

Secretary's Message

November 15, 2004



Publication of the Fiscal Year 2004 Annual Performance and Accountability Report is the culmination of an important process — it makes us pause, look back, consider how our accomplishments bettered the American workforce and determine what needs to be done to make further improvements. Every year brings its share of challenges, and this past year was no exception. In keeping with our theme for this report — *Serving the Needs of a Changing 21st Century Workforce* — we are reporting for the first time on our new fourth strategic goal, *A Competitive Workforce*. It complements our three other strategic goals of *A Prepared Workforce*, *A Secure Workforce*, and *Quality Workplaces*. In addition to producing positive results for the Nation's workers through our program activities, we have strengthened our support functions under the *President's Management Agenda*.

President's Management Agenda

In August 2001, President George W. Bush sent to Congress his *President's Management Agenda* (PMA), a strategy for improving the management and performance of the Federal government. The agenda called for focused efforts in the following five government-wide initiatives aimed at improving results to citizens: *Strategic Management of Human Capital*, *Competitive Sourcing*, *Improved Financial Performance*, *Expanded Electronic Government*, and *Budget and Performance Integration*. DOL is also responsible for one of the PMA components found in selected departments: *Faith-Based and Community Initiatives*. In the fourth quarter of 2004, DOL began working in earnest on another selected PMA component, *Real Property*. On the basis of its favorable ratings for progress and status in implementation of these initiatives, DOL is recognized as one of the best managed Cabinet agencies.

Keeping our commitment to veterans

With so many of our nation's military service members actively engaged in the global war on terrorism, we are constantly mindful of our responsibilities to them, to our nation's veterans and to their families; and our commitment is unwavering. The men and women of the National Guard and Reserve must be assured that they will have their former or comparable jobs upon return. In addition, transitioning service members, veterans and disabled veterans deserve the best possible assistance in obtaining meaningful and rewarding employment. Veterans are also a key resource in our strategy to maintain a competitive workforce; to meet the productivity and hiring demands of high-growth business sectors, DOL is encouraging employers to leverage the technical knowledge, discipline and training of veterans, military spouses and transitioning service members.

Training for high-growth industries

A Departmental priority is to help workers acquire the skills they need for the new jobs being created in high-growth industries. As part of the President's High-Growth Job Training Initiative, the Department of Labor has identified twelve sectors where rapid growth or transformation of business processes has created a shortage of skilled workers, and we have built partnerships to help American workers access job-specific training. Our partners include employers, industry associations, labor-management organizations, community colleges, and the public workforce system. We promote this demand-driven workforce investment strategy by awarding grants in such areas as innovative health-care and biotechnology training programs across the country. As we match skilled workers with willing employers, we expect that more workers will obtain quality jobs that pay higher wages and feature career ladders.

Regulatory reform

Another way we have been *Serving the Needs of a Changing 21st Century Workforce* is through regulatory reform. We need to ensure that the Department's regulations are still relevant and effective so that labor in both the public and private sectors is not wasted on unnecessary bureaucratic processes or frivolous litigation. We are concentrating on regulatory activities that actually protect workers, particularly those who are economically disadvantaged or vulnerable. For example, one of the Department's most important regulatory reforms in recent years was an update of the white-collar overtime regulations that were first created in 1938 and were so outdated that they created a legal nightmare. The Department's belief is that most employers want to protect their workers.

Our strategy is to target enforcement resources on the relatively few "bad actors" and help the majority of employers understand and comply with the Department's standards.

Expanding our focus on workplace protections

Every year, millions of teenagers work in part-time and summer jobs. Employment helps them appreciate the value of work and our free enterprise system. Through the Department's *YouthRules!* initiative we promote positive, safe working experiences for teenage workers. The initiative educates employers, teenagers, parents, teachers and the general public about child labor laws through our *YouthRules!* website, pocket guides and posters. We have also sponsored youth rallies, training seminars and other activities to boost understanding of the rules.

OSHA has mounted a significant effort to reach out to Spanish-speaking workers and their employers. The agency formed a special task force in October 2001 to examine the issue of Hispanic worker fatalities and what we should do to address the problem. The task force is looking at three areas: sharing best practices, expanding outreach, and determining where more information is necessary. OSHA's current outreach efforts to the Hispanic Community include a Spanish-language page on OSHA's web site, a Spanish-language option on OSHA's toll free number, numerous Spanish translations, including *Todo Sobre la OSHA (All About OSHA)*, and much more.

Retirement security remains a high priority

The last couple of years have seen the very public and visible collapse of several major companies with grievous consequences for workers' retirement security. Rising health care costs have made obtaining secure and affordable health coverage increasingly challenging for employees. Strong oversight and protecting workers' retirement and health benefits are among the Department's highest priorities. We take great pride at the Department of Labor in our enforcement record and results, but in the course of recovering workers' benefits, we have seen in some employers a clear lack of understanding or appreciation of their responsibilities under the Employee Retirement Income Security Act (ERISA). Our compliance assistance efforts focus on educational campaigns that reach out to the regulated communities, educate them on what the law requires, and help prevent problems from occurring in the first place. The nation's workers deserve nothing less than the high standards set by ERISA – that the benefit promises made to our nation's workers are kept.

Program Data and Financial Performance

DOL managers routinely use the performance and financial data summarized in this report to improve the quality and cost effectiveness of services to the public. Given its importance for purposes of accountability, we must have confidence in the validity of such information. Several procedures are used routinely to verify data quality; findings for the current fiscal year are described below.

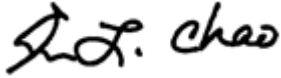
Performance information presented in this report is complete and reliable as defined by the Office of Management and Budget (OMB) in Circular A-11, with one exception. Data for Performance Goal 1.2C (Youth Opportunity Grants) are considered incomplete because older youth employment and retention rates are available for participant outcomes associated with only half of the grantees. A more complete explanation of this issue appears in the Management Issues section of the performance goal narrative.

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are in substantial compliance with OMB Circular A-127, Joint Financial Management Improvement Program (JFMIP) requirements, Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level. All Department of Labor financial management systems substantially comply with FFMIA.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires the Secretary to report to the President and the Congress on the adequacy of management controls in safeguarding resources. Based on the unqualified opinion, audit results and quarterly and year-end assurances given by the agency officials and other pertinent information, the Department of Labor's accounting systems and internal controls comply with the provisions of the FMFIA.

Conclusion

Once again, I am proud to submit an Annual Report on Performance and Accountability that I hope will provide a useful overview of this Department's core missions and a clear assessment of our program and financial results. The employees of the Department of Labor are dedicated to keeping the American workforce strong and competitive through these rapidly changing and often uncertain economic times. We will continue to strive to provide programs and services to assist people to find rewarding work at good pay; foster and protect health and pension benefits; and ensure that workplaces are safe and healthful and free from discrimination.

A handwritten signature in black ink that reads "E.L. Chao". The signature is written in a cursive, flowing style.

Elaine L. Chao
Secretary of Labor

Mission, Vision and Organization

Mission

The Department of Labor 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 workers, strengthening free collective bargaining, and tracking changes in employment, prices, and other national economic measurements.

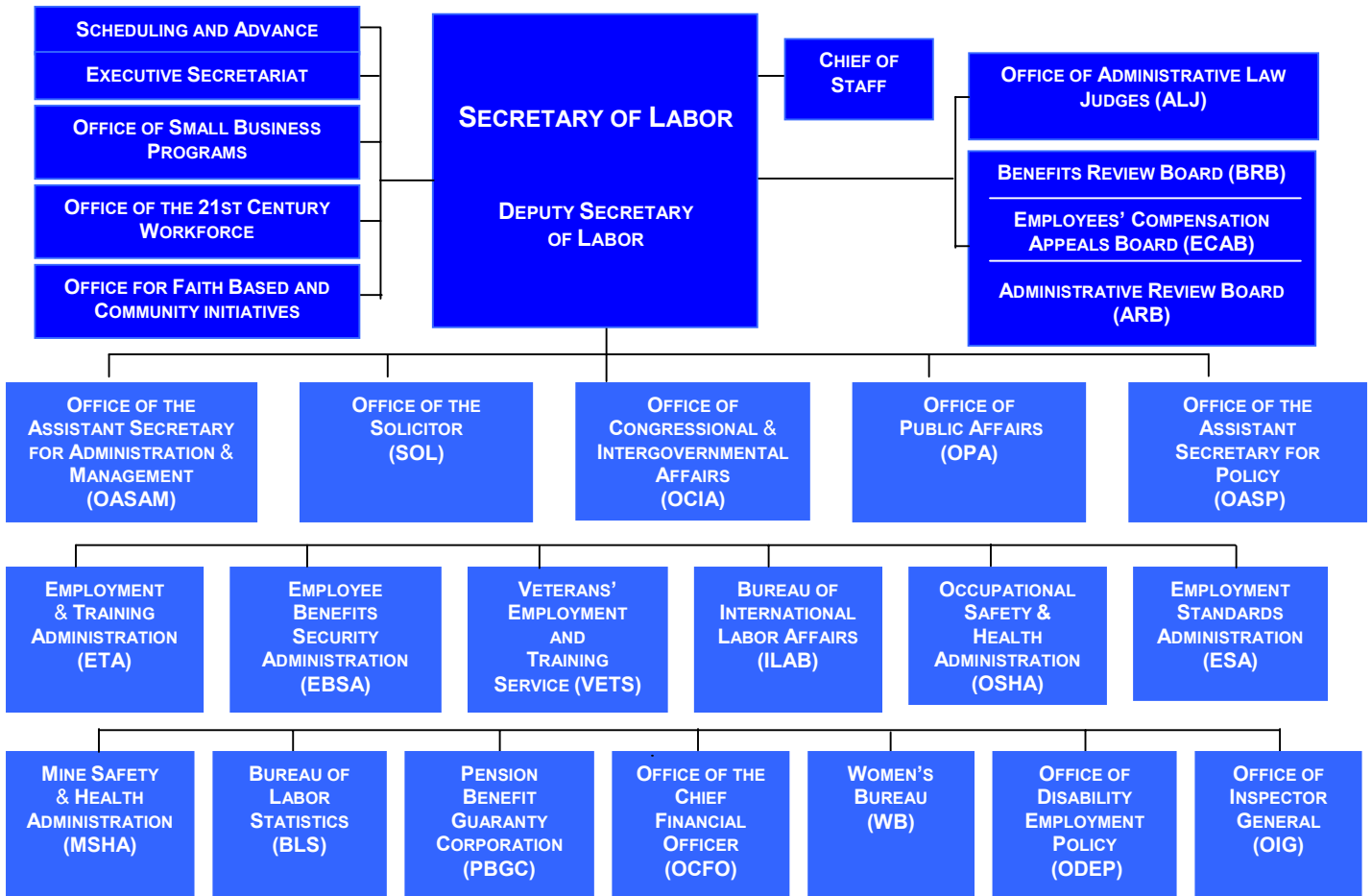
Vision

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.

Organization

The Department of Labor is organized into major component agencies, each headed by an Assistant Secretary or Commissioner who administers the various statutes and programs for which the Department is responsible. 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 are Employment and Training Administration (ETA), Employee Benefits Security Administration (EBSA), Pension Benefit Guaranty Corporation (PBGC), Employment Standards Administration (ESA), Occupational Safety and Health Administration (OSHA), Mine Safety and Health Administration (MSHA), and Bureau of Labor Statistics (BLS). An organization chart and agency mission statements appear on the following pages.

DOL Organization Chart



Agency Missions

Bureau of Labor Statistics (BLS)

To produce, analyze, and disseminate essential and accurate statistical data in the field of labor economics to the American public, the U.S. Congress, other Federal agencies, State and local governments, business, and labor.

Employee Benefits Security Administration (EBSA)

To protect the retirement, health, and other benefits of over 150 million participants and beneficiaries in private sector employee benefit plans.

Employment Standards Administration (ESA)

To protect the welfare and rights of, and generate equal employment opportunity for, American workers by promoting compliance with the various laws that it administers; and to provide the best possible program for income replacement, medical treatment, and rehabilitation for injured Federal workers, longshore workers, and miners.

Employment and Training Administration (ETA)

To contribute to the more efficient functioning of the U.S. labor market by providing high quality job training, employment, labor market information, and income maintenance services primarily through State and local workforce development systems.

Bureau of International Labor Affairs (ILAB)

To carry out the Secretary's international responsibilities, develop Departmental policy and programs relating to international labor activities, and coordinate Departmental international activities involving other U.S. Government agencies, intergovernmental organizations, and non-governmental organizations.

Mine Safety and Health Administration (MSHA)

To protect the safety and health of the Nation's miners by assuring compliance with Federal safety and health standards through inspections and investigations and working cooperatively with the mining industry, labor, and the States to improve training programs aimed at preventing accidents and occupationally caused diseases.

Office of the Assistant Secretary for Administration and Management (OASAM)

To develop and promulgate policies, standards, procedures, systems, and materials related to the resource and administrative management of the Department and ensure execution of such policies and directives at Headquarters and in the field. OASAM provides leadership and policy guidance in support of the President's Management Agenda, including the Department's progress to achieve "green " scores on the Office of Management and Budget's Scorecard, and the Department's Strategic Plan and Annual Performance and Accountability Report.

Office of the Assistant Secretary for Policy (OASP)

To provide advice and assistance to the Secretary and Deputy Secretary in a number of areas, including policy development, regulations, program implementation, program evaluations, research, budget and performance analysis, and legislation.

Office of the Chief Financial Officer (OCFO)

To provide high integrity financial information, policy, services, and products in support of the Department's mission to prepare and protect American workers.

Office of Congressional and Intergovernmental Affairs (OCIA)

To provide direction and coordination for congressional and intergovernmental liaison and outreach activities for the Department of Labor. OCIA assists the Secretary, Deputy Secretary, agency heads, and departmental staff to develop effective programs and strategies to promote the Department's goals and objectives on Capitol Hill as well as among state and local officials.

Office of Disability Employment Policy (ODEP)

To provide leadership to increase employment opportunities for adults and youth with disabilities on both the supply and demand sides of the labor market, by expanding access to training, education, employment supports, assistive technology, integrated employment, entrepreneurial development, and small-business opportunities; and by building partnerships with employers and State and local agencies to increase awareness of the benefits of hiring people with disabilities, and to facilitate the use of effective strategies related to employment of people with disabilities.

Office of Inspector General (OIG)

To serve the American worker and taxpayer by conducting audits, investigations, and evaluations that result in improvements in the effectiveness, efficiency, and economy of Departmental programs and operations; prevent fraud and abuse in DOL programs and labor racketeering in the American workplace; and provide advice to the Secretary and the Congress on how to attain the highest possible program performance.

Occupational Safety and Health Administration (OSHA)

To assure so far as possible for every working man and woman in the Nation safe and healthful working conditions. This includes such strategies as rulemaking, enforcement, compliance assistance, outreach, and partnerships to enable employers to maintain safe and healthful workplaces.

Pension Benefit Guaranty Corporation (PBGC)

To protect retirement-plan participants' pension benefits and support 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.

Office of the Solicitor (SOL)

To ensure that the Nation's labor laws are forcefully and fairly applied in implementing the priority enforcement initiatives of and defending the actions taken by the Department; and to advise agency officials on legal matters, including the development of regulations, standards, and legislation.

Veterans' Employment and Training Service (VETS)

To help Veterans, Reservists, and National Guard members in securing and maintaining employment and the rights and benefits associated with employment.

Women's Bureau (WB)

To promote profitable employment opportunities for women, to empower them by enhancing their skills and improving their working conditions, and to provide employers with more alternatives to meet their labor needs.

Executive Summary

Introduction

This report, prepared in accordance with the Reports Consolidation Act of 2000, presents the results of the Department of Labor's (DOL) program and financial performance for FY 2004. It is divided into four sections:

Management's Discussion and Analysis begins with the Secretary's Message, introduces the Department's mission, vision and organization, summarizes the other three sections (beginning immediately following this introduction) and includes a brief report on DOL's progress in implementing the President's Management Agenda.

The *Performance Section* conveys, through data, analyses and examples, progress in achieving the Department's goals as presented in the Department's Strategic Plan and Annual Performance Plans. The two appendices provide additional details.

The *Financial Section* demonstrates our commitment to effective stewardship over the funds DOL receives to carry out the mission of the Department, including compliance with relevant financial management legislation. It includes the *Principal Financial Statements and Notes* and the *Independent Auditor's Report* – an independent opinion on the Financial Statements provided by the Department's Office of Inspector General.

The *Management and Performance Challenges* section presents the top management issues identified by the Office of Inspector General and the Department's progress and plans to meet these challenges.

This year, DOL will publish in print form a summary version of the report for public consumption, aptly titled *FY 2004 Summary Performance and Accountability Report*. Although format differs, content is identical to corresponding sections of the full "official" report. The summary version includes: the full Management's Discussion and Analysis; Strategic Goal introductions and Outcome Goal summaries from the Performance Section; the CFO letter; a summary of the Inspector General's internal control and compliance reports; a summary of the independent financial audit; condensed Financial Statements; the complete Management and Performance Challenges section; and Acronyms and Internet links appendices. Both versions of the report are online at http://www.dol.gov/_sec/media/reports.

Performance Section

FY 2004 marks the sixth year that the Department of Labor has reported program results under the Government Performance and Results Act (GPRA). Program and management goals that are key to the accomplishment of Departmental strategic and outcome goals as presented in the FY 2003-2008 Strategic Plan¹ were selected for inclusion in the Department's annual plans. These performance goals and their indicators provide the basis for assessments of the Department's effectiveness in this section.

This report includes performance goals from two different annual plans² because some programs administered by the Employment and Training Administration are "forward-funded," meaning that their spending and performance goals are tracked on a cycle that lags the Federal fiscal year (FY) by nine months. This period is referred to as a Program Year (PY); such goals being reported on in this document cover July 1, 2003 to June 30, 2004 (PY 2003). PY 2004 goals will appear in the FY 2005 report.

The Department's goal structure has three levels. Strategic goals describe outcomes that emerge from the Department's mission. Each of these goals in turn has several outcome goals that define general results DOL agencies can influence. These are long term objectives that in most cases involve more than one DOL agency. Finally, performance goals that support each outcome goal provide program-level clarity of purpose. Each performance goal has associated indicators and targets to measure our impact on a continuous basis.

Program Performance Overview

Of the 42 performance goals DOL is reporting on in FY 2004 (30 program goals plus 12 management goals), the Department achieved 25, substantially achieved five and did not achieve 12. The percentage achieved or substantially achieved totals 71 percent. In FY 2003, the Department achieved or substantially achieved 66 percent of its goals. The assessment category of substantially achieved recognizes results that were very close (i.e., 80 percent of targeted year-on-year improvement).

Goals and Results

The table below presents each performance goal for which results are being reported in this document. It includes the goal number, responsible agency, goal statement, result and period covered. Two versions of Goal 1.1F appear because ETA moved its dislocated worker goals from Outcome Goal 2.3 before VETS changed its goal to a program year basis, deferring it to this year's report. Goal 3.1D (OSHA) appears three times because prior year results were not reported on schedule.

Goal # Agency	Performance Goal	Result	Period
1.1A ETA	Increase the employment, retention, and earnings of individuals registered under the Workforce Investment Act adult program.	Achieved	PY 2003
1.1B ETA	Improve the outcomes for job seekers and employers who receive public labor exchange services.	Achieved	PY 2003
1.1C ETA	Strengthen the registered apprenticeship system to meet the training needs of business and workers in the 21 st Century.	Achieved	FY 2004
1.1D ODEP	Provide national leadership to increase access and employment opportunities for youth and adults with disabilities receiving employment, training, and employment support services by developing testing, and disseminating effective practices.	Achieved	FY 2004
1.1E VETS	Increase the employment and retention rate of veteran job seekers registering for public labor exchange services.	Achieved	PY 2003

¹ http://www.dol.gov/_sec/stratplan/main.htm

² Revised Final FY 2003 Annual Performance Plan dated December 31, 2002 and the Revised Final FY 2004 Annual Performance Plan dated January 27, 2004. The FY 2004 plan is available online: http://www.dol.gov/_sec/Budget2004/2004app-toc.htm.

Goal # Agency	Performance Goal	Result	Period
1.1F VETS	Veterans enrolled in Homeless Veterans' Reintegration Program (HVRP) enter employment.	Achieved	PY 2003
1.1F ETA	Increase the employment, retention, and earnings replacement of individuals registered under the Workforce Investment Act Dislocated Worker Program.	Not Achieved	PY 2003
1.1G ETA	Increase the employment, retention, and earnings replacement of workers dislocated in important part because of trade and who receive trade adjustment assistance benefits.	Not Achieved	FY 2004
1.2A ETA	Increase entrance and retention of youth registered under the WIA youth program in education or employment.	Achieved	PY 2003
1.2B ETA	Improve educational achievements of Job Corps students, and increase participation of Job Corps graduates in employment and education.	Not Achieved	PY 2003
1.2C ETA	Increase entrance and retention of Youth Opportunity Grant participants in education or employment.	Not Achieved	PY 2003
1.3A BLS	Improve information available to decision-makers on labor market conditions, and price and productivity changes.	Not Achieved	FY 2004
2.1A ESA	Covered American workplaces legally, fairly, and safely employ and compensate their workers.	Substantially Achieved	FY 2004
2.1B ESA	Advance safeguards for union financial integrity and democracy and the transparency of union operations.	Achieved	FY 2004
2.2A ETA	Make timely and accurate benefit payments to unemployed workers, facilitate the reemployment of Unemployment Insurance (UI) claimants, and set up Unemployment tax accounts promptly for new employers.	Not Achieved	FY 2004
2.2B EBSA	Enhance pension and health benefit security.	Achieved	FY 2004
2.2C ESA	Minimize the human, social, and financial impact of work-related injuries for workers and their families	Substantially Achieved	FY 2004
2.2D PBGC	Improve customer satisfaction according to the American Customer Satisfaction Index (ACSI).	Not Achieved	FY 2004
3.1A MSHA	Reduce the mine industry fatal injury incidence rate and the mine industry all-injury incidence rate.	Not Achieved	FY 2004
3.1B MSHA	Reduce respirable coal dust, silica dust, and noise exposures.	Achieved	FY 2004
3.1C OSHA	Reduce occupational fatalities.	Not Achieved	FY 2004
3.1D OSHA	Reduce injuries and illnesses by 10 % annually in four industries characterized by high hazard workplaces.	Not Achieved	CY 2002
3.1D OSHA	Reduce the days away from work case rate per 100 workers by 2% from CY 2000 baseline.	Achieved	CY 2003
3.1D OSHA	Reduce the days away from work case rate per 100 workers by 4% from CY 2000 baseline.	Achieved	CY 2004
3.2A ESA	Federal contractors achieve equal opportunity workplaces.	Achieved	FY 2004
3.2B OASAM	States that receive financial assistance under the Workforce Investment Act provide benefits and services to persons with disabilities in a non-discriminatory manner.	Achieved	FY 2004

Goal # Agency	Performance Goal	Result	Period
3.2C VETS	Reduce employer-employee employment issues originating from service members' military obligations conflicting with their civilian employment.	Achieved	FY 2004
3.3A ILAB	Contribute to the elimination of the worst forms of child labor internationally.	Achieved	FY 2004
3.3B ILAB	Improve living standards and conditions of work internationally.	Achieved	FY 2004
4.2A OASP	Maximize regulatory flexibility and benefits and promote flexible workplace programs.	Not Achieved	FY 2004
HR1 OASAM	The right people are in the right place at the right time to carry out the mission of the Department.	Substantially Achieved	FY 2004
HR2 OASAM	Reduce the rate of lost production days due to work related injuries and illnesses by two percent.	Achieved	FY 2004
HR3 OASAM	Reduce the total case rate for injuries and illnesses for DOL employees by three percent.	Achieved	FY 2004
HR4 OASAM	Reduce the lost time case rate for injuries and illnesses for DOL employees by three percent.	Achieved	FY 2004
HR5 OASAM	Improve the timeliness of filing notices of injuries and illnesses with the Office of Workers' Compensation Programs.	Achieved	FY 2004
PR1 OASAM	Complete competitions on not less than 15 percent of the FTE listed on DOL's 2000 Federal Activities Inventory Reform (FAIR) Act inventory.	Substantially Achieved	FY 2004
PR2 OASAM	Award contracts over \$25,000 using Performance-Based Service Contracting techniques for not less than 40 percent of total eligible service contracting dollars.	Achieved	FY 2004
FM1 OASAM	Improve the accuracy and timeliness of financial information.	Substantially Achieved	FY 2004
FM2 OASAM	Integrate financial and performance management to support day-to-day operations across DOL.	Achieved	FY 2004
IT1 OASAM	E-Government - Utilize technology to improve service and efficiency.	Not Achieved	FY 2004
IT2 OASAM	Improve the performance of Department's Cyber Security Program in accordance with the Federal Information Security Management Act (FISMA).	Achieved	FY 2004
IT3 OASAM	Improve organizational performance and effective information management through the use of the Departmental IT Capital Planning Investment Control process.	Achieved	FY 2004

Goals Reporting in FY 2005

This table lists goals that appeared in DOL's FY 2004 Revised Final Annual Performance Plan for which results will be reported in the FY 2005 Performance and Accountability Report. All apply to ETA's forward-funded Program Year 2004 (July 1, 2004 – June 30, 2005).

Goal# Agency	Performance Goal	Reason Delayed	Period
1.1A ETA	Increase the employment, retention, and earnings of individuals registered under the Workforce Investment Act adult program.	Forward Funded	PY 2004
1.1B ETA	Improve the outcomes for job seekers and employers who receive public labor exchange services.	Forward Funded	PY 2004

Goal# Agency	Performance Goal	Reason Delayed	Period
1.1F ETA	Increase the employment, retention, and earnings replacement of individuals registered under the Workforce Investment Act dislocated worker program.	Forward Funded	PY 2004
1.2A ETA	Increase placements and educational attainments of youth.	Forward Funded	PY 2004
1.2B ETA	Improve educational achievements of Job Corps students, increase participation of Job Corps graduates in employment and education.	Forward Funded	PY 2004
4.1A ETA	Analyze information collection and research programs for relevance.	Forward Funded	PY 2004
4.1B ETA	Address worker shortage.	Forward Funded	PY 2004
4.1C ETA	Build a demand-driven workforce system.	Forward Funded	PY 2004

DOL's four strategic goals – *A Prepared Workforce*, *A Secure Workforce*, *Quality Workplaces* and *A Competitive Workforce* – express outcomes associated with our mission, vision and theme, and serve to focus Departmental efforts on the links between activities and their higher purpose. The table below indicates FY 2004 program performance goal achievement by strategic goal.

DOL Strategic Goal	Achieved	Substantially Achieved	Not Achieved	Total
Goal 1 – A Prepared Workforce <i>Enhance Opportunities for America's Workforce</i>	7	0	5	12
Goal 2 – A Secure Workforce <i>Promote the Economic Security of Workers and Families</i>	2	2	2	6
Goal 3 – Quality Workplaces <i>Foster Quality Workplaces that are Safe, Healthy and Fair</i>	8	0	3	11
Goal 4 – A Competitive Workforce <i>Maintain Competitiveness in the 21st Century Economy</i>	0	0	1	1
Total	17	2	11	30

Costs devoted toward achieving the Department's strategic goals (see table below) are dominated by the second goal, *A Secure Workforce*, for which net costs in FY 2004 amounted to \$47.0 billion. Ninety-seven percent (\$45.6 billion) of this amount is accounted for by benefit payments to unemployed workers or workers disabled as a result of work-related injuries or illnesses. The first goal, *A Prepared Workforce*, required \$8.7 billion (15 percent of total net costs), spent mostly in the form of grants to States and other organizations to offer job training and a host of employment-related services to assist workers to improve their skills and obtain productive, long-term employment. Approximately \$1 billion (less than 1 percent) went toward the third goal, *Quality Workplaces*, to fund direct services (such as salaries of Federal employees) aimed at improving safety and health in the workplace. The fourth goal, *A Competitive Workforce*, is new; moreover, most of its programs expend funds on a Program Year that lags the fiscal year by nine months. Its costs were the lowest, at just \$6 million.³

³ Net cost data are presented. *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 Program Costs (Millions of Dollars)			
Goal	FY 2002	FY 2003	FY 2004
Strategic Goal 1: A Prepared Workforce	\$6934	\$6923	\$8654
Outcome Goal 1.1 – Increase Employment, Earnings, and Assistance	3596	3433	5412
Outcome Goal 1.2 – Increase the Number of Youth Making A Successful Transition to Work	2829	2957	2703
Outcome Goal 1.3 – Improve the Effectiveness of Information and Analysis On The U.S. Economy	509	533	539
Strategic Goal 2: A Secure Workforce	57,005	59,969	46,957
Outcome Goal 2.1 – Increase Compliance With Worker Protection Laws	350	273	296
Outcome Goal 2.2 – Protect Worker Benefits	54,993	57,718	46,661
Outcome Goal 2.3 – Increase Employment and Earnings for Retrained Workers	1662	1978	0
Strategies Goal 3: Quality Workplaces	949	991	1021
Outcome Goal 3.1 – Reduce Workplace Injuries, Illnesses, and Fatalities	781	815	812
Outcome Goal 3.2 – Foster Equal Opportunity Workplaces	117	118	112
Outcome Goal 3.3 – Reduce Exploitation of Child Labor, Protect the Basic Rights of Workers, and Strengthen Labor Markets ⁴	51	58	97
Strategies Goal 4: A Competitive Workforce	0	0	6
Outcome Goal 4.1 – Equip Workers to Adapt to the Competitive Challenges of the 21 st Century	0	0	0
Outcome Goal 4.2 – Promote Job Flexibility and Minimize the Regulatory Burden	0	0	6
Costs Not Assigned to Goals	48	44	38
Total (may not be equal to sum of individual goal totals due to rounding)	\$64,936	\$67,927	\$56,676

Charts that display net costs from FY 1999-FY 2004 to illustrate trends are provided in each outcome goal summary; brief explanations of significant changes since FY 2003 are provided, as well. In future reports DOL plans a more robust discussion of cost information, eventually at the performance goal level. This will be facilitated by full cost information provided by the new managerial cost accounting system, Cost Analysis Manager (CAM), which is described in more detail in the Outcome Goal FM summary and the Performance Goal FM2 narrative. Cost models that describe relationships between resources, activities, outputs and outcomes have been completed and will be populated with data in FY 2005. Reports from this system will inform management how much it costs to provide the Department's major services, thereby supporting sound decision making and accountability for results.

Below is a breakdown, by strategic goal, of FY 2004 achievements and developments deemed most significant in terms of outcomes.⁵ A tally of goals achieved, while providing a quick 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 not just at whether targets were reached but also at whether observed results indicate positive program impacts. The following summaries focus on significant trends that have continued or have become apparent in the past year and what they mean in terms of DOL's past performance and future strategies.

⁴ The figures for FY 2002 and FY 2003 do not match those in the annual Consolidated Statements of Net Costs by Outcome Goal because they reflect correction of an overstatement of grant costs in FY 2002 and corresponding understatement in FY 2003 that were considered non-material and therefore not corrected in the financial statements.

⁵ Not included are the twelve departmental management goals, of which DOL achieved eight, substantially achieved three and did not achieve one.

Strategic Goal 1 – A Prepared Workforce

As indicated in the Program Performance Goal Achievement table above, DOL had 12 performance goals under this strategic goal in FY 2004. The Department achieved seven (58 percent) and did not achieve five (42 percent). This achievement percentage is below the Department wide average of 71 percent.

In FY 2004, positive trends included: employment, retention, and earnings improved for Workforce Investment Act (WIA) adult programs; the number of disabled workers served in pilots funded by the Office of Disability Employment Policy nearly tripled; homeless veterans' employment rate exceeded 60% (well above target) for the second year in a row; and diploma attainment for younger youth (14-18) and entry to employment and retention for older youth (19-21) increased substantially. WIA Dislocated Worker and Trade Adjustment Assistance programs obtained disappointing results, both having difficulty assisting workers affected by mass layoffs in replacing their income in new jobs.

Further improvement in the preparedness of America's workforce will be promoted by DOL's demand-driven strategy of identifying employers' needs and using that information to identify skilled workers and to develop suitable training programs. In response to recommendations from the Administration's Program Assessment Rating Tool (PART) reviews of the Trade Adjustment Assistance program, new agreements between the Secretary of Labor and the States' Governors will include performance expectations to encourage better results. DOL's Workforce Investment Act reauthorization proposal places emphasis on serving out-of-school youth, the special population DOL is uniquely qualified to serve.

Strategic Goal 2 – A Secure Workforce

Of six performance goals, DOL achieved two (33 percent), substantially achieved two (33 percent), and did not achieve two (33 percent). The total achieved and substantially achieved (67 percent) is slightly below the Departmental average.

The Department reached targets for increasing compliance with the Fair Labor Standards Act (FLSA) in industries with the worst violation records, but failed to reach its targets for reducing recidivism of prior violators in those same industries. Labor unions' financial integrity and transparency indicators improved by targeted quantities. The Unemployment Insurance program reached its target for recovery of estimated overpayments while maintaining its high level of administrative efficiency and building its capacity to facilitate reemployment. Employee benefit security programs reached all targets, including those for successful conduct of civil and criminal cases against benefit plan malfeasance, and customer satisfaction with participant assistance received. Federal workers' compensation results were positive, overall; while lost production days rose, medical costs rose less than the national healthcare inflation rate and claims processing improved significantly. Finally, the Pension Benefit Guaranty Corporation did not reach its targets for customer satisfaction.

In FY 2005, DOL will continue its targeted compliance assistance programs for employers with respect to wage and working condition standards, including detailed agreements and reinvestigation plans; support an amendment to the Labor-Management Reporting and Disclosure Act authorizing civil monetary penalties for delinquent union reports; and improve processing of workers' compensation claims through greater Internet access.

Strategic Goal 3 – Quality Workplaces

Of 11 performance goals, DOL achieved eight (73 percent) and did not achieve three (27 percent), for an achievement ratio above the Departmental average.

In FY 2004, mine fatality and all-injury incidence rates reached the lowest levels recorded in over a quarter century. Other evidence of improved mine safety is the further reduction in coal dust, silica dust and noise overexposures observed at inspected mine sites during the past year. Fatalities in *all* workplaces actually rose slightly, according to DOL estimates; safety in its broader definition improved in all occupations, as measured by the estimated rate of days away from work resulting from workplace injuries. Equal opportunity to work advanced, as incidence of discrimination among evaluated Federal contractors was just one percent, and compliance with all other workplace standards rose sharply to 91 percent. Veterans' employment and reemployment rights were further protected by rulemaking (clarification of procedures that implement the Act of Congress) and by collaboration with the Department of Defense on an annual survey to identify the issues most troublesome for service members returning to the civilian workforce.

Evolving strategies for safety and health regulatory activity include enforcement, training and delivery systems that address workplace demographic trends such as increasing age of workers and likelihood that employees may not speak English. Meanwhile, DOL continues to increase outreach, assistance, and cooperative programs to complement enforcement activity.

Strategic Goal 4 – A Competitive Workforce

The one performance goal being reported on this year was not achieved. Nevertheless, the Department has made progress implementing plans to focus its programs' strategies on winning strategies in a global economic environment. To better build a demand-driven workforce system, DOL implemented the President's High Growth Job Training Initiative and the Career Voyages WebSite, and began implementing the ETA Management Information and Longitudinal Evaluation (EMILE) reporting system. In the regulatory arena, all targets for increased flexibility and reduced burden were not reached, but the important step of incorporating cost/benefit analysis in all impact evaluations is proceeding according to schedule. Next year's report will report on the first results of investments made in support of Goal 4 – the High Growth Job Training Initiative (HGJTI) Grants awarded in PY 2003.



Reporting Performance Results

The Performance Section presents, by strategic goal, summaries of performance at each level. Each strategic goal section is introduced by an overview of the goal, its component outcome goals, results for FY 2004 and near term plans for improvement. Each outcome goal section similarly begins with a summary of results, adds net cost information and highlights and concludes with a brief discussion of future plans. Finally, within each outcome goal section are individual performance goal narratives that introduce the indicators and discuss the program perspective, present results, analysis and future plans and disclose management issues such as data quality and program evaluations that have implications regarding impact or effectiveness. Appendix 1 contains performance goal histories and Appendix 2 summarizes significant evaluations and audits of DOL programs completed during FY 2004 that have implications for performance goals in this report.

Financial Section

Sound financial management is the keystone of the Federal Government's efforts to improve accountability and deliver better results. Decision makers at all levels need timely, accurate and useful financial management information and user-friendly, state-of-the-art tools to facilitate and enhance decision-making. In keeping with the President's goals, the Department of Labor continued to enhance its performance in financial management. This year, DOL successfully reached green on the President's Financial Management Agenda scorecard for financial management. All financial systems at the Department maintained substantial compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), assuring that the systems support full disclosure of the costs of the Department's programs and activities. In addition, the Department continued to comply with the Federal Managers' Financial Integrity Act (FMFIA), indicating that the Department's accounting systems and internal controls were sufficient to safeguard the resources entrusted to the Department. No material weaknesses were found in the audit of the Department's financial statements.

Financial Management Scorecard (as of 9/30/04)

<p>Current Status</p> 	<ul style="list-style-type: none"> • Unqualified and timely audit opinion on annual financial statements; no material internal control weaknesses. • Produced accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operations. • Integrated financial and performance management systems to support day-to-day operations. • FFMIA compliant.
<p>Continued Progress</p> 	<p><i>To implement a new financial management information system:</i></p> <ul style="list-style-type: none"> • Objective 2 – begin design stage involving mapping business processes, change management, testing, and interface development. <p><i>To integrate financial/performance management:</i></p> <ul style="list-style-type: none"> • Expand access and update cost models for DOL Agencies. • Complete documentation and develop additional reporting capabilities to include automation of data into cost model. <p><i>To reduce erroneous payments:</i></p> <ul style="list-style-type: none"> • Complete and present to OMB recommendations to measure improper payments for susceptible non-direct grant programs through changes to the Single Audit Act Compliance Supplements. • Integrate IPFA efforts with the Department's initiatives to bring internal control improvements of the Sarbanes-Oxley Act to its operations to improve the Department's accountability.

The Office of the Chief Financial Officer (OCFO) has begun replacing DOL's core accounting system with a financial management information system using a JFMIP-compliant COTS package. DOL's current accounting system has enabled the Department of Labor to achieve unqualified audit opinions and has provided accurate financial information over the past 14 years. However, advances in technology, opportunities arising from E-Government initiatives and the Department's need to better integrate financial and performance information with a broader user-based support the need for a new system.

On a Government wide perspective, OCFO is co-chairing the Financial Management Line of Business (FMLOB) initiative. This initiative seeks to establish a Government-wide financial management solution that is efficient and improves business performance while ensuring integrity in accountability, financial controls and mission effectiveness. Standardization of business processes and data definitions across the Government will allow consistent reporting of inter-agency accounting events and aid in the reconciliation of inter-agency transactions – providing better accountability.

OCFO also participates in the E-Payroll initiative, which involves consolidation of Federal payroll operations to three providers. Cost savings will result from standardizing policies affecting payroll process and the elimination of duplicative IT investments across the Government. The Department has begun the process of migrating its payroll operations to the National Finance Center (NFC) run by the Department of Agriculture. DOL's goal is to complete the transition to NFC in FY2005. Going forward, the Department plans to continue its migration efforts

placing emphasis on refining interfaces to the NFC system environment to support on-line time and attendance entry as well as human resource functions.

DOL has embarked upon a department-wide managerial cost accounting initiative called Cost Analysis Manager (CAM). CAM provides expenditure information to managers, analysts, and other decision-makers to help them better understand operational costs. CAM's costing methodology is consistent with the Statement of Federal Financial Accounting Standards (SFFAS) No.4, which provides the guidance for full cost of federal programs. It answers the question of what are the full costs of a program and raises additional cost-based questions that help managers improve program performance. CAM provides these improvements through the delivery of timely and frequent information regarding program costs, analyzing program efficiencies and effectiveness through "what if" scenarios, and determining whether its spending reflects an agency's priorities. Furthermore, CAM will provide Departmental management with cost information to evaluate past performance and guide future decision-making.

The OCFO intends to enhance its efforts to monitor the Department's internal control structures and procedures and alert management of potential financial issues. This initiative will allow OCFO to assess the efficiency and effectiveness of financial operations, the reliability of financial reporting, and compliance with applicable Federal laws and requirements. This will also provide DOL with the financial management information needed to support its quarterly process to attest to the existence and effectiveness of internal controls throughout the organization to ensure compliance with FMFIA and FFMIA requirements.

Analysis of Financial Position

The Department's financial statements received an unqualified or "clean" audit opinion for the eighth consecutive year. The independent CPA firm of R. Navarro & Associates, Inc. issued reports for Fiscal Years 2004 and 2003. This independent assessment provides assurance that the money managed by the Department is accounted for properly.

The principal financial statements in this report summarize DOL'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 fiscal years 2004 and 2003. Highlights of the financial information presented in the principal financial statements are shown below:

Financial Position

DOL's Balance Sheet presents its financial position through the identification of agency assets, liabilities and net position. Over 99 percent of DOL's investments are Unemployment Trust Fund investments. DOL total assets decreased from \$64.8 billion at the end of FY 2003 to \$62.4 billion in FY 2004. Seventy three percent of DOL assets are invested in U.S. Government securities, compared to 75 percent in FY 2003. Liabilities totaled \$15.0 billion and \$13.9 billion at the end of FY 2004 and FY 2003 respectively, leaving a difference, or net position, of \$47.4 billion and \$50.8 billion at the end of each year.

Net Cost of Operations

The total net cost of DOL operations in FY 2004 was \$56.7 billion, a 16 percent decrease from the prior year. The major portion of DOL costs comprise of Income Maintenance programs. Income maintenance expense includes costs such as unemployment checks paid to individuals who are laid off or out of work and seeking employment as well as payments to individuals who qualify for disability payments due to injury or illness suffered on the job.

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. DOL's remaining costs fund programs to protect worker safety, health, and employment standards; to safeguard pension and health plan benefits; to provide statistical information; and to support departmental management and infrastructure.

Financing

The Statement of Financing reconciles the net cost of operations with the obligation of budgetary resources for the Department. DOL's operations are funded primarily by Unemployment Program employer taxes, appropriations received, and investment interest earned from various trust funds.

Statement of Budgetary Resources

This statement reports the amount of resources received to effectively carry out the activities of the Department as well as the status of those resources at the end of the fiscal year. DOL had direct obligations of \$61 billion in FY 2004, a decrease of \$10 billion from FY 2003.

Limitations on the Principal Financial Statements

As required by the Government Management Reform Act of 1994 (31 U.S.C. 3515 (b)), the principal financial statements report DOL's financial position and results of operations. While the statements have been prepared from the books and records of DOL in accordance with formats prescribed by the Office of Management and Budget (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.

Improper Payments Information Act Compliance

Identifying and reducing improper payments continues to be a major financial management focus for the Federal Government in FY 2004. A key component of the President's Management Agenda is to improve agency financial performance through reductions in improper payments. The Office of Management Budget (OMB) originally provided Section 57 of Circular A-11 as guidance for Agencies to identify and reduce improper payments for selected programs.⁶ 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. The IPIA requires Agencies to report annually on the extent of improper payments and the actions taken to increase the accuracy of payments.

The Department has historically been engaged in efforts to reduce improper payments, as shown by the Agency's commitment to the Benefit Accuracy Measurement (BAM) program, which statistically quantifies and reports the Unemployment Insurance Program's erroneous payment performance. This measurement program has been in place for more than 15 years and includes sampling activities to identify errors, fraud, and abuses. To coordinate and facilitate the Department's efforts under the IPIA, the Chief Financial Officer (CFO) was designated as the Erroneous Payment Reduction Coordinator for the Department in FY 2004. The Office of the Chief Financial Officer (OCFO) worked with program offices to develop a coordinated strategy to perform annual reviews for all programs and activities susceptible to improper payments. This cooperative effort included developing actions to reduce improper payments, identifying and conducting ongoing monitoring techniques, and establishing appropriate corrective action initiatives.

Methodology

To identify Agency programs that meet IPIA reporting requirements, the Department established an inventory of existing programs and conducted an initial risk assessment. This risk assessment identified those programs and activities with potential improper payments exceeding both 2.5% of outlays and \$10 million. The Department then conducted statistical sampling for any program or activity meeting the initial risk assessment thresholds, except for certain grant programs, which are discussed in the paragraph below. To produce timely and accurate results, the Department conducted the sampling using FY 2004 data. Agency programs and activities with an estimated annual amount of improper payments in excess of \$10 million, and those required by Section 57, were identified as meeting the threshold for reporting.

⁶ Section 57 identified Unemployment Insurance (UI), Federal Employees' Compensation Act (FECA) and Workforce Investment Act (WIA) as programs required to report annual erroneous payments

Challenges of Grant Programs for IPIA Compliance

To achieve compliance for susceptible grant programs, the Department faces challenges similar to those of many other Federal Agencies. Often, grant programs are structured to provide Federal funds that empower local entities to operate programs based on local need. The Federal Government provides the monies to States, cities, counties, private non-profits, and other organizations to distribute these Federal funds. The Federal Government relies on single audit report findings from the Single Audit Act to monitor the recipients of these Federal funds. However, the single audits do not always contain the details necessary to meet the reporting requirements of the IPIA. Specifically, single audits do not have the detailed testing criteria or sufficient reporting requirements to provide the data necessary to statistically estimate improper payments within the grant programs. This limits access to the data needed to estimate aggregate Federal error rates.

Accomplishments and Plans for the Future

In FY 2004, the Department conducted the required initial risk assessment, statistically sampling all programs deemed susceptible and established appropriate reduction targets (save for the grant programs). The initial assessment identified 12 programs "susceptible" to improper payments. The Department conducted statistical sampling for 7 of these 12 programs. The remaining five programs, for which statistical sampling was not feasible for FY 2004, were grant programs. Only two of the seven programs (Unemployment Insurance and Federal Employees Compensation) met the IPIA reporting requirement thresholds.

Using analysis of the sampling data, the Department developed corrective action initiatives for the programs reporting in the Performance and Accountability Report (PAR). During the past year, many UI initiatives in particular delivered results. Specifically, access to the National Directory of New Hires and the Social Security Administration Data Exchange will enable States to reduce payments to ineligible recipients, a significant source of improper payments. Additionally, the Department is developing an approach to evaluate UI's corrective action initiatives through a performance measurement metrics pilot. This pilot will enable the sharing of best practices and comparative performance metrics among States by quantifying the successes associated with each initiative. Such data will allow States to direct funding to the initiatives with the most powerful effect on improper payments.

To address the challenges of grant programs the Department co-chaired the government-wide CFO Council's Erroneous and Improper Payments Grants Subcommittee. The Department made significant contributions to multiple recommendations that contemplate various solutions for grant programs. In FY 2004, the OCFO analyzed the Department's single audits to determine how modifications to the Circular A-133 Compliance Supplements will help to achieve IPIA compliance. The analysis confirmed that the most efficient means to gather data regarding Federal grant programs is to use the existing infrastructure provided by the Single Audit Act. The Department's grant analysis also produced recommended changes to testing and reporting requirements of Circular A-133 that are necessary to statistically estimate error rates. To further enhance these modifications, the Department intends to conduct a pilot for a selected grant program. The pilot would gather data using the single audits for a selected grant program and allow the Department to refine its initial Circular A-133 recommendations on how to better achieve estimates of improper payment rates at the Federal level.

Finally, the Department believes that IPIA implementation requires concerted support from component Agencies to realize significant results. As such, the Department's OCFO has initiated the development of assistance activities that, while focused on improving financial management and internal controls, will also coordinate program Agency efforts to achieve compliance with the IPIA. To ensure accountability for achieving real reductions, the Department will integrate IPIA efforts into the existing quarterly financial certification meetings with Agency heads. The development of this infrastructure is an important step in supporting the environment of accountability.

Other Significant Information

Audit Follow up

The Inspector General Act Amendments of 1988 require explanations for all audit reports with recommendations open for more than one year. DOL management and audit communities agree that some of these audit resolutions will require several years to complete the corrective action. As of September 30, 2004, 158 audit reports have been open for over one year. The total value of open audits of \$236 million covers 739 separate recommendations.

DOL agencies and the OIG jointly manage and update an audit tracking system where the current status of each open audit is maintained. Final closure of the audit is determined only by final decisions of the reviewing officials. Many of these decisions take years before being rendered and the audit closed.

The most significant of the non-monetary open audit findings are discussed in this report. A listing of all open audits is available upon request from the Department's Office of the Chief Financial Officer.

2004 Audit Summary as of 9/30/2004 (\$ in thousands)	
Affected accounts in 158 audits with 739 recommendations over one year old...	\$236,169
Less:	
Value of 18 open recommendations Under administrative law or Federal Court Appeal...	\$ 14,211
Funds put to better use...	\$ 12,794
Amounts referred or in process of referral to the Department of Treasury	\$ 2,726
Balance of 158 open audits...	\$206,438

Debt Management

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, and DOL cross services 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 DOL relate to the assessment of fines and penalties in our enforcement programs. During FY 2004, the Department improved its compliance with DCIA and referred \$79 million, which represents 96% of all eligible delinquent debt, to Treasury for collection. The amount of debt referred to Treasury in FY2003 was 92%.

User Charges - Policy Review Process

In accordance with the CFO Act and OMB Circular A-25, department wide guidance has been developed to establish policy, procedures, and responsibility for implementing and managing user charges in DOL. The guidance includes the biennial review requirements of the CFO Act. DOL continues to review and adjust user fees in programs to reflect current costs and market value of these services.

Prompt Payment Act

The Prompt Payment Act requires Executive agencies to pay commercial obligations within discreet time periods and to pay interest penalties when those time constraints are not met. In FY 2004, of approximately \$1.2 billion in gross payments, \$115,452 was paid in interest fees and penalties. Additionally, during FY 2004, there were over 66,000 payments made to vendors and travelers. Of this amount, 1,451 invoices were paid late resulting in only 2% of the total payments made during FY 2004 incurred interest penalties.

Electronic Fund Transfer (EFT)

On average, DOL made approximately 82 percent of its salary, awards, travel and miscellaneous payments electronically in FY 2004. The Department continues to lag behind Government averages due to the low EFT participation and the heavy volume in ESA's medical and benefits programs. These ESA programs account for over 71 percent of DOL's total payment volume.

DOL EFT Payments					
	FY00	FY01	FY02	FY03	FY04
Administrative Vendors	64%	69%	74%	96%	78%
Travel & Miscellaneous	99%	99%	99%	99%	99%
Salary & Awards	97%	96%	98%	99%	99%
ESA Programs	27%	26%	28%	53%	44%
Total	41%	38%	39%	65%	53%
Source: DOL DOLAR\$ and Payroll System EFT reports.					

Management and Performance Challenges

DOL's Inspector General identified nine areas considered to be the most serious management challenges facing the Department:

- Reducing Improper Payments
- Safeguarding Unemployment Insurance
- Integrity of Foreign Labor Certification Programs
- Financial and Performance Accountability
- Systems Planning and Development
- Information Systems Security
- Security of Employee Benefit Plan Assets
- Accounting for Real Property
- Workforce Investment Act Reauthorization

Each issue is discussed briefly below, along with Departmental management's responses. Detailed descriptions of the challenges identified by the Office of Inspector General and the Department's responses are in the Management and Performance Challenges section of this report immediately following the Financial Section.

Reducing improper payments

Reducing improper payments in DOL administered benefit programs, including Unemployment Insurance (UI) and the Federal Employee Compensation Act (FECA) program, is a challenge to the Department. Improper payments include those made in the wrong amount, or to an ineligible recipient, or improperly used by the recipient. The need for Federal agencies to take action to eliminate overpayments is recognized by the President's Management Agenda (PMA) and the Improper Payments Information Act of 2002. UI overpayments by the states are projected by DOL at about \$4 billion annually. The Department's estimate for FECA overpayments, which we consider conservative, is \$10 million annually.

DOL response

ETA was very pleased with the enactment of a law based on draft legislation proposed by the Department that gives State UI agencies access to the National Directory of New Hires. This will enhance states' ability to detect unreported work violations by UI claimants working in other states or for certain multi-state employers who may be all new hires to only one state. ETA is working with the Department of Health and Human Services on the details of implementation and will encourage states to use the directory when it becomes accessible. ETA continues to promote activities to prevent and detect overpayments. In FY 2004, \$2.3 million is being made available to states that submitted acceptable proposals to implement or enhance benefit payment control activities such as computer cross-matches to detect overpayments, for example, through the use of the states' Directories of New Hires as well as through an electronic data exchange between State UI agencies and the Social Security Administration.

Safeguarding Unemployment Insurance

Improving the integrity and solvency of the UI program to better serve qualified recipients is a challenge for the Department of Labor. During FY 2003, the UI program paid over \$53 billion in income maintenance benefits to American workers. Among the difficulties faced by the program are inadequate Unemployment Trust Fund (UTF) reserves, overcharges for UTF administration, and the program's susceptibility to fraud schemes involving identity theft and organized crime.

DOL response

ETA again notes that there is no Federal solvency standard. There is nothing wrong from ETA's standpoint if a state must borrow from the fund. In fact, the greater the drawdown in states' solvency positions during a downturn, the greater the system would impact as an automatic economic stabilizer.

Integrity of Foreign Labor Certification Programs

Reducing the susceptibility of DOL foreign labor certification programs to abuse remains a challenge to the Department. These programs allow U.S. employers to hire foreign workers when their admission does not adversely impact the job opportunities, wages, and working conditions of citizens and legal residents. DOL received almost 400,000 employer applications for foreign workers through these programs in FY 2003. Problems with the integrity of the labor certification process and fraud against the program persist. This 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 before being certified.

DOL response

ETA seeks to add clarification to the observations of the OIG. Our authority is not to investigate aliens for possible security risks, but rather to ascertain whether the area of intended employment has been adequately tested such that there are no available, willing, able, and prepared U.S. workers for the position being proposed by an employer.

Financial and Performance Accountability

In order to manage DOL programs for results and fully integrate budget and performance, the Department needs timely financial data, a managerial cost accounting system that matches cost information with program outcomes, quality performance data, and useful information from single audits that cover 90 % of its expenditures. While DOL has received high marks on the President's Management Agenda scorecard for financial performance and budget and performance integration, it faces challenges in fully implementing improvements undertaken in these areas.

DOL response

OCFO recognizes effective project management as a significant factor affecting the eventual success of the New Core Financial Management System Project (NCFMS). Effective and responsive project monitoring, oversight and controls, clear and effective direction, and governance systems can mitigate the risk of missing the intended end result. Project risks for NCFMS are managed through detailed project plans and resourced work breakdown structures (WBS). The project plan and WBS enable effective management of project tasks to be performed at the activity level, monitoring resource and time consumption, and comparing baseline estimates with actual costs and schedule. The project plan also includes activities associated with testing various software deliveries against DOL requirements documents and responding to regulatory requirements and changes. OCFO's partnership with the OIG will help ensure that all Federal financial system requirements and user needs are met.

Systems Planning and Development

Developing efficient and effective systems to perform the day-to-day business of DOL is also a challenge to the Department. Judicious planning and program management are critical to the implementation of new systems. Enduring problems in existing systems must also be addressed in a timely, effective manner. The OIG has concerns about insufficient planning for new DOL information technology and other systems. Lack of progress in addressing longstanding concerns in established programs like the Davis-Bacon prevailing wage determination process are also of concern.

DOL response

The Office of Chief Information Officer (OCIO) continues to implement a comprehensive project management structure that employs a rigorous system development life-cycle management process. This process includes checks and balances to ensure projects are executed according to plan, within budget, and meeting performance expectations. Systematic quarterly reviews are conducted during which the OCIO and the Departmental Budget Center evaluate the progress of information technology (IT) projects against a range of parameters, including: cost, schedule and performance; enterprise architecture alignment; and compliance with security requirements. IT development projects are then rated on quarterly review "scorecards" in each of these categories. The OCIO has also established policy for and implemented an earned value management system (EVMS) for major IT investments in FY 2004, which allows the cost, schedule and performance of major IT investments to be monitored over time.

Information Systems Security

As is the case for all government agencies, information technology security is an ongoing challenge for the Department of Labor because of new threats and increased automation through E-Government initiatives. Keeping up with these developments, and providing assurances that DOL systems will function reliably and safeguard information assets in an E-government environment require a sustained effort. The security of DOL IT systems and data is vital, since it relates to key economic indicators and the payment of billions of dollars to workers.

DOL response

The OCIO performed a comprehensive review of the Department's Security Program to measure its efficiency and effectiveness. This review included a broad assessment of security vulnerabilities identified by the OIG, as well as applicable Departmental IT security policies and procedures. Based on this review, a DOL Plan of actions and Milestones (POA&M) was developed which mapped out a strategy to mitigate the identified security vulnerabilities, including other program areas needing improvement. Agency senior management were advised by the Chief Information Officer to give priority and resources to their agency-specific vulnerabilities prior to funding new IT investments. Agencies were also advised to ensure these vulnerabilities and their corrective actions were documented in their Plans of Actions and Milestones (POA&Ms). In addition, the OCIO established several focus groups comprised of representatives from multiple Departmental agencies to leverage agency expertise and assistance in enhancing the Department's Cyber Security Program.

Security of Employee Benefit Plan Assets

Protecting the benefits of American workers, including pensions and health care, remains a significant challenge to the Department. DOL is responsible for overseeing and protecting the interests of participants in about 730,000 private pension plans and six million health and welfare plans covered by the Employee Retirement Income Security Act (ERISA). These pension plans hold over \$4.8 trillion in assets and cover more than 150 million workers. Recent failures in corporate financial management and reporting, as well as in the auditing and oversight of these activities, show the need to enhance worker pension and healthcare security by expanding safeguards and improving benefit plan regulatory enforcement.

DOL response

The Department has responded to the challenge of pension plan fraud and mismanagement with a strong enforcement program accomplished through civil and criminal investigations of plans, plan sponsors, fiduciaries, and service providers. During FY 2004, the Department's Employee Benefits Security Administration (EBSA) achieved more than \$3.1 billion in monetary results and 121 criminal indictments. Further, the Department continues to take steps to improve the financial audit process established by the Employee Retirement Income Security Act (ERISA). In February 2003, EBSA initiated its second nationwide review to assess the quality of employee benefit plan audits using a statistical sample of 300 plan audits, to assess compliance with professional accounting and auditing standards; a report of findings is pending. EBSA is also fully committed to enhancing health care security by putting an end to the fraudulent and abusive practices of corrupt Multiple Employer Welfare Arrangements (MEWAs) and their operators with a three-pronged approach: (1) emphasizing prevention by educating employers and consumers; (2) aggressively pursuing civil and criminal enforcement actions to shut down scams; and (3) supporting legislation to establish a secure and affordable alternative for small businesses looking to purchase health insurance for their workers – Association Health Plans (AHPs).

Accounting for Real Property

The Department is challenged to improve accountability for and management of millions of dollars worth of real property. The GAO designated Federal real property as a high-risk area in January 2003, and in February 2004 the position of Senior Real Property Officer for Federal Agencies was established by Executive Order. The President's Management Agenda also includes a government-wide initiative aimed at improving stewardship of Federal real property assets. With respect to the DOL, OIG audits have highlighted opportunities for improvement in real property management.

DOL response

ETA's Office of Financial Administration Services (OFAS) completed its first annual (physical) inventory of Job Corps capitalized real property in January 2004, which effectively resolved differences between Job Corps site survey data and the Capitalized Assets Tracking and Reporting System (CATARS). Procedures are in place to ensure that OFAS and Job Corp coordinate effectively to ensure future land acquisitions are entered within the ETA database in a timely manner. ETA generally agrees with the OIG that an accurate, up-to-date inventory and valuation of State Workforce Agency (SWA) real property must be maintained. Currently, ETA sends a letter to SWA Administrators every two years asking that ETA property records be reviewed and updated. ETA also has a Training and Employment Guidance Letter (TEGL) on SWA real property in the final clearance process, which requires states to report changes and/or updates to their real property data by November 30, 2004. States are also required to remit the proceeds from real property sales to DOL.

Workforce Investment Act Reauthorization

The Department also faces the challenge of improving Workforce Investment Act (WIA) programs through the WIA reauthorization process. To date Congress has not reauthorized the WIA legislation. Prior OIG audits identified areas in which WIA could be improved to better achieve its goals. Based on our audit work, the recommended changes are: increase training provider participation, improve dislocated worker program services and outcomes, improve documentation of youth program outcomes, and better assess states' current WIA funding availability. DOL has agreed to most of our recommendations, but many have yet to be implemented.

DOL response

As of September 2004, the House and Senate WIA reauthorization bills that were passed in 2003 are still awaiting conference. As noted in the examples from specific ETA Program Offices, the Department has taken numerous steps to address the concerns outlined in the OIG findings, even while we await further action on WIA reauthorization. In addition to the specific steps referenced above, ETA convened two Federal/State Policy Forums in 2004 to discuss high-level policy issues such as those identified by the OIG. The continued implementation of the President's High-Growth Job Training Initiative is also helping to address these key issues by funding innovative partnerships between the workforce investment system, business and training providers to train adults and young people for jobs that are in demand.














The President's Management Agenda

In August 2001, President Bush called for a government that is:

- Citizen-centered, not bureaucracy-centered;
- Results oriented, not output oriented; and
- Market based, actively promoting rather than stifling innovation through competition.

Together, initiatives created to achieve these goals are referred to as the President's Management Agenda (PMA). The five government wide initiatives are: *Strategic Management of Human Capital*, *Competitive Sourcing*, *Improved Financial Performance*, *Expanding Electronic Government*, and *Budget and Performance Integration*. In addition, DOL is responsible for two of the PMA components found in selected departments: *Faith-Based and Community Initiatives* and *Federal Real Property Asset Management*. The latter was just added in June 2004.

The Office of Management and Budget (OMB) regularly assesses all Federal agencies' implementation of the PMA, issuing an Executive Branch Management Scorecard rating of green, yellow or red for both status and progress on each initiative. The breakdown by initiative, comparing last year's ratings with those for FY 2004, is indicated in the table below. Under the OMB-led *Proud to Be* campaign, DOL set ambitious goals, demonstrated measurable progress and in just nine months elevated five of its status scores. The Department continues to be rated among the best Cabinet agencies in overall implementation of the PMA. Highlights of achievements associated with each initiative follow the table.

Executive Branch Management Scorecard	September 2003 Status	September 2004 Status
Human Capital	 Yellow	 Green
Competitive Sourcing	 Red	 Yellow
Financial Performance	 Yellow	 Green
E-Government	 Yellow	 Green
Budget & Performance Integration	 Yellow	 Green
Faith-Based and Community Initiatives	 Yellow	 Yellow
Real Property	NA	 Red

Strategic Management of Human Capital

Competency models are the main criteria for rating candidates and for conducting skills assessments for development. Managerial and employee performance plans are being reviewed for clear links to outcome goals. A recent survey indicated a time-to-hire of 41 days.

Competitive Sourcing

DOL has an ambitious plan to compete designated commercial functions by the end of FY 2007. In FY 2005, the plan includes 377 FTE – approximately half in Finance and Accounting and over 100 in Education and Training functions.

Improved Financial Performance

DOL earned elevation in the last quarter of FY 2004 by improving data integration practices. In FY 2005, the new Cost Analysis Manager tool will capture and report data that will achieve operational and program efficiencies. Improper payments identification and mitigation activity has moved beyond the sampling stage; a key priority for FY 2005 is development of approved plans for measurement of error rates and dollar amounts for remaining programs.

Expanding Electronic Government (E-government)

DOL achieved green status by developing acceptable business cases for all major systems in FY 2004 and by reaching other ambitious milestones. In FY 2005, DOL plans release of a Technical Security Manual and completion of a revised Capital Investment Plan.

Budget and Performance Integration

DOL earned a Green status score on this initiative by improving PART scores, creating efficiency measures for all programs, developing capabilities of full and marginal costing of performance goals and institutionalizing use of performance results to inform funding and strategic decisions.

Faith-Based and Community Initiatives

Since 2001, DOL has awarded 417 grants totaling \$140.5 million as part of its ongoing efforts to implement the President's Faith-Based and Community Initiative. The Department is working with workforce boards nationwide to increase partnerships with faith-based and community organizations that help transition hard-to-serve individuals into employment. DOL recently invested \$10 million in the *Ready4Work* Offender Reentry Program to enhance training and employment services at 18 reentry sites nationwide. The Department also published two final regulations in July 2004 designed to ensure the equal treatment of faith-based and community groups that partner with DOL.

Federal Real Property Asset Management

DOL's priorities for FY 2005 are development of an Asset Management Plan and performance measures for operational costs consistent with Federal Real Property Council standards.