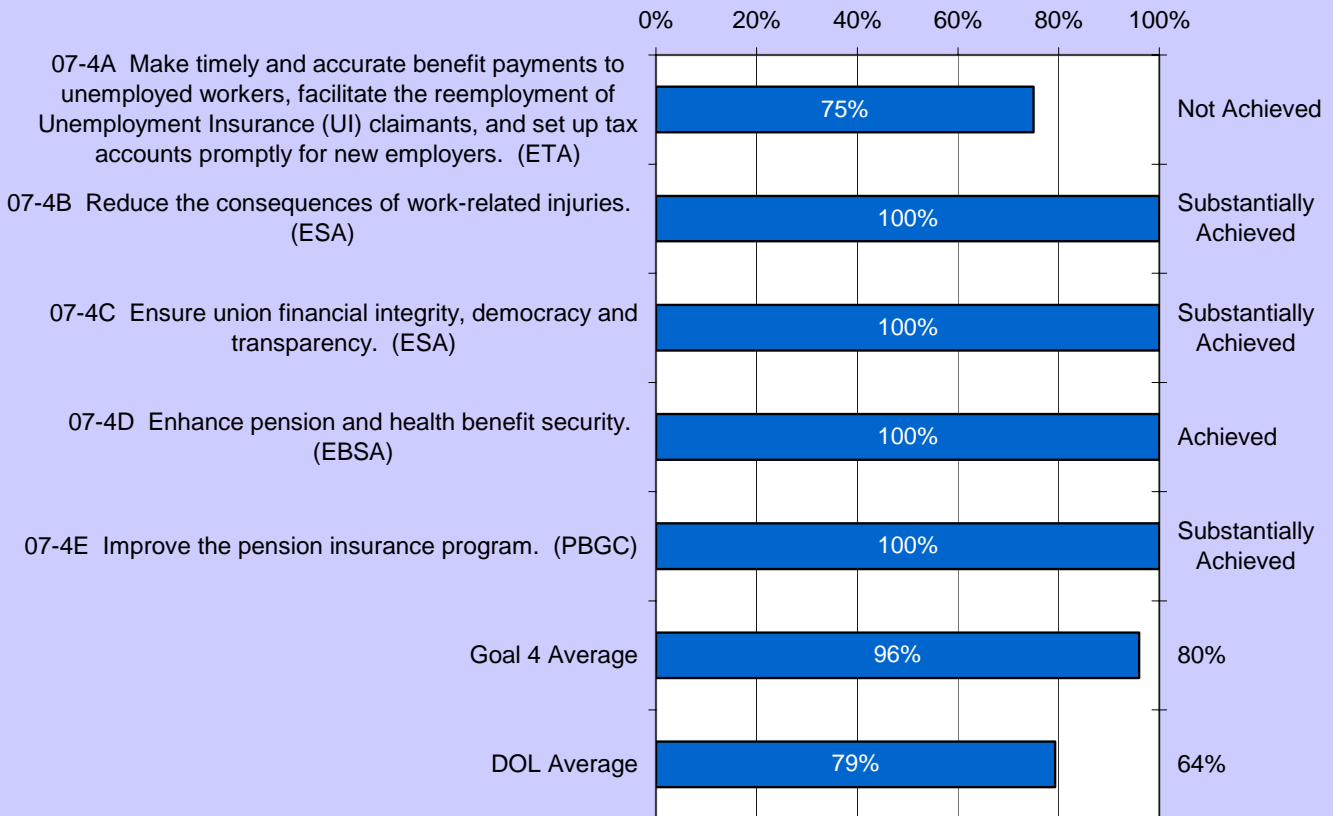
The Foreign Labor Certification program goal was not achieved; one of four targets was reached. ODEP achieved its goal, reaching all three targets. The Office of the Assistant Secretary for Policy achieved its goal by reaching all three of its targets. ILAB's goal to reduce exploitive child labor worldwide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

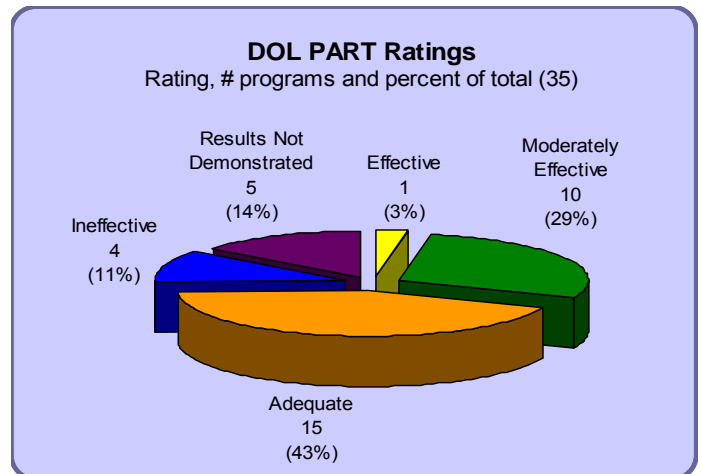
07-1B (OJC)	Improve educational achievements of Job Corps students, and increase participation of Job Corps graduates in employment and education.
07-1C (ETA)	Increase placements and educational attainments of youth served through the WIA youth program.
07-1E (VETS)	Increase the employment outcomes for 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, 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. 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 Cost⁷ 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.

⁷ 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.

DOL Program Net Costs (Millions of Dollars)			
Goal	FY 2005 PY 2004	FY 2006 PY 2005	FY 2007 PY 2006
Strategic Goal 1: A Prepared Workforce⁸	\$3,211	\$3,360	\$3,103
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>	-	-	

⁸ 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 PY 2004	FY 2006 PY 2005	FY 2007 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
Strategic Goal 2: A Competitive Workforce⁹	\$5,110	\$5,064	\$5,027
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>	-		

⁹ 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 PY 2004	FY 2006 PY 2005	FY 2007 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) ¹⁰	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

¹⁰ 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 PY 2004	FY 2006 PY 2005	FY 2007 PY 2006
Strategic Goal 3: Safe and Secure Workplaces¹¹	\$1,147	\$1,189	\$1,237
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

¹¹ 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 PY 2004	FY 2006 PY 2005	FY 2007 PY 2006
Strategic Goal 4: <i>Strengthened Economic Protections</i> ¹²	\$40,597	\$35,705	\$38,495
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

¹² 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 PY 2004	FY 2006 PY 2005	FY 2007 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 ¹³	\$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*.¹⁴ 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.¹⁵ OSHA’s final rule – issued in

¹³ 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.

¹⁴ 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).

¹⁵ 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.



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.

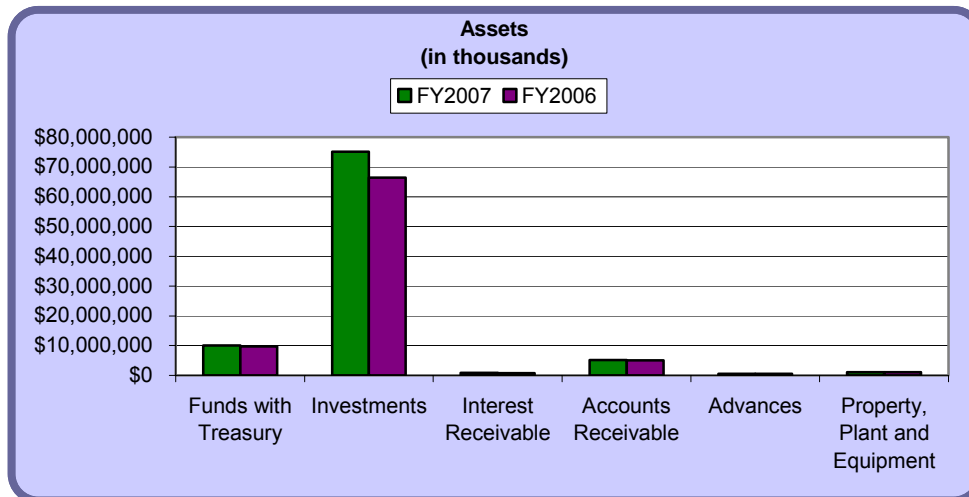
The *Debt Collection Improvement Act of 1996 (DCIA)* designated the Department of the Treasury as the central agency for collection of Federal debts over 180 days delinquent. The Department applies cross-services to all delinquent debts in accordance with this statute. Debt management accounts for a 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.

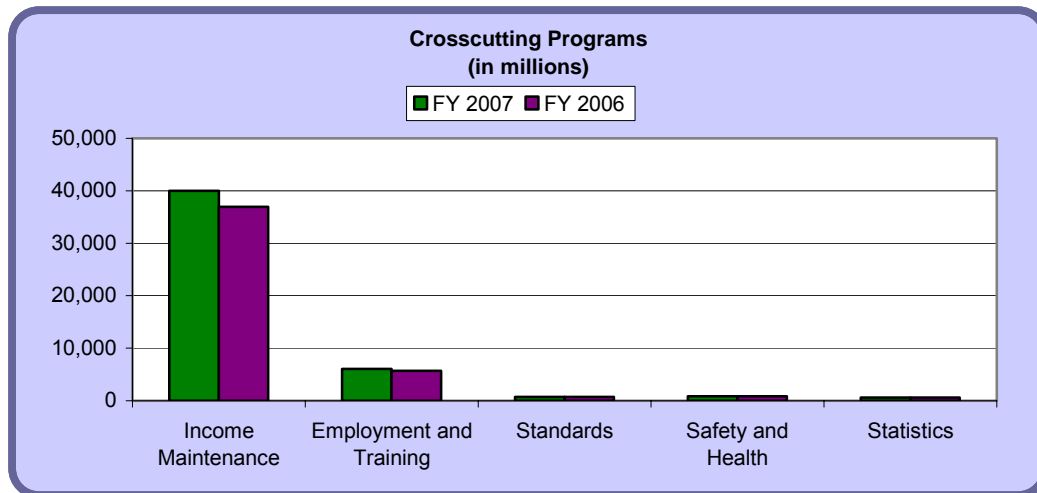


Financial Position

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

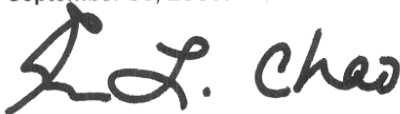
The Department of Labor's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). DOL is able to provide a qualified statement of assurance that the internal 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.

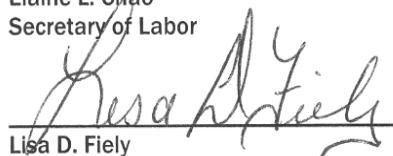
In addition, DOL conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this 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

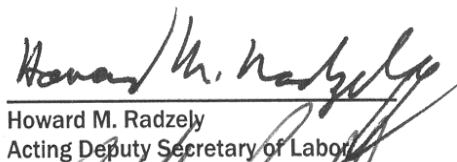
The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard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



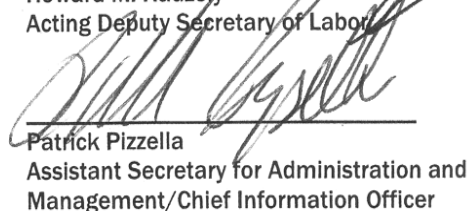
Elaine L. Chao
Secretary of Labor



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

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 21st 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.¹⁶ 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 risk¹⁷ 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.

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

¹⁷ 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 Reports¹⁸ 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.¹⁹ 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.

¹⁸ 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.

¹⁹ 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/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and Expected Completion Date
I. <i>Protecting the Safety and Health of Workers</i> 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>		
Strengthen MSHA accountability program. (OIG 2007, OIG 05-07-002-06-001) http://www.oig.dol.gov/public/reports/oa/2007/05-06-001	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/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and Expected Completion Date
07-002-06-001.pdf Implement the Mine Improvement and New Emergency Response (MINER) Act of 2006. (2006 PAR)	Implemented most of the provisions of the MINER Act.	Complete implementation of the MINER Act – December 2007.
Improve MSHA management data. (OIG 22-07-008-06-001) http://www.oig.dol.gov/public/reports/oa/2007/22-07-008-06-001.pdf	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.
Replace retiring mine inspectors. 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.
Ensure that interim protection is in place before OSHA funded consultation projects grant extensions to correction due dates for serious hazards 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.
Identify cost effective methods of collecting complete and comparable data on OSHA program outcomes. (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.
Improve planning for OSHA efforts to protect workers in disasters. (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.
II. Ensuring the Effectiveness of the Job Corps Program 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		
Promote effective regional monitoring. (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/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and Expected Completion Date
<p>Improve contracts management. 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>Ensure student safety and health. (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>Assess incoming students for cognitive disabilities. 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>III. Ensuring the Security of Employee Benefit Plan Assets 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>Implement the Pension Protection Act of 2006. (2006 PAR)</p>	<p>Issued regulations implementing the Pension Protection Act of 2006.</p>	<p>Continue to implement regulations – FY 2008.</p>
<p>Establish written procedures for the PBGC Board’s monitoring of operations. (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>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. (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/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and 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.	
Continue EBSA efforts to decrease the number of fraudulent Multiple Employer Welfare Arrangements (MEWAs). 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.
IV. Safeguarding Unemployment Insurance 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		
Prevent overpayments. 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. 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.
Collect results of Reemployment and Eligibility Assessment (REA) Grants. (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.
Reduce fraud. 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. Conduct an Integrity Conference for State UI agencies – FY 2008.
V. Improving the Federal Employees' Compensation Act (FECA) Program 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		
Reduce improper payments. 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/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and 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.	
Reduce fraud. 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.
VI. Improving Procurement Integrity 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>		
Improve procurement integrity. 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.
VII. Securing Information Technology Systems and Protecting Related Information Assets 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>		
Secure Personally Identifiable Information (PII). 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. 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. 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. Complete DOL Clearance process for DLMS 9-1200 – December 2007. Develop policy and procedures for logging computers' readable extract – June 2008.

Management Challenge/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and 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>Prevent unauthorized access to systems. (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>Ensure certification and accreditation of systems. (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>Create an independent Chief Information Officer (CIO). 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>VIII. Maintaining the Integrity of the Foreign Labor Certification Program 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: ● Green</p>		
<p>Reduce high incidence of fraud. 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/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and Expected Completion Date
<p>prevailing wage and erroneous employer identification numbers. (2006 PAR)</p> <p>Reduce certification backlogs. 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> 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>IX. Improving Performance Accountability of Grants 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>Improve monitoring of direct grants. 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/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and Expected Completion Date
<p>Audit ETA data validation. 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>Improve performance measurement for Youthbuild grants, 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>Work with States to improve data quality. Implement reporting format (Workforce Investment Streamlined Performance System – WISPR) to enable DOL to analyze performance across programs. (2006 PAR)</p> <p>Collect employer services information to help gauge employer involvement in the One-Stop system. (GAO-07-167)</p> <p>Improve Apprenticeship data quality. 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>WISPR implementation delayed.</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>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>Implement WISPR, which will expand data collection and reporting – FY 2008.</p> <p>Phase II RAIS Quarterly performance data available – FY 2009.</p>
<p>X. Preserving Departmental Records 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>Require records management training for managers and employees. (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/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and Expected Completion Date
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.

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

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

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.

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

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.

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

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 11th 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. 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*.

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.

