U.S. Department of Labor

AGENCY FINANCIAL REPORT

FISCAL YEAR 2011

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This report can be found on the Internet at www.dol.gov/dol/aboutdol/.

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

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Washington, DC 20210
202-693-6800

Message from the Secretary of Labor

November 14, 2011

I am pleased to submit the Department of Labor's *Agency Financial Report (AFR)* for Fiscal Year 2011. This report shows how we managed our resources, highlights our major accomplishments, and outlines our plans to address the challenges ahead. This *AFR* is an alternative to the Performance and Accountability Report produced in prior years. Information on program performance will be included in the Department's *Annual Performance Report (APR)*, submitted as part of DOL's Congressional Budget Justification in February 2012. The *APR* will be posted on DOL's Web site at www.dol.gov/sec/media/reports/.

Even in challenging economic times, the Department is constantly evolving to help meet the needs of the American people, all while working toward my vision of *good jobs for everyone*. DOL remains committed to supporting the workforce's needs, whether someone is looking for a job, has a job, or has retired. Through the Department's many programs and services, more than 17,000 DOL employees nationwide are hard at work getting America back to work. We are doing this through several major initiatives, which include the following:

Getting America Back to Work

The Department is committed to promoting employment opportunities and training in vulnerable communities, supporting the employment needs of our veterans, fostering innovative new ways to deliver services at lower costs, and preparing the workforce for new employment opportunities in the "green" economy. You see this commitment at the Electrical Joint Apprenticeship Training Center in San Jose, California, where trainees learn to install and maintain advanced lighting control systems and obtain certification, or at the 100 hiring fairs held throughout the country during FY 2011 as part of the Hiring our Heroes initiative. Furthermore, the Department launched mynextmove.org, a Web site designed to help job seekers identify career paths. DOL also continues to promote its YouthBuild program, ensuring younger workers can gain hands-on job experience while completing their education. Other initiatives include focusing on the expansion of employer-linked training, on-the-job training implementation grants, and apprenticeship expansion.

Keeping Workers Safe

We are strengthening our enforcement programs to ensure that wages and worker rights are protected and that safe working conditions exist for the entire workforce. We are giving our inspectors the tools they need to ensure that workers are safe when providing for their families. As an example, the Department proposed a rule requiring that continuous mining machines used in underground coal mines be equipped with proximity detection systems. When installed on mining machinery, proximity detection can detect the presence of personnel or other machinery within a certain distance. These systems can be programmed to send warning signals and stop machine movement when certain areas are breached, thus protecting worker lives. Additionally, we have made significant enhancements to our on-line enforcement database to improve the public's access to and understanding of our enforcement activities. We also developed a heat safety mobile application that allows workers and supervisors to monitor the heat index for their work site. Based on the heat index, the application displays the level of risk to outdoor workers and provides reminders about the protective measures that should be taken to protect them from heat-related illness.

Helping Workers Provide for Their Families and Keep What They Earn

We continue to work to ensure that employees receive the wages and benefits they earn, both while employed and after retirement. We have expanded our regional Wage and Hour Division presence to improve communication with stakeholders and to help coordinate with community-based resources to support enforcement initiatives. Health and pension benefits need to be protected, and we are working to reduce inequities in the workforce that result from discrimination. DOL will defend employee rights under the law, and the Department wants companies that play by the rules to know that we will take action against those that use illegal tactics to gain an unfair competitive advantage. One area that demonstrates DOL's commitment is protecting migrant workers. In September, along with the ambassadors from the Dominican Republic, Costa Rica, and El Salvador, I signed declarations that will help protect the labor rights of workers from those countries while they are employed in the United States. These countries joined representatives from Mexico, Nicaragua, and Guatemala, who previously signed agreements with the Department.

Ensuring Program Effectiveness, Improving Efficiency, and Increasing Transparency

We are striving to provide additional outputs with fewer tax dollars to ensure that the public is receiving value for the services we are delivering. To do that, we are conducting comprehensive evaluations of our major programs to build our knowledge of which strategies and approaches work and to ensure that resources are invested in high-impact areas. We are reducing travel costs, incorporating renewable energy to reduce real property costs, and developing electronic data-collection systems to reduce the need for paper forms. I invite you to explore our Open.Gov page on the DOL Web site. Here you will find the latest data sets, links to ways you can connect with Department staff, and information about how you can provide input that will make our Web site, and our work, even better and more engaging.

Management Assurances

To lead in information technology and transparency, we implemented a new core financial management system in January 2010. This state-of-the-art financial management system allows the Department to leverage technology to support financial analysis and real-time decision-making. Ultimately, the new system allows us to provide higher quality service, control and reduce costs, and improve efficiency and effectiveness. As I reported last year, the transition to the new system was challenging; however, we ultimately received an unqualified audit opinion on the FY 2010 financial statements in May 2011.

Having just completed our first full fiscal year with the new system, I can proudly report that we have again received an unqualified opinion on our financial statements for the fiscal year ending September 30, 2011. I am also pleased to provide an unqualified statement of assurance regarding the Department's internal controls, as required by the Federal Managers Financial Integrity Act (FMFIA) of 1982 and Office of Management and Budget Circular No. A-123, Management's Responsibility for Internal Control. We are confident that the financial and summary performance data included in this *AFR* are complete and reliable in accordance with federal requirements.

Moving forward, the Department is committed to working on weaknesses in internal controls concerning financial reporting noted by the Inspector General and the auditors. Further information on this, as well as the results of management's assessment of internal controls and compliance of financial management systems, pursuant to FMFIA and the Federal Financial Management Improvement Act of 1996 (FFMIA), are discussed in the *Management's Discussion and Analysis* section of this report.

Conclusion

Through our commitment to transparency and openness, the Department wants to show what we are doing to get America working. Therefore, it is my pleasure to submit the DOL's *Agency Financial Report* for Fiscal Year 2011 to Congress and the American people. It is important to remember that this report only provides a snapshot in time. At the end of this report, there is a list of links that will allow you to stay up-to-date with the Department's latest news. I invite you to engage with us in real-time by following us on Twitter, Facebook, and YouTube for the newest information. With all the exciting work we are doing, I look forward to the coming year and engaging stakeholders through our effort to advance the Department of Labor's mission. Now, let's get America back to work!

Hilda L. Solis

HILDA L. SOLIS
U.S. Secretary of Labor

MANAGEMENT'S DISCUSSION & ANALYSIS

Agency Financial Report

The Department of Labor's annual *Agency Financial Report (AFR)* provides fiscal and high-level performance results that enable the President, Congress, and American people to assess the Department's accomplishments for each fiscal year (October 1 through September 30). This report provides an overview of programs, accomplishments, challenges, and management's accountability for the resources entrusted to the Department. The report is prepared in accordance with the requirements of Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements.

Mission Statement and Organizational Structure[1]

DOL's mission remains as relevant today as at the Department's founding in 1913: *to foster, promote and develop the welfare of the job seekers, wage earners and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work related benefits and rights*.

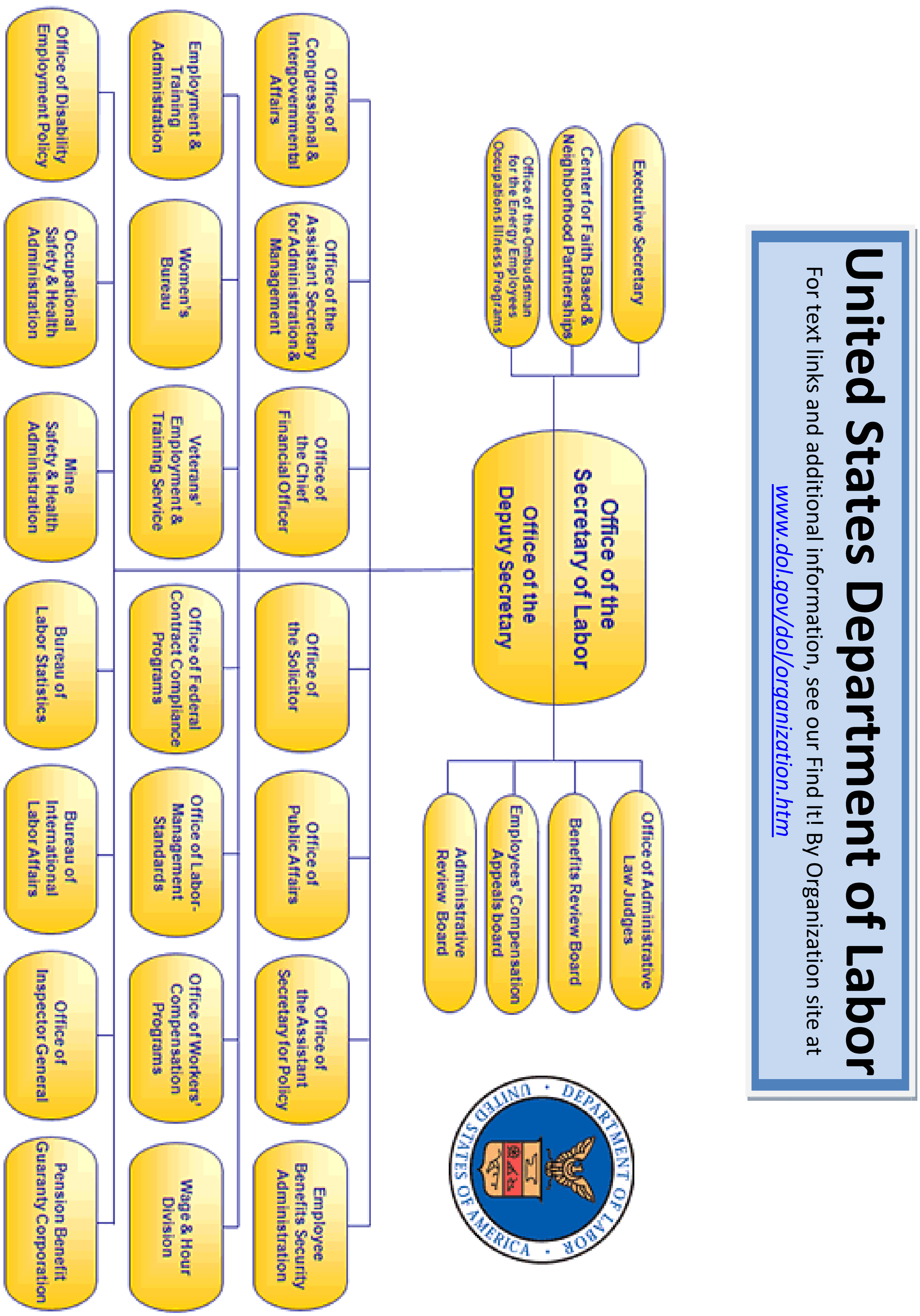
To accomplish this mission, DOL is organized into the program agencies and offices depicted in the chart below, which administer the various statutes and programs for which the Department is responsible. The major program agencies, each headed by an Assistant Secretary, Commissioner, or Director, are:

Employment and Training Administration (ETA) [2]	Office of Labor-Management Standards (OLMS) [3]
Veterans' Employment and Training Service (VETS)	Women's Bureau (WB)
Office of Federal Contract Compliance Programs (OFCCP) [3]	Office of Disability Employment Policy (ODEP)
Occupational Safety and Health Administration (OSHA)	Bureau of International Labor Affairs (ILAB)
Wage and Hour Division (WHD) [3]	Office of Workers' Compensation Programs (OWCP) [3]
Employee Benefits Security Administration (EBSA)	Bureau of Labor Statistics (BLS)
Mine Safety and Health Administration (MSHA)	

[1] The Pension Benefit Guaranty Corporation (PBGC), a Federal corporation under the chairmanship of the Secretary of Labor, is designated by the Office of Management and Budget (OMB) as a separate reporting entity for financial statement purposes, and is not included as part of the DOL reporting entity in this AFR.

[2] The Consolidated Appropriations Act of 2010 transferred the Job Corps program and its administrative funding from the Office of the Secretary back to ETA, to better integrate the program with other employment and training programs overseen by ETA.

[3] In FY 2010, DOL dissolved the Employment Standards Administration (ESA) and established its four component offices/divisions, the *Office of Federal Contract Compliance Programs*, the *Office of Labor-Management Standards*, the *Office of Workers' Compensation Programs*, and the *Wage and Hour Division,* as stand-alone agencies reporting directly to the Office of the Secretary. This reorganization was reflected in DOL's FY 2011 budget, in which funding previously requested for ESA was requested separately for these four component agencies. However, all applicable appropriations occurred under the previous ESA structure. Consequently, ESA's four component agencies are referenced in the AFR's Program Performance Overview, whereas references to ESA are retained in the financial section of this report.


United States Department of Labor
For text links and additional information, see our Find It! By Organization site at
www.dol.gov/dol/organization.htm
Office of the Secretary of Labor
Office of the Deputy Secretary
Executive Secretary
Center for Faith Based & Neighborhood Partnerships
Office of the Ombudsman for the Energy Employees Occupational Illness Programs
Office of Administrative Law Judges
Benefits Review Board
Employees' Compensation Appeals board
Administrative Review Board
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Office of Congressional & Intergovernmental Affairs
Office of the Assistant Secretary for Administration & Management
Office of the Chief Financial Officer
Office of the Solicitor
Office of Public Affairs
Office of the Assistant Secretary for Policy
Employee Benefits Security Administration
Employment & Training Administration
Women's Bureau
Veterans' Employment & Training Service
Office of Federal Contract Compliance Programs
Office of Labor-Management Standards
Office of Workers' Compensation Programs
Wage & Hour Division
Office of Disability Employment Policy
Occupational Safety & Health Administration
Mine Safety & Health Administration
Bureau of Labor Statistics
Bureau of International Labor Affairs
Office of Inspector General
Pension Benefit Guaranty Corporation

Program Performance Overview

The Program Performance Overview offers an opportunity to present performance goals, objectives and results and provide a discussion of key performance measures. This section presents an aspect of performance that can be related to spending as reported in the following Financial Section. Outcome data reported under the Government Performance and Results Act (GPRA) are included in the APR, which will be published in February 2012 with the FY 2013 Congressional Budget Justification. A third report, the *Summary of Performance and Financial Information for Fiscal Year 2011*, will be available on February 15, 2012.

In FY 2010, the Department updated its five-year Strategic Plan (www.dol.gov/_sec/stratplan/) through a comprehensive effort guided by five strategic goals and 14 outcome goals supporting the Secretary's vision of *good jobs for everyone*. These goals are presented in the following table:

STRATEGIC GOAL 1: Prepare workers for good jobs and ensure fair compensation.
1.1. Increase workers' incomes and narrow wage and income inequality. 1.2. Assure skills and knowledge that prepare workers to succeed in a knowledge-based economy, including high growth and emerging industry sectors like "green" jobs. 1.3. Help workers who are in low-wage jobs or out of the labor market find a path into middle-class jobs. 1.4. Help middle-class families remain in the middle class. 1.5. Secure wages and overtime. 1.6. Foster acceptable work conditions and respect for workers' rights in the global economy to provide workers with a fair share of productivity and protect vulnerable people.
STRATEGIC GOAL 2: Ensure workplaces are safe and healthy.
2.1. Secure safe and healthy workplaces, particularly in high-risk industries.
STRATEGIC GOAL 3: Assure fair and high quality work-life environments.
3.1. Break down barriers to fair and diverse work-places so that every worker's contribution is respected. 3.2. Provide workplace flexibility for family and personal care-giving. 3.3. Ensure worker voice in the workplace.
STRATEGIC GOAL 4: Secure health benefits and, for those not working, provide income security.
4.1. Facilitate return to work for workers experiencing work-place injuries or illnesses who are able to work. 4.2. Ensure income support when work is impossible or unavailable. 4.3. Improve health benefits and retirement security for all workers.
STRATEGIC GOAL 5: Produce timely and accurate data on the economic conditions of workers and their families.
5.1. Provide sound and impartial information on labor market activity, working conditions and price changes in the economy for decision making, including support for the formulation of economic and social policy affecting virtually all Americans.

This goal framework signals the Secretary's commitment to leading a stronger, more effective Department of Labor. An important innovation of the goal structure is the Department's commitment to measuring activities intended to positively impact the day-to-day lives of working families and use them to track progress in implementation of the outcomes and strategic goals listed above. The table below organizes DOL program agencies into five categories. This report provides FY 2011 performance data for activities that support the Secretary's vision from each agency listed here. The Department's mission is also supported by administrative, policy, legal, public affairs, and congressional liaison offices.

Employment and Training
Employment and Training Administration (ETA) Veterans' Employment and Training Service (VETS)
Worker Protection
Office of Federal Contract Compliance Programs (OFCCP) Occupational Safety and Health Administration (OSHA) Wage and Hour Division (WHD) Employee Benefits Security Administration (EBSA) Mine Safety and Health Administration (MSHA) Office of Labor-Management Standards (OLMS)
Policy
Women's Bureau (WB) Office of Disability Employment Policy (ODEP) Bureau of International Labor Affairs (ILAB)
Benefits
Office of Workers' Compensation Programs (OWCP) Federal-State Unemployment Insurance (UI) System (administered by ETA)
Statistics
Bureau of Labor Statistics (BLS)

The section that follows presents a brief description of the programs administered by each agency and the most recent results for key output measures. The Department tracks performance using over 200 such measures; the measures highlighted here were selected as most representative of agencies' activities from resource allocation and strategic perspectives.

EMPLOYMENT & TRAINING

Employment and Training Administration (ETA)

ETA provides high quality employment assistance, labor market information and job training through the administration of programs authorized by the Workforce Investment Act of 1998 (WIA) for adults, youth, dislocated workers and other targeted populations. ETA also administers Job Corps; Trade Adjustment Assistance (TAA); Employment Services (ES) authorized under the Wagner-Peyser Act; Foreign Labor Certification activities; the Community Service Employment for Older Americans program (CSEOA); and Apprenticeship programs. ETA helps achieve the Secretary's Strategic Goal 1, to *prepare workers for good jobs and ensure fair compensation* and the associated outcome goals. Numerous measures help ETA track outputs for these programs; below are descriptions and available data for just a few:

- *Number of risk assessments conducted for Grant Programs (WIA, ES, and CSEOA)* – Federal staff conduct risk assessments of grantee work plans and award documents to ensure procedures and performance expectations are clearly outlined and to assess grantees' ability to carry out all tasks. Risk assessments are conducted at the onset of a grant and documented in ETA's Grants e-Management System (GEMS). ETA conducted 2,272 risk assessments in FY 2010 and 3,004 risk assessments in FY 2011 – a 32% increase that corresponds to the Department's investments in grants designed to expand credential attainment.

- *Average petition processing time in days for TAA* – The Trade Adjustment Assistance program was established to provide benefits and services to workers who become unemployed due to the impact of international trade. This measure represents the average number of days staff take to process TAA petitions from initial filing to final determination during the applicable year. Processing time nearly tripled between 2009 and 2010 due to large numbers of petitions filed after the TAA reauthorization that took effect in May of 2009, which expanded coverage to more workers and firms, including those in the service sectors. These changes resulted in a surge of approximately 700 petitions filed in May 2009, declining to a steady state of 500 petitions per month, with an average of 550 per month through September 2009. In calendar year 2010, petition volume averaged approximately 210 per month.

  During FY 2010, ETA increased staffing and improved its management information system and investigation procedures. These investments reduced the backlog to fewer than 150 pending petitions. Average petition processing time continued to decline from 177 days in April 2010 to approximately 65 days in September 2011. This downward trend is expected to continue barring any unforeseen spikes in petitions filings if new legislation is enacted. Furthermore, ETA has developed a management plan to reduce the impact of potential increases in petition filings on petition processing times.

Measure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Average Petition Processing Time (in days)	31	33	35	48	143	65

- *Number of regional office desk audits and Contractor Past Effectiveness Ratings (CPER) updates completed for Job Corps* – Regional Office Desk Audits are conducted monthly using Job Corps reports to assess contract operations. CPERs are updated every six months within the contract period and are included in each Option Year package - a request to extend the contract - sent to the national office for review. In FY 2010, Job Corps conducted 2,822 regional office desk audits and CPER updates; and in FY 2011, ETA conducted 4,285 regional office desk audits and CPER updates. This increase is a result of federal staff using desk audits to compensate for fewer onsite assessments due to travel restrictions during the FY 2011 continuing resolutions.

Veterans' Employment and Training Service (VETS)

VETS helps veterans obtain positive employment outcomes through services provided at One-Stop Career Centers and other locations. VETS helps achieve the Secretary's Strategic Goal 1, to *prepare workers for good jobs and ensure fair compensation* as well as the associated outcome goals 1.1, *increase workers' incomes and narrow wage and income inequality*; 1.3, *help workers who are in low-wage jobs or out of the labor market find a path into middle class jobs; and 1.4, help middle-class families remain in the middle class.* Grants are provided to State Workforce Agencies (SWA) and other service providers to support staff dedicated to serving veterans, including those who require special assistance due to disabilities or other barriers to employment. VETS also protects the employment and reemployment rights of veterans and other service members under the provisions of the Uniformed Services Employment and Reemployment Rights Act (USERRA) program so that they can serve on active duty without harm to their employment status; and by assuring that veterans who seek Federal employment obtain the preferences agencies are required to apply. An output measure of importance to VETS' USERRA effort is "Percent of USERRA Investigations Completed within 90 Days." To provide prompt resolution for both claimants and employers, VETS strives to complete USERRA investigations within 90 days as directed by the Veterans' Benefits Improvement Act of 2008. VETS' response to this 2008 legislation has improved case timeliness, compared to prior years.

Measure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Percent of USERRA Investigations Completed within 90 Days	81%	78%	78%	86%	84%	87%

WORKER PROTECTION

Office of Federal Contractor Compliance Programs (OFCCP)

OFCCP ensures that employers doing business with the Federal Government comply with the laws and regulations requiring a fair and diverse workplace, free of discrimination and harassment. OFCCP supports the Secretary's Strategic Goal 3, *assure fair and high quality work-life environments* and the associated outcome goal 3.1*, break down barriers to fair and diverse work places so that every worker's contribution is respected*. The Compliance Evaluation audits that are conducted by OFCCP play a critical role in measuring Federal contractor compliance with applicable legal requirements. Specifically, OFCCP selects Federal contractor establishments for compliance audits through an administrative process in which it examines compliance with the nondiscrimination and affirmative action mandates under Executive Order 11246, Section 503 of the Rehabilitation Act of 1973, and the Vietnam Era Veterans' Readjustment Assistance Act of 1974. OFCCP enforcement efforts in FY 2010 included approximately 600 one-time American Recovery and Reinvestment Act (ARRA) evaluations that contributed to the significant increase of more than 26% in audit activity as compared to FY 2009. In FY 2011, OFCCP reduced the total target goal of compliance evaluations in order to increase the focus on audit quality. To promote audit quality, OFCCP is using a new assessment tool to identify major and technical deficiencies found in closed cases. This approach will provide OFCCP a more nuanced understanding of where errors are occurring to further inform the planning and delivery of compliance officer training. Additionally, OFCCP is conducting three quality activities: (1) random regional quality audits of pre-closure and closed cases, (2) national office audits of regions, and (3) regional self-audits.

Measure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Compliance Evaluations	3,975	4,923	4,333	3,917	4,960	4,014

Occupational Safety and Health Administration (OSHA)

OSHA was established by the Occupational Safety and Health Act of 1970 with the mission to assure, so far as possible, that every working man and woman in the American workplace has safe and healthful working conditions. OSHA ensures the safety and health of America's workers by setting and enforcing workplace safety and health standards; delivering effective enforcement; providing training, outreach, and education; and encouraging continual improvement in workplace safety and health. Through these efforts, OSHA aims to reduce the number of worker illnesses, injuries, and fatalities and contribute to the broader goals aimed at promoting economic recovery and the competitiveness of our nation's workers. OSHA supports the Secretary's Strategic Goals 2, 3 and 4, specifically as relates to outcome goals 2.1, *secure safe and healthy workplaces, particularly in high-risk industries; 3.1, ensure worker voice in the workplace;* and 4.1, *facilitate return to work for workers experiencing workplace injuries or illnesses who are able to work*. The most recent data for key measures of OSHA's activity – the number of safety, health, and construction industry inspections – are presented in the table below.

Safety inspections in general industry encompass a variety of high-hazard industries, such as the chemical and refinery industries, oil and gas well drilling, manufacturing, maintenance, arborist and logging work, power distribution and generation, coal manufacturing, telecommunications, green industries such as the windmill industry, forging, steel manufacturing, food manufacturing, and grain handling. Workers in these industries are exposed to a multitude of serious safety hazards. Since FY 2005, safety inspections have been generally increasing and fatalities have been decreasing.

Health inspections are conducted by industrial hygienists and address hazards such as chemical hazards, biological hazards (e.g., bloodborne pathogens and tuberculosis), physical hazards (e.g., noise, radiation, and heat and cold stress), and ergonomic hazards (e.g., patient handling, repetitive motion, excessive force, and awkward postures). Although the number of health inspections declined from FY 2005 through FY 2008, there were increases in FY 2009 and FY 2010, and OSHA maintained the upward trend in FY 2011.

OSHA tracks safety and health inspections of construction worksites separately because construction is a large industry that exposes workers to serious hazards, such as falling from rooftops, unguarded machinery, being struck by heavy construction equipment, electrocutions, silica dust, and asbestos. According to recent OSHA data, the industry's fatality rate is almost eight times the rate for all workers. Therefore, OSHA carries out more than half of its annual inspections in the construction industry. The proportion of construction inspections fell slightly in FY 2011 due to a reprioritization of Agency resources to more effectively target inspections across a variety of occupational hazards. In addition, construction activity as a whole was reduced, which resulted in fewer inspections.

Measure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011*
Total Number of Safety Inspections Conducted	31,843	33,063	33,074	33,221	34,320	34,293
Total Number of Health Inspections Conducted	6,736	6,316	5,517	5,783	6,649	7,202
Number of Safety and Health Inspections Conducted in Construction Industry	22,915	23,192	23,062	23,754	24,326	23,520

*Estimated using data through the 3rd Quarter. Complete FY 2011 data will not be available before late November 2011.

Wage and Hour Division (WHD)

WHD is responsible for administering and enforcing laws that establish the minimum standards for wages and working conditions in the United States. The Fair Labor Standards Act (FLSA) minimum wage provisions and the prevailing wage laws provide a floor for the payment of fair wages; overtime provisions are intended to fairly compensate workers for long hours of work and to broaden work opportunities and promote employment. The Migrant and Seasonal Agricultural Worker Protection Act and the immigration programs establish working conditions intended both to protect the wages and the safety and health of vulnerable workers and to ensure that the labor force is not displaced by lower-paid foreign or migrant labor. The prevailing wage programs provide protection to local middle class workers who may be disadvantaged by competition from outside labor who offer their services at wages lower than those in the locality. The Family and Medical Leave Act was enacted to help workers balance family and work responsibilities, and the child labor provisions of the FLSA ensure the safe employment of young workers, encourage their educational endeavors, and provide a path to future employment. WHD's enforcement responsibilities directly contribute to the Secretary's Strategic goals 1, 2 and 3 and related outcome goals 1.1, *increase workers' incomes and narrow wage and income inequality;* 1.5, *secure wages and overtime*; 2.1, *secure safe and healthy workplaces, particularly in high-risk industries;* 3.2, *provide workplace flexibility for family and personal care giving; and* 3.3, *ensure worker voice in the workplace*.

The agency uses directed investigations to increase WHD presence in high-risk, fissured industries and among vulnerable worker populations. Fissured industries rely on subcontracting, franchising, temporary employment, and independent contracting which creates a distance between the beneficiary of labor and the workers who actually provide that labor. Vulnerable workers are those who are at risk of exploitation at work because they are reluctant to complain when they are subject to violations for fear of retaliation. Directed investigations have a higher rate of return when measured as the number of workers helped for every enforcement hour expended, and, when undertaken as part of a planned initiative, have the effect of producing a positive ripple effect on compliance within the same industry and geographic area. The first measure below is directed investigations as a percentage of all compliance actions conducted. With the increasing productivity of new investigators, the reduction of a FY 2010 backlog, and the shift towards prioritizing complaints that point to systemic violations, WHD has moved resources to directed investigations since last fiscal year, a trend that will continue in future years. The second measure reflects WHD's commitment to maintaining an increased presence in those industries where the misclassification of employees as independent contractors is prevalent – as more and more industries are moving to the fissured business model.

Measure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Percent of Directed Investigations*	35%	35%	36%	35%	27%	29%
Percent of Directed Investigations in Industries with a High Prevalence of Employees Misclassified as Independent Contractors	13%	9%	13%	10%	17%	21%

* WHD has revised this measure to exclude conciliations, which are largely a customer service function performed by WHD technicians, not WHD investigators. Prior year data reflects this change.

Employee Benefits Security Administration (EBSA)

EBSA protects workers and their families' retirement and health benefits security through administration and enforcement of the Employee Retirement Income Security Act of 1974 (ERISA). EBSA provides proactive enforcement, outreach and education programs that protect the most vulnerable populations while ensuring broad compliance with ERISA and related laws. EBSA is committed to protecting approximately 150 million Americans covered by an estimated 718,000 private retirement plans, 2.5 million health plans, and similar numbers of other welfare benefit plans; as well as plan sponsors and members of the employee benefits community. As such, EBSA supports the Secretary's Strategic Goal 4, to *secure health benefits and, for those not working, provide income security* and the specific outcome goal 4.3, *improve health benefits and retirement security for all workers*.

Historical data for two key performance measures, "Number of Criminal Investigations Processed" and "Number of Civil Investigations Processed" are shown in the table below. EBSA's investigation program is designed to deter and correct violations of ERISA. In FY 2011, EBSA's continued focus on a high priority national criminal enforcement project contributed to a greater number of criminal investigations processed; the total number of criminal investigations processed increased by seven percent from the FY 2010 result. EBSA also processed a greater number of fiduciary investigations than the previous year, which contributed to a higher number of civil investigations processed - a twelve percent increase from the FY 2010 result. The number of criminal and civil cases that EBSA investigates each year is also influenced by other unforeseeable factors, such as policy direction and economic changes in the regulated community.

Measure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Number of Criminal Investigations Processed	221	188	212	287	281	302
Number of Civil Investigations Processed	3,411	3,236	3,570	3,669	3,112	3,472

Mine Safety and Health Administration (MSHA)

MSHA protects the safety and health of the nation's miners under the provisions of the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response (MINER) Act of 2006. The purpose of MSHA is to prevent death, disease, and injury from mining and to promote safe and healthful workplaces for the nation's miners through the enactment and enforcement of mandatory safety and health standards. MSHA supports the Secretary's Strategic Goal 2, *ensure workplaces are safe and healthy* and Strategic Goal 3, *assure fair and high quality work-life environments,* and related outcome goals 2.1, *secure safe and healthy workplaces, particularly in high-risk industries* and 3.3, *ensure worker voice in the workplace*. MSHA's mandated inspections require four complete inspections annually at active underground mines and two complete inspections annually at active surface mines, and miner training and compliance assistance. A key measure for MSHA is "Total

Number of Regular Mandated Inspections." The mining industry is influenced by economic and product need causing continual fluctuations in the number of mines operating during any given time period.

Total Number of Regular Mandated Inspections	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Coal Safety and Health	5,402	4,822	5,385	5,526	5,121	5,139
Metal and Nonmetal Safety and Health	16,867	15,945	18,235	17,168	16,127	16,269

Office of Labor-Management Standards (OLMS)

OLMS administers the Labor-Management Reporting and Disclosure Act of 1959 (LMRDA) and related laws. These laws primarily establish safeguards for union democracy and union financial integrity and require public disclosure reporting by unions, union officers, union employees, employers, labor consultants and surety companies. OLMS also administers employee protections under various Federally-sponsored transportation programs that require fair, equitable protective arrangements for transit employees when Federal funds are used to acquire, improve, or operate a transit system. As such, OLMS supports the Secretary's Strategic Goal 3, *assure fair and high quality work-life environments*, and the specific outcome goal 3.3, *ensure worker voice in the workplace*. For OLMS, key measures are "Criminal Investigations Conducted" and "Number of Days to Resolve Union Officer Election Complaints," recent results for which are provided in the table below.

OLMS conducts criminal investigations to determine if potential criminal violations of the LMRDA have occurred. Most OLMS criminal investigations involve embezzlement or theft of union funds. Evidence of suspected embezzlement is obtained through leads, analysis of union financial reports, surety company reports, contacts with union officials, employees or members, and OLMS' compliance audit program. The number of criminal investigations conducted by OLMS declined in FY 2010 and FY 2011 because OLMS had fewer investigators on staff. However, OLMS uses enhanced audit targeting techniques to focus reduced audit resources on labor unions most likely to be in violation of the law and thereby conduct fewer audits without a significant decline in those leading to fallout investigations. The success of audit targeting strategies is measured by "Percent of Targeted Audits that Result in a Criminal Case (Fallout)," results for which will appear in the FY 2011 Annual Performance Report to be published with the Department's FY 2013 Congressional Budget Justification in February 2012.

For the election resolution measure, the apparent drastic improvement in FY 2009 results is considered anomalous because few high-complexity cases were closed that year, and such cases account for large variances in average resolution time. As expected, the relative number of high-complexity cases in FY 2010 returned to normal. Improvement from FY 2008 to FY 2011 is attributed to efficiency gains.

Measure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Criminal investigations Conducted	341	406	393	405	355	321
Number of Days to Resolve Union Officer Election Complaints	77	86	92	70	81	79

POLICY

Women's Bureau (WB or Bureau)

The Bureau is the only Federal office dedicated to serving and promoting the interests of women in the workforce. As such, it develops promising policies and standards and conducts inquiries to safeguard the interests of working women; advocates for their equality and economic security for themselves and their families; and promotes quality work environments. The Bureau supports the Secretary's Strategic Goal 1, to *prepare workers for good jobs and ensure fair compensation* and Strategic Goal 3, *assure fair and high quality work-life environments* and their associated outcome goals. For the Bureau, key measures include the number of active collaborations and the number of technical assistance hours provided.

An active collaborator is an external entity that is receiving technical assistance (e.g. guidance, support, and feedback) from the Bureau to implement recommended policies, strategies, or practices that improve employment outcomes for wage-earning women. Collaborators include DOL agencies; other Federal, state, or local government agencies; community-based organizations; service providers; industry associations; labor organizations; women's organizations; and educational institutions. Technical assistance hours are the number of hours Bureau staff spends responding to questions and providing guidance, feedback, and support to active collaborators.

In FY 2011, the Bureau participated in 1,003 collaborations. The Bureau will begin collecting data on the technical assistance hours provided to these collaborators in FY 2012.

Office of Disability Employment Policy (ODEP)

ODEP was established to bring a permanent focus within the U.S. Department of Labor and across the Federal government to the development, evaluation, and dissemination of policy strategies that address the significant barriers to employment faced by individuals with disabilities. As such, ODEP supports the Secretary's Strategic Goal 1, *prepare workers for good jobs and ensure fair compensation* and Strategic Goal 3, *assure fair and high quality work-life environments* and associated outcome goals, specifically goal 3.1, *to break down barriers to fair and diverse work places so that every worker's contribution is respected*. Although many people with disabilities are prepared, willing, and able to work, they remain a largely untapped labor pool. ODEP brings together Federal agencies, private and public sector employers, labor organizations, and other stakeholders to develop policy solutions that expand physical and programmatic access to One-Stop Career Centers and the workforce system in general. ODEP improves employer organizational practices, makes workplaces more inclusive, and increases access to employment support for workers with a disability.

ODEP works to achieve its outcomes through the adoption and implementation of its policies and strategies, accomplished through its public and private partners. ODEP's key measures are "Policy Outputs" and "Effective Practices." Policy outputs are recommendations for significant policy change or an interpretation of existing policy related to disability employment. Examples of policy outputs are legislation, regulations, policy guidance and Executive Orders or Memoranda. Effective Practices are ODEP developed strategies, models or theories that lead directly to an identified outcome and have a documented record of success or validated effectiveness.

As indicated by the table, Policy Outputs and Effective Practices rose from FY 2006-2008 as ODEP's policies and strategies were developed based on its initial investments in demonstration projects and research from ODEP's first five years (FY 2001-2005). The number of Policy Outputs and Effective Practices dropped in FY 2009 as ODEP worked to cultivate new approaches that promote the employment of people with disabilities. One key approach was the restructuring of grant and contract deliverables (that focused on the identification and development of promising practices and strategies). In FY 2010, ODEP began to see the results of these changes, with an increase in the number of Effective Practices. In FY 2011, continued investment in these approaches led to the adoption and implementation of policy that increased the participation of people with disabilities in the labor market.

Measure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Policy Outputs	20	34	44	39	35	42
Effective Practices	26	24	27	15	23	44

Bureau of International Labor Affairs (ILAB)
ILAB works to ensure that global markets are governed by fair market rules that protect vulnerable people, including women and children, and provide workers a fair share of their productivity and voice in their work lives. In order to carry out these strategic objectives, responsibilities, and mandates, ILAB collaborates with other U.S. government agencies to formulate international economic, trade, and labor policies, including the formulation and implementation of the labor aspects of international trade and investment agreements; coordinates U.S. government participation in international organizations relative to labor issues; oversees and implements technical assistance programs; and conducts research, analysis and publishes reports on international labor issues. Through these activities, ILAB supports the Secretary's Strategic Goals 1 and 3, specifically as they relate to outcome goals 1.6, *foster acceptable work conditions and respect for workers' rights in the global economy to provide workers with a fair share of productivity and protect vulnerable people* and 3.3, *ensure worker voice in the workplace*.

ILAB tracks the number of countries engaged in policy dialogue or negotiation as a measure of its scope of influence and opportunities to 1) improve labor rights and living standards of workers in the global economy, and 2) reduce the prevalence of the worst forms of child labor and forced labor. In prior years, ILAB measured engagement through policy dialogue, negotiation and collaboration. This past year, ILAB revised its output measures in its operating plan and budget submission to include separate measures for policy dialogue and negotiation distinct from collaborative activities to better capture the elements of its core mission. The new measure, the number of countries engaged in policy dialogue or negotiation, focuses on activities that are the result of or the precursor to all other forms of foreign government collaboration. In FY 2011, ILAB engaged 29 countries in policy dialogue or negotiation.

BENEFITS

Office of Workers' Compensation Programs (OWCP)
OWCP is comprised of four separate compensation programs which provide wage replacement, medical treatment, and vocational rehabilitation benefits. The Federal Employees' Compensation Act (FECA) program provides monetary wage-loss and medical compensation to civilian employees of the Federal Government injured at work, and to certain other designated groups, as well as survivor benefits for a covered employee's employment-related death. The Longshore and Harbor Workers' Compensation Act program provides similar benefits to injured private sector workers engaged in certain maritime and related employment, and also provides monetary benefits to the survivors of deceased workers. The Black Lung Benefits program provides monetary and medical benefits to totally disabled miners suffering from coal mine pneumoconiosis stemming from mine employment, and monetary benefits to their dependent survivors. The Energy Employees Occupational Illness Compensation Program Act (EEOICPA) provides monetary compensation and/or medical benefits to employees or survivors of employees of the Department of Energy (DOE) and certain contractors or subcontractors with DOE who have been diagnosed with cancer or other occupational diseases due to exposure to radiation or toxic substances at covered facilities. OWCP supports the Secretary's Strategic Goal 4*, secure health benefits and, for those not working, provide income security,* and Outcome Goals 4.1, *facilitate return to work for workers experiencing workplace injuries or illnesses who are able to work* and 4.2, *ensure income support when work is impossible or unavailable*.

A key measure for OWCP is Lost Production Day rates (LPD), expressed as days per 100 employees in Federal Government agencies. The LPD rate provides a valuable measure of the overall incidence and severity of workplace injuries for Federal employees and the effectiveness of OWCP's and Federal employers' return to work efforts since it measures actual lost days from work during the first year of injury. OWCP uses nurse case managers to provide early assistance in more severe injury cases to coordinate medical care and return to work services for workers covered by FECA. OWCP also assists Federal employers with accommodation and reemployment of their injured workers. These strategies have contributed to a greater than 30% reduction in the Government-wide LPD rate since FY 2006. During this period, a joint OWCP/OSHA Safety, Health and Return to Employment initiative also contributed significantly to this success by establishing government-wide goals for Federal employers to improve their compensation case handling and return to work activities. A new four-year initiative named Protecting Our Workforce and Ensuring Re-employment (POWER) will continue those efforts.

Measure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011*
Government-Wide LPD Rate in Non-Postal Agencies	49.5	46.3	41.3	35.8	34.6	33.4

*Estimated using data through the 3rd Quarter. Final FY 2011 data will be available in late November 2011.

Federal-State Unemployment Insurance (UI) System (administered by ETA)

The Federal-state UI program, authorized under the Federal Unemployment Tax act and Title III of the Social Security Act, provides temporary, partial wage replacement for unemployed workers, providing them with income support when suitable work is unavailable. To be eligible for benefits, unemployed workers must meet eligibility requirements established by state laws that conform to federal law, including that they have worked recently, be involuntarily unemployed, and be able and available for work. One of the key measures for this program is "Percent of All Intrastate First Payments Made within 21 Days After the Last Day of the First Compensable Week." The table below provides historical data, along with unemployment statistics, that illustrate the impact of increasing claims volume on program performance during the recession that began in FY 2008. The Total Unemployment Rate, calculated by using Bureau of Labor Statistics data, is the sum of the not seasonally adjusted unemployment level for October through September divided by the sum of the not seasonally adjusted labor force level for October through September.

Measure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
First Payment Timeliness*	87.6%	88.4%	86.8%	83.8%	82.2%	84.0%
Total Unemployment Rate	4.7%	4.5%	5.3%	8.5%	9.7%	9.2%

* Years ending 6/30.

STATISTICS

Bureau of Labor Statistics (BLS)

In support of the Secretary's Strategic Goal 5, to *produce timely and accurate data on the economic conditions of workers and their families,* BLS produces timely, accurate, and relevant statistics reflecting labor market activity, working conditions, and price changes in the economy. Statistics produced by BLS support the formulation of economic and social policy affecting virtually all Americans. BLS uses the American Customer Satisfaction Index (ACSI) to measure customer satisfaction with its website, since most users access BLS data through bls.gov, which averages more than 7 million user sessions each month. The ACSI survey prompts users while they are on the website for feedback regarding the extent to which the website meets their needs. BLS uses these results to improve the website to better serve its stakeholders and as a measure of mission achievement.

Measure*	FY 2009	FY 2010	FY 2011
Customer Satisfaction with BLS Web Site as measured by the ACSI Score	75	75	75

* ACSI Score is calculated on a 100 point scale.

American Recovery and Reinvestment Act of 2009 (Recovery Act)

Since our nation's greatest resource is its workers, the Recovery Act targeted investments to key areas that create and preserve good jobs. DOL has two key roles in this recovery effort: providing worker training through the administration of programs for these jobs; and easing the burden of the recession on workers and employers by providing extended and expanded unemployment benefits and assisting and educating them regarding expanded access to continued health benefits. Listed below are descriptions of a few of the largest (by funding level) among DOL's 24 Recovery Act programs. More details are posted on the Web at www.recovery.gov and www.dol.gov/recovery.

Unemployment Insurance – Extension of the Emergency Unemployment Compensation, 2008 (EUC08) Program. The Recovery Act extended the Emergency UI program, commonly known as EUC08, which provides weekly UI benefits to individuals who have exhausted their regular State-financed UI benefits, through December 31, 2009, with phaseout through June 5, 2010. Subsequent legislation further extended these benefits to January 3, 2012, with phaseout through June 9, 2012.

Unemployment Insurance – Federal Additional Compensation (FAC) Program. The Recovery Act also created a new federally-funded program, FAC, which temporarily increased UI benefits by $25 a week through December 31, 2009, with phaseout through July 10, 2010. Subsequent legislation further extended this program to June 2, 2010, with phaseout through December 11, 2010.

Unemployment Insurance – Modernization ($7 Billion Incentive Fund). The Federal-State UI Program provides unemployment benefits to eligible workers who are unemployed because of a lack of suitable work, and meet other eligibility requirements. States operate UI programs under their own laws, which must conform to Federal law. The Modernization Program helped States make UI more accessible to workers by temporarily defraying the costs of certain eligibility liberalizations. At the conclusion of the program on September 30, 2011, $4.4 billion of the $7.0 billion had been disbursed to 41 states, while $2.6 billion remained unclaimed, reverting to the Federal Unemployment Account on October 1, 2011.

Workforce Investment Act Dislocated Worker Program. Prior to passage of the Recovery Act, funding for the public workforce investment system had declined, while program enrollments increased, placing strain on the system's capacity to keep pace with recessionary impacts such as job loss and worker dislocations. The Recovery Act nearly doubled the annual funding to the WIA Dislocated Worker Program. As of September 30, 2011, all program funds were obligated by states. States have used these Recovery Act dollars to improve their reemployment efforts, increase training in new or emerging occupations, and design and create new programs or program elements to respond to local needs.

Workforce Investment Act Youth. The Recovery Act made an additional $1.2 billion available for WIA Youth activities, using the same formula as the regular appropriation and extended the youth eligibility age from 21 to 24. Grantees focused on creating summer employment opportunities for youth, including opportunities in the health care sector and in green jobs within the construction, energy efficiency, renewable energy, and other related industries. The Recovery Act WIA Youth activities ended June 30, 2011. A total of 426,206 youth were served which includes 374,489 youth who were placed in summer employment. As of September 30, 2011, approximately 99% of the Recovery Act WIA Youth Program funds were obligated and expended.

Financial Performance Overview

Sound financial management is an integral part of the Department's efforts to deliver services and administer programs. With the Department's emphasis on internal controls, accurate financial information delivery to key decision makers, and transparent and accountable reporting, the Department's stakeholders can be confident that resources are used efficiently and effectively.

DOL's internal control program and centralized processes for reporting financial data help to ensure the relevance and reliability of financial performance data. DOL's comprehensive internal control program has the objective of providing, on a continuing basis, reasonable assurance that all financial, non-financial, performance, statistical records, and related reports are reliable. DOL's internal control program helps ensure that appropriate internal controls are in place for financial performance management and that Agencies institute sound, effective internal control policies and procedures for financial performance measurement and regular evaluation of their processes. Financial performance is evaluated during comprehensive ongoing financial management reviews and corrective actions are implemented as required to resolve audit findings and increase efficiency. These business processes help to ensure that reported financial performance information is relevant and reliable.

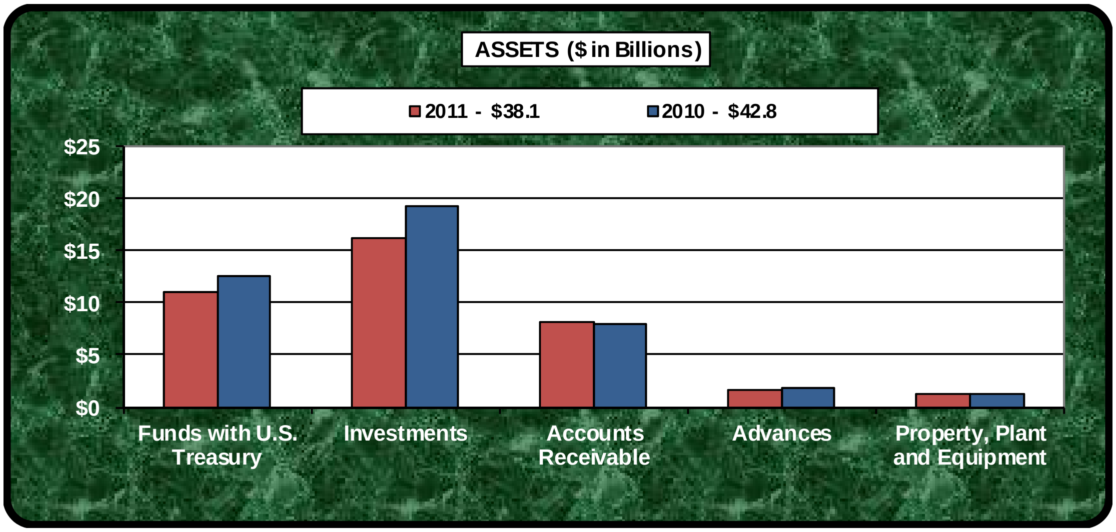
In FY 2011, DOL used managerial cost accounting (activity-based costing) for costing programs and performance indicator results. Activity-based costing is a U.S. generally accepted accounting principle promulgated by the Federal Accounting Standards Advisory Board (FASAB) in the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts for the Federal Government*, as amended by SFFAS No. 30, *Inter-Entity Cost Implementation*. The statement outlines the standards for Federal entities to provide "reliable and timely information on the full cost of federal programs, their activities, and outputs." This information can be used to allocate resources and evaluate program performance. Activity-based costing directly supports the sections of the AFR that address Program Net Cost and the Statement of Net Cost. Total Net Cost of DOL activities for FY 2011 was $135.1 billion.

Analysis of Financial Statements and Stewardship Information

The principal financial statements summarize the Department's financial position, net cost of operations, and changes in net position, and provide information on budgetary resources and social insurance.

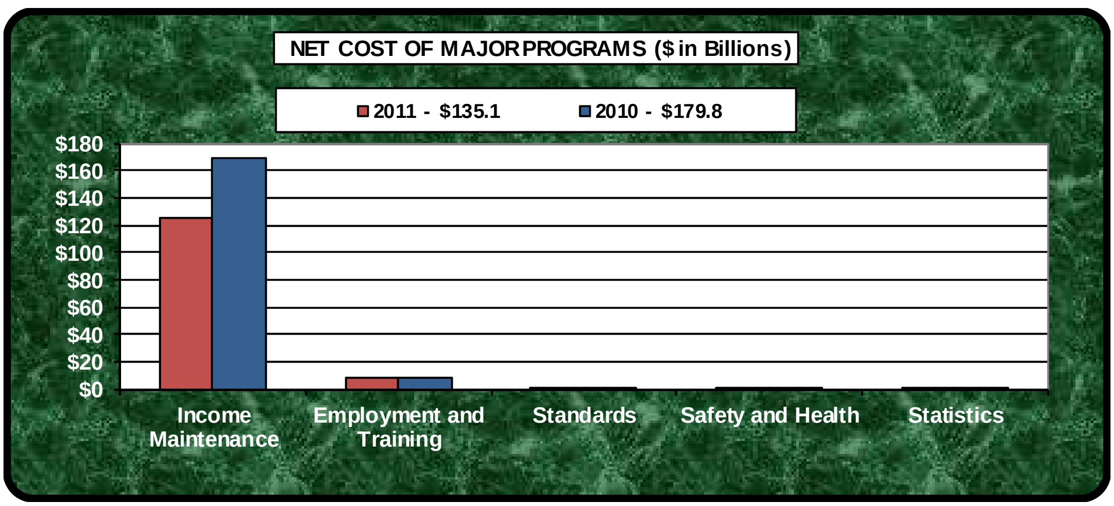
Financial Position

The Department's Balance Sheet presents DOL's financial position through the identification of agency assets, liabilities, and net position. The Department's total assets decreased from $42.8 billion in FY 2010 to $38.1 billion in FY 2011, a decrease of 11.0%. This decrease was primarily due to decreases in Funds with U.S. Treasury [(12.7%)] and Investments [(16.1%)]. Liabilities increased from $61.8 billion at the end of FY 2010 to $70.8 billion at the end of FY 2011, an increase of 14.6%. This increase was primarily due to increases in liabilities for intra-governmental debt [21.0%] and energy employees occupational illness compensation benefits [24.8%]. Intra-governmental debt increased due to Unemployment Trust Fund borrowings from the General Fund of the Treasury to meet unemployment benefit requirements. The energy employees occupational illness compensation benefits liability increased due to increased cancer Special Exposure Cohort (SEC) classes, increased number of projected approvals for Part E cases, higher medical costs and a lower discount rate.



Net Cost of Operations

The Department's net cost of operations for the year ended September 30, 2011 was $135.1 billion, a decrease of $44.7 billion [(24.9%)] from 2010. This decrease was attributable to the major programs discussed below:



Income Maintenance programs continue to comprise the major portion of Departmental costs. These programs include unemployment benefits paid to covered individuals who are 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 net costs were $124.9 billion, a decrease of 26.1% from FY 2010. This decrease was primarily due to decreases in benefits for regular, extended, emergency and additional unemployment compensation (EUC) provided under existing legislation, with supplemental provisions extended through FY 2011.

Employment and Training programs comprise DOL's second largest cost. These programs are designed to help individuals deal with the loss of a job, identify new occupational opportunities, find training to acquire different skills, start a new job, make long-term career plans and connect employers to workers with the skills they need. Employment and training costs were $7.6 billion in FY 2011, a decrease of nearly 9.5% from FY 2010. This decrease was primarily due to the decrease in ARRA funding.

Budgetary Resources

The Statement of Budgetary Resources reports the budgetary resources available to DOL to effectively carry out the activities of the Department during FY 2011 and FY 2010, as well as the status of these resources at the end of each fiscal year. The Department had direct obligations of $189.0 billion in FY 2011, a decrease of $67.6 billion [(26.3%)] from FY 2010. This decrease was primarily due to decreases in direct obligations for income maintenance programs.

Social Insurance and the Black Lung Disability Benefit Program

(Dollars included in the text of this section are in thousands)

The Federal Accounting Standards Advisory Board (FASAB) has classified the Black Lung Disability Benefit Program as a social insurance program that is required to report a Statement of Social Insurance (SOSI) for the Black Lung Disability Trust Fund (BLDTF). Effective in FY 2011, the Department implemented FASAB SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements.* SFFAS 37, among other things, amended SFFAS 17, *Accounting for Social Insurance,* and requires a new summary section in the Statement of Social Insurance (SOSI) and a new Statement of Changes in Social Insurance Amounts (SCSIA), as well as additional financial statement note disclosures, such as the valuation date and the uncertain nature of projected information. To comply with SFFAS 37, DOL also provides additional information about the program in the Required Supplementary Information (RSI), including tabular presentations of summarized data and presentation of projections with sensitivity analysis in constant dollars.

The SOSI reports for the projection period (which begins on September 30 of the reporting year and ends September 30, 2040), for all current and future participants, the actuarial present value of future benefits and the present value of administrative costs, less the present value of coal excise tax income. For FY 2007 through FY 2011 as presented in the SOSI, the present value of the coal excise tax income has been greater than the sum of the actuarial present value of the future benefits and the present value of administrative costs. This amount – which is the excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants – is also called the open and closed group measure.

An open group beneficiary population includes those persons, as of the valuation date, who are or will be participants of the program during the projection period. A closed group beneficiary population includes those persons, as of the valuation date, who already are participants of the program. The program's beneficiary population is a nearly closed universe in which attrition by death exceeds new entrants by a ratio of more than ten to one and the effects of new entrants are considered immaterial. The measure is the net present value of all expenditures to or on behalf of that population and all contributions or other income on behalf of that population. Because the difference between the open group measure and the closed group measure due to new participants is immaterial, the same measure is presented for both the open group and the closed group.

The SOSI summary section reports the total of open and closed group measure plus fund assets (Funds with U.S. Treasury and receivables). The total of open and closed group measure plus fund assets as of September 30, 2011 of $4,784,043 represents a projected net positive cash flow that may be used to liquidate the liabilities of the BLDTF, which were ($6,163,075) as of September 30, 2011.

The SCSIA reports the net change in the open and closed group measure (see Table of Key Measures below). The open and closed group measure decreased ($730,251) [(13.4%)] from $5,450,480 as September 30, 2010 to $4,720,229 as of September 30, 2011. Reasons for the net decrease in the measure of ($730,251) include changes in the assumptions that primarily led to:

- A decrease in the projected coal excise tax revenues of ($1,144,303) due to revisions based on current year experience and a decrease in future collections;
- A decrease in future benefits costs (for costs not associated with medical inflation or Federal civilian pay raises) leading to an increase in the measure of $202,800; and

- A decrease in the discount rate from 3.75% to 3.375% leading to an increase in the measure of $197,720 (described as a change in assumption about interest rate on the SCSIA).

Black Lung Disability Benefit Program – Table of Key Measures

(Dollars in Thousands)	2011	2010
Costs and Changes in Net Position		
Net cost of operations	$ (429,280)	$ (454,310)
Total financing sources	568,631	536,019
Net change of cumulative results of operations	$ 139,351	$ 81,709
Net Position		
Total assets	$ 63,814	$ 68,028
Less: total liabilities	(6,163,075)	(6,306,640)
Net Position (assets net of liabilities)	$ (6,099,261)	$ (6,238,612)
Social Insurance		
Excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants (open and closed group measure), September 30, 2010	$ 5,450,480	
Excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants (open and closed group measure), September 30, 2011	4,720,229	
Net change in open and closed group measure	$ (730,251)	

As presented in the Table of Key Measures above, the Black Lung Disability Benefit Program's net cost of operations for the year ended September 30, 2011 was ($429,280), a decrease of $25,030 [(5.5%)] over 2010 mainly due to an decrease in administrative costs. Total financing sources were $568,631, an increase of $32,612 [6.1%] over 2010 mainly due to an increase in coal excise tax revenues. The net change of cumulative results of operations was $139,351, an increase of $57,642 [70.5%] over 2010 mainly due to a decrease in administrative costs and an increase in coal excise tax revenues.

As presented in the Table of Key Measures above, the Black Lung Disability Benefit Program's total assets decreased $4,214 from $68,028 in FY 2010 to $63,814 in FY 2011, a decrease of 6.2% that was due to a decrease in Funds with U.S. Treasury and a decrease in benefit overpayments. Liabilities decreased from ($6,306,640) at the end of FY 2010 to ($6,163,075) at the end of FY 2011, a decrease of 2.3% that was mainly due to a decrease in intra-governmental debt. Net position increased $139,351 from ($6,238,612) in FY 2010 to ($6,099,261) in FY 2011, an increase of 2.2% that was mainly due to a decrease in the net cost of operations and an increase in financing sources.

Refer to Notes 1-W and 21 and RSI for additional information on the SOSI, including the summary section; SCSIA; the Black Lung Disability Benefit Program; its reported activity and balances; and projections and sensitivity analysis in constant dollars through 2040.

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.

Reducing Improper Payments

Improved financial performance through the reduction of improper payments continues to be a key financial management focus of the Federal government. At DOL, developing strategies and the means to reduce improper payments is a matter of good stewardship. Accurate payments lower program costs.

In accordance with the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, and as implemented by OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, the Department reviews its programs and activities annually to identify programs that may be susceptible to significant improper payments. For programs and activities deemed risk susceptible, the Department performs testing, establishes improper payment reduction targets in accordance with OMB guidance, and develops and implements corrective actions.

The Department has two programs that are classified to be at risk of significant improper payments in accordance with OMB criteria or classification – the Unemployment Insurance (UI) benefit program and the Workforce Investment Act (WIA) grant program. The table below shows the target and actual improper payments error rates for the programs classified as at-risk:

DoL Program	FY 2010		FY 2011		FY 2012	FY 2013	FY 2014
	Target	Actual	Target	Actual	Target	Target	Target
Unemployment Insurance	9.9%	11.2%	9.8%	12.0%	9.7%	9.6%	9.6%*
Workforce Investment Act	0.07%	0.2%	0.07%	0.3%	0.07%	0.07%	0.07%

*Targets for FY 2014 have not been established. Targets from FY 2013 have been carried forward.

The target UI improper payments error rate for FY 2011 was 9.8%, whereas the actual error rate was 12.0%. This difference is primarily due to increases in overpayments to claimants who continued to claim benefits after they returned to work, claimants ineligible for benefits because they voluntarily quit their jobs or were discharged for disqualifying reasons, and claimants who failed to meet active work search requirements. These three causes accounted for 65% of overpayments in FY 2010 and 70% of overpayments in FY 2011 and represent nearly all of the increase in the overpayment rate. Corrective actions to address these causes are described in the "Improper Payments Information Act Reporting Details" in the Other Accompanying Information section of this report. The higher actual error rate for WIA in FY 2010 and FY 2011 compared to the program's annual target is primarily due to including the results of DOL Office of Inspector General audits and other monitoring activities in the measurement methodology and higher incidence of error.

The Department has implemented various corrective actions to address the causes and reduce improper payments in both of these programs. Like many other Federal agencies, the Department faces challenges in meeting its improper payment reduction and recovery targets, particularly with programs that are sensitive to economic 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 administration and management of these programs' activities.

See "Improper Payments Information Act Reporting Details" in the Other Accompanying Information section of this report for additional information on improper payments.

Financial Management Systems and Strategy

DOL continues to pursue its financial management system strategy to improve reporting, accountability, and decision making, while furthering implementation of key Government-wide initiatives, e-Gov requirements, and other regulatory mandates. The Department seeks to maintain financial management systems, processes, and controls that ensure financial accountability and transparency, provide useful information to management, and satisfy Federal laws, regulations, and guidance.

In FY 2010, DOL deployed the New Core Financial Management System (NCFMS) as its financial system of record to improve the Department's compliance with legislation and regulations that drive Federal accounting, financial management systems, financial management reporting, and security. In FY 2011, the first full year using NCFMS, DOL has begun to realize benefits of the system through the automated processes (such as invoice processing and approval), increased efficiencies in financial reporting and a normalization of business operations.

Continued assessment and change management and optimization of NCFMS capabilities will further assure the accuracy and completeness of data, standardize the business processes, institutionalize financial practices, and improve ease of preparation and completeness of all types of financial reports.

Management Assurances

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

FMFIA requires that agencies establish internal controls and financial systems that provide reasonable assurance that the integrity of Federal programs and operations is protected. It requires that the head of the agency provide an annual assurance statement whether the agency has met this requirement.

Appendix A of OMB Circular A-123 provides specific requirements for conducting management's assessment of internal control over financial reporting, and also requires the agency head to provide an assurance statement on the effectiveness of internal controls over financial reporting.

Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA requires that agencies implement and maintain financial management systems that comply substantially with the Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The agency head is to make an annual determination whether the financial systems substantially comply with FFMIA.

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 conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency 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 can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2011, was operating effectively and no 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, 2011 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, 2011.

Hilda L. Solis
Secretary of Labor

Seth D. Harris
Deputy Secretary of Labor

James L. Taylor
Chief Financial Officer

T. Michael Kerr
Assistant Secretary for Administration and Management/Chief Information Officer

November 14, 2011

FINANCIAL SECTION

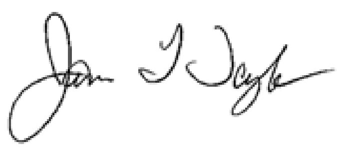
Message from the Chief Financial Officer

Transparency and accountability provide the foundation for effective financial management. Because we finished our transition to a new core financial management system, Department of Labor officials have taken a major step toward the administration's goal of providing clearer and more accessible information to stakeholders. We have modernized government through technology.

The FY 2011 financial statements are the first produced entirely from the new financial system, and I am proud that the Department has obtained an unqualified audit opinion on its financial statements for 14 consecutive fiscal years. This clean audit opinion provides independent confirmation that the Department's financial statements are presented fairly and in conformity with U.S. generally accepted accounting principles. Accurate and timely financial information improves DOL's accountability to its stakeholders and the operational, budget, and policy decision-making processes that are the foundation for the services the Department delivers to the public.

Following challenges in migrating to the new financial management system in FY 2010, we continued to work to resolve outstanding material weaknesses and significant deficiencies identified during the FY 2010 audit process. In addition, we have significantly improved the ability of the financial system to process procurement documents, grants, and travel payments in conjunction with the Department's legacy systems.

I am extremely proud of the Department's financial management personnel, who have worked tirelessly to achieve a clean opinion for FY 2010 and, under a compressed schedule, attained that same result for FY 2011. They exemplify the high standards of professionalism demanded by the American people, and they enable the Department to be a leader in sound financial management across government. As DOL places additional emphasis on maximizing outcomes in its core missions despite limited resources, it will be critical to focus on the sound financial management necessary to support Secretary Solis' vision of *good jobs for everyone*.



James L. Taylor
Chief Financial Officer

November 14, 2011

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

Secretary and Acting Inspector General
U.S. Department of Labor:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Labor (DOL) as of September 30, 2011 and 2010; the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended; the statements of social insurance as of September 30, 2011, 2010, 2009, 2008, and 2007; and the statement of changes in social insurance amounts for the year ended September 30, 2011 (hereinafter referred to as "consolidated financial statements"). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year (FY) 2011 audit, we also considered DOL's internal control over financial reporting and tested DOL's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

We have also examined DOL's compliance with section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA) as of September 30, 2011.

SUMMARY

As stated in our opinion on the financial statements, we concluded that DOL's consolidated financial statements present fairly, in all material respects, the financial position of DOL as of September 30, 2011 and 2010; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance program as of September 30, 2011, 2010, 2009, 2008, and 2007; and the changes in social insurance amounts for the year ended September 30, 2011, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion on the financial statements, the statements of social insurance present the actuarial present value of DOL's future expenditures to be paid to or on behalf of participants, estimated future income to be received from excise taxes, and estimated expenditures for administrative costs during a projection period ending in 2040.

Also, as discussed in our opinion on the financial statements, in FY 2011, DOL adopted new accounting and reporting requirements for its social insurance program.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies, as defined in the Internal Control over Financial Reporting section of this report, as follows:

Material Weaknesses

1. Lack of Sufficient Controls over Financial Reporting

2. Lack of Sufficient Controls over Budgetary Accounting

3. Lack of Sufficient Security Controls over Key Financial and Support Systems

Significant Deficiencies

4. Improvements Needed in the Preparation and Review of Journal Entries

5. Weaknesses Noted over Payroll Accounting

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the FFMIA, disclosed no instances of noncompliance and two other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

As stated in our opinion on DOL's compliance with section 803(a) of FFMIA, we concluded that DOL did not comply, in all material respects, with the requirements of section 803(a) of FFMIA as of September 30, 2011.

The following sections discuss our opinion on DOL's consolidated financial statements; our consideration of DOL's internal control over financial reporting; our tests of DOL's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; our opinion on compliance with FFMIA; and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Department of Labor as of September 30, 2011 and 2010; the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended; the statements of social insurance as of September 30, 2011, 2010, 2009, 2008, and 2007; and the statement of changes in social insurance amounts for the year ended September 30, 2011.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor as of September 30, 2011 and 2010; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance program as of September 30, 2011, 2010, 2009, 2008, and 2007; and the changes in its social insurance amounts for the year ended September 30, 2011, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1-W and 1-Y to the consolidated financial statements, the statements of social insurance present the actuarial present value of DOL's future expenditures to be paid to or on behalf of participants, estimated future income to be received from excise taxes, and estimated expenditures for administrative costs during a projection period ending in 2040. In preparing the statements of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statements. However, because of the large number of factors that affect the statements of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statements of social insurance and the actual results, and those differences may be material.

Also as discussed in Note 1-B to the consolidated financial statements, DOL changed its method of reporting its social insurance program to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*, effective October 1, 2010.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in the Message from the Secretary of Labor, Message from the Chief Financial Officer, and Other Accompanying Information section are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures, and accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our FY 2011 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Exhibit I to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit II to be significant deficiencies.

Exhibit IV presents the status of prior year significant deficiencies and material weaknesses.

We noted certain additional matters that we reported to management of DOL in a separate letter.

COMPLIANCE AND OTHER MATTERS

The results of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

Other Matters. DOL is currently reviewing two incidents regarding potential violations of the *Anti-deficiency Act.* As of the date of this report, no final noncompliance determination has been made for these incidents.

We noted certain additional matters that we reported to management of DOL in a separate letter.

OPINION ON COMPLIANCE WITH FFMIA

DOL represented that, in accordance with the provisions and requirements of FFMIA, the Secretary of Labor determined that DOL's financial management systems were in substantial compliance with FFMIA as of September 30, 2011.

We have examined the U.S. Department of Labor's compliance with section 803(a) of the *Federal Financial Management Improvement Act of 1996* as of September 30, 2011. Under section 803(a) of FFMIA, the U.S. Department of Labor's financial management systems are required to substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. We used OMB's *Implementation Guidance for the Federal Financial Management Improvement Act*, dated January 9, 2009, to determine compliance.

Our examination disclosed the following material noncompliance with FFMIA section 803(a) applicable to the U.S. Department of Labor as of September 30, 2011. DOL's financial management systems do not comply substantially with Federal financial management system requirements because of certain weaknesses in DOL's system access controls. In addition, we identified material instances in which DOL did not comply with the USSGL at the transaction level. These matters are further described in Exhibit III.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the U.S. Department of Labor did not substantially comply with FFMIA section 803(a) as of September 30, 2011.

* * * * * * *

RESPONSIBILITIES

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to DOL.

Auditors' Responsibilities. Our responsibility is to express an opinion on the FY 2011 and 2010 consolidated financial statements of DOL based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our FY 2011 audit, we considered DOL's internal control over financial reporting by obtaining an understanding of DOL's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether DOL's FY 2011 consolidated financial statements are free of material misstatement, we performed tests of DOL's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DOL. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Our responsibility also included expressing an opinion on DOL's compliance with FFMIA section 803(a) requirements as of September 30, 2011, based on our examination. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence about DOL's compliance with the requirements of FFMIA section 803(a) and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on DOL's compliance with specified requirements.

DOL's response to the findings identified in our audit is presented in Exhibits I and II. We did not audit DOL's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of DOL's management, DOL's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2011

1. Lack of Sufficient Controls over Financial Reporting

The U.S. Department of Labor (DOL) experienced significant issues related to financial reporting in fiscal year (FY) 2010 as a result of the implementation of its new accounting and reporting system, the New Core Financial Management System (NCFMS). Although DOL has made substantial improvements in its financial reporting processes, we continued to identify certain control deficiencies in FY 2011 related to the reconciliation of data, financial processes, and other financial reporting controls. The specific issues identified in each of the aforementioned areas are discussed below.

Reconciliation of Data: DOL performs various reconciliations throughout the year over the data recorded in its general ledger. During our FY 2011 audit procedures, we identified several deficiencies in DOL's reconciliation controls related to Fund Balance with Treasury (FBWT), general ledger transactions, and grants data.

<u>FBWT</u>
During test work covering the period October 1, 2010, through March 31, 2011, we determined that the Office of the Chief Financial Officer (OCFO) did not perform the Government-wide Accounting System (GWA) Account Statement FBWT reconciliation and supervisor review processes properly, in a timely manner or at all. Specifically, the FBWT reconciliations and supervisor reviews for the selected months of October 2010 and March 2011 were not completed until December 28, 2010, and May 12, 2011, respectively, and the reconciliations for the selected months of December 2010 and February 2011 were not performed at all. Furthermore, the March FBWT reconciliation was designed to reconcile the amount of activity that occurred from October 1, 2010 through March 31, 2011, instead of ending balances as required by the U.S. Department of the Treasury (Treasury). We also noted that material differences identified in the March 2011 reconciliation were not adequately researched and resolved.

In addition, during the six month period ended March 31, 2011, *Statement of Differences* (FMS 6652) reconciliations and related supervisory reviews were not performed in a timely manner or at all. In reviewing a sample of FMS 6652 reconciliations, we specifically noted the following issues:

- The OCFO did not complete the December 2010 and March 2011 reconciliations and related reviews for two agency location codes (ALC) until May 2011;
- The Office of the Assistant Secretary for Administration and Management (OASAM) did not perform the December 2010 and March 2011 reconciliations for two ALCs; and
- OASAM and the Bureau of Labor Statistics did not reconcile all differences identified on the December 2010 and March 2011 FMS 6652 reports.

Furthermore, sufficient evidence was not maintained to support that certain differences identified on the FMS 6652 reports as of December 31, 2010, and March 31, 2011, had been properly researched and resolved. During our year-end testing, we determined that the differences identified on the FMS 6652 reports were materially resolved as of September 30, 2011.

Competing priorities related to the researching and correcting of differences identified on the FMS 6652 reports reduced the staff available to perform and maintain effective internal controls over the GWA FBWT reconciliation process and caused the OCFO and OASAM to choose to resolve the discrepancies instead of formally documenting the monthly FMS 6652 reconciliations in a timely manner. In addition, because of the year-end adjustments and actions needed to correct the FBWT balance as of September 30, 2010, the OCFO chose to reconcile the activity recorded in the FBWT accounts instead of the ending balances. Furthermore, the OCFO policies and procedures did not specifically define how the individual differences on the FMS 6652, the related causes, and the related corrective actions should be documented.

Differences that are not properly researched and resolved timely compromise the reliability of FBWT balances and other United States Standard General Ledger (USSGL) account balances contra to the FBWT account. This, in turn, compromises the overall integrity and status of DOL's financial reports.

General Ledger Transactions

The OCFO provided data extracts of detailed general ledger transactions from NCFMS for the six months ended March 31, 2011, and the quarter ended June 30, 2011, that did not initially reconcile to the NCFMS consolidated trial balance. Specifically, we identified a $329 million difference between the March 31, 2011, data extract and the NCFMS consolidated trial balance for one general ledger account. We also identified differences between the third quarter data extract and the NCFMS consolidated trial balance for numerous general ledger accounts. Several of these general ledger accounts had differences that ranged from $30 billion to $47 billion each. The OCFO was ultimately able to provide us revised data extracts for both periods that reconciled to the consolidated trial balance.

The errors occurred because the OCFO did not adequately review the data extracts prior to submitting them to us for audit. In addition, the OCFO did not have formal procedures in place to ensure that the population of detailed general ledger transactions extracted from its general ledger reconciled to the consolidated trial balance. Without sufficient procedures in place to generate an accurate population of detailed general ledger transactions, the OCFO may not be able to support the completeness, accuracy, and existence of its general ledger balances.

Grants Data

DOL did not perform quarterly reconciliations of the E-Grants system to NCFMS in a timely manner. The reconciliation for the first quarter of FY 2011 was not performed because the responsible agency, the Employment and Training Administration (ETA), was unaware of its duty to perform the quarterly reconciliation. This was caused by a lack of communication and a lack of written policies and procedures over the reconciliation of E-Grants to NCFMS. ETA did perform a reconciliation of E-Grants to NCFMS for the second quarter; however, material differences were identified that were not resolved until the fourth quarter.

In addition, we tested the Health and Human Services (HHS)-Payment Management System (PMS) Synch Report, which identifies differences between the authorized amount (obligation amount) and the advance amount (disbursement amount) reported in HHS-PMS and NCFMS, as of December 31, 2010. During our test work, we noted that ETA did not provide support evidencing that differences for four items were investigated and properly resolved. The differences were attributed to significant mapping issues between HHS-PMS and NCFMS for Office of Job Corps grants and were not investigated and resolved because related procedures had not been developed.

Without adequate reconciliation controls and resolution of differences, material errors could occur and not be detected or corrected, resulting in a misstatement of grant-related expenses, advances, payables, and undelivered orders.

We used the following criteria during our FY 2011 reconciliations testing:

Treasury Financial Manual, Part 2, Chapter 5100, *Reconciling Fund Balance With Treasury (FBWT)* states, "Treasury notifies agencies by letter and/or a monthly Statement of Differences (SOD) report when there are differences in reported amounts. Agencies must investigate all Treasury-reported differences. They must initiate and/or report any necessary adjustments to their FBWT account and/or Treasury account symbol. Agencies must reconcile these differences monthly."

Treasury's *FBWT Reconciliation Procedures, A Supplement to the Treasury Financial Manual, 1 TFM 2-5100 November 1999* (Reconciliation Procedures), states, "Federal agencies must reconcile the SGL 1010 account and any related subaccounts with the FMS 6652, 6653[1], 6654[1] and 6655[1] on a monthly basis (at minimum)." It further states, "Federal agencies must research and resolve differences reported on the monthly FMS 6652."

The Reconciliation Procedures also state that "…each financial system's policies and procedures should provide: (1) regular and routine reconciliation of G/L accounts; (2) thorough investigation of differences; (3) determination of specific causes of differences; and (4) initiation of corrective action." The Reconciliation Procedures goes on to state, "When resolving differences, agencies should maintain detailed reconciliation worksheets (see Appendix 1) that, if needed, can be reviewed by the agency's auditors or Treasury."

Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, states, "Reliability of financial reporting means that management can reasonably make the following assertions: All reported transactions actually occurred during the reporting period…" and, "Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports."

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (the Standards) states, "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes."

The Standards also state, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

Financial Processes: During our review of the FY 2011 third quarter financial statements, we noted the following errors:

- Certain beginning balances reported in the Statement of Changes in Net Position (SCNP) and the Statement of Budgetary Resources (SBR) did not agree with the related ending balances reported in the FY 2010 audited financial statements issued in May 2011; differences ranged from $343 million to $1.9 billion.
- The balances reported for Permanently Not Available – All Other on the SBR and Unexpended Appropriations – Adjustments on the SCNP were overstated by $808 million.
- Certain balances reported in multiple places in the statements did not agree.

The errors above were primarily caused by certain adjustments (i.e., topside adjustments) made by the OCFO to the FY 2010 audited financial statements issued in May 2011 that were initially recorded outside of the general ledger and were not timely recorded in NCFMS during FY 2011. Management was aware that the October 1 beginning balances and certain ending balances reported in the general ledger were incorrect as of June 30, 2011, and planned to record correcting journal entries in the fourth quarter. However, they did not develop an alternative process to ensure that the third quarter financial statements were fairly stated, in all material respects.

The OCFO ultimately recorded the FY 2010 topside adjustments in September 2011; however, one of the adjustments was recorded incorrectly. The topside adjustments were recorded by management using memo accounts, which were required to be mapped to the appropriate consolidated financial statement line items to reflect the correct balances. Although management properly recorded the topside adjustments to the memo accounts, their review did not detect that one of the memo accounts was not properly mapped to the correct line

[1] The FMS 6653, 6654, and 6655 were superseded by the GWA Account Statement.

item on the SBR. This error, which was subsequently corrected by the OCFO, caused the FY 2011 balances of Appropriations Received and Permanently not Available – All Other to be initially overstated by $808 million.

The OCFO also had difficulty providing timely support that certain Unemployment Trust Fund (UTF) activities were accounted for and reported in accordance with U.S. generally accepted accounting principles (GAAP). Specifically, the OCFO was initially unable to (a) provide a sufficient rationale for why certain UTF receipts were reported as temporarily unavailable pursuant to public law or (b) support the presentation of UTF advances and payables on DOL's consolidated balance sheet, and they did not perform adequate research to resolve these issues in a timely manner. Although these matters were identified and presented to the OCFO in June 2011, the OCFO did not provide sufficient resolution for them until October 2011 because they did not have a formal process in place to ensure significant financial reporting issues were researched, properly resolved, and documented in a timely manner.

Furthermore, we determined that the OCFO did not finalize the draft *U.S. Department of Labor Manual Series* (DLMS) policies and procedures that require a comprehensive and detailed review of all financial information in the draft financial statements, nor did they document comprehensive policies and procedures related to the financial reporting process under NCFMS as of September 30, 2011. Because the OCFO was focused on reissuing its FY 2010 consolidated financial statements during the first half of FY 2011, the OCFO lacked the resources to draft comprehensive policies and procedures related to the NCFMS financial reporting process and to finalize the draft DLMS procedures.

The issues noted above increased the risk that DOL's consolidated financial statements could be misstated or not presented in conformity with GAAP.

We used the following criteria during our FY 2011 testing over DOL's financial processes:

The Standards state:

- "Internal control should provide reasonable assurance that the objectives of the agency are being achieved relative to reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use and compliance with applicable laws and regulations."
- "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions."
- "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

OMB Circular No. A-136, *Financial Reporting Requirements*, states, "Reporting entities should ensure that information in the financial statements is presented in accordance with GAAP for Federal entities and the requirements of this Circular. Preparers of financial statements seeking additional guidance on matters involving the recognition, measurement, and disclosure requirements should refer to the specific FASAB standards governing those requirements." It further states, "Where the FASAB standards and interpretations or the instructions in this Circular do not provide guidance, agencies will follow the hierarchy of accounting principles described in Section II.4.2 Q&A and SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*."

Other Financial Reporting Controls: We also noted that DOL needed improvement in its other financial reporting controls. Specifically, we identified deficiencies in controls related to the UTF disbursements accrual; grants; and non-benefit, non-payroll expenses, as described below.

UTF Disbursements Accrual
During our FY 2011 testing of the UTF disbursements accrual methodology, we identified deficiencies in ETA's retrospective analysis of the estimate. ETA's analysis identified variances between the estimate and actual expenses as of December 31, 2010, and March 31, 2011, in the amounts of $1.4 billion and $500 million, respectively. However, ETA did not document management's conclusion as to whether or not these variances necessitated a revision to the disbursement accrual methodology. In addition, although ETA personnel assessed the impact of the variances on gross costs, they did not assess the impact on accrued benefits and advances, which are based in part on the disbursements accrual. Furthermore, ETA did not fully investigate and identify the cause of the variances.

In addition, a computational error of approximately $318 million in the first quarter disbursements accrual calculation was not detected in management's review of it. However, we did not identify any similar errors during our fourth quarter testing over the disbursements accrual.

ETA did not have formal policies and procedures in place for the preparation and review of the retrospective analysis of the UTF disbursement accrual. The computational error occurred and was not detected because of an oversight during supervisory review of the disbursements accrual. Additionally, no formal policies and procedures were in place to outline the necessary steps supervisors should perform to ensure adequate reviews of the accrual.

The lack of sufficient internal controls over the UTF disbursements accrual increased the risk that gross costs, accrued benefits, and advances could be misstated and not detected and corrected in a timely manner.

The Standards state, "Managers also need to compare actual performance to planned or expected results throughout the organization and analyze significant differences." It also states, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination."

OMB Circular No. A-123 states, "Reliability of financial reporting means that management can reasonably make the following assertions: All reported transactions actually occurred during the reporting period…" and, "Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports."

Grants
As part of our audit procedures over grant controls, we selected 55 grantees to determine if Federal Project Officer (FPO) desk reviews were being performed accurately and timely during the six months ended March 31, 2011. Our testing disclosed that a FPO desk review was not performed for 1 of the 55 grantees selected. In addition, 8 of the 54 FPO desk reviews tested were not completed timely within the required 75 calendar days of the quarter end. This occurred because sufficient supervisory review procedures related to the timely completion of quarterly FPO desk reviews were not developed and implemented. Policies and procedures related to FPO desk reviews were outdated, and although they included a deadline for performance of the FPO desk reviews, they did not include any guidance regarding monitoring their completion.

We also tested the March 31, 2011, Delinquent Reporting Analysis and noted that the analysis was reviewed by the Division of Financial and Systems Services (DFSS) Accounting Supervisor on May 6, 2011. However, ETA did not send notification of the delinquent cost reports to the responsible individuals for follow-up until after we requested support for the notification on June 20, 2011. The notification was delayed because of ETA oversight. Additionally, ETA's *Delinquent Filers Monitoring Procedures* did not include specific deadlines regarding when the notification of delinquent filers must be distributed and when the follow-up was to be completed.

Without adequate grantee monitoring controls, grantees may misreport (intentionally or unintentionally) grant expenses without the misstatement being detected by ETA or fail to report grant expenditure details. As a result, grant-related expenses, advances, payables, and undelivered orders could be misstated.

DOL *General Guidance on GEMS Usage for FY05* memorandum, DOL's policy regarding desk reviews, states that, "Desk reviews should be completed 30 days after receipt of the quarterly reports from grantees, but no later than 75 calendar days after the end of the calendar quarter."

Chapter 75 of Title 31, United States Code (commonly referred to as the "Single Audit Act") states, "Each Federal agency shall, in accordance with guidance issued by the Director under section 7505, with regard to Federal awards provided by the agency – (1) monitor non-Federal entity use of Federal awards…"

The Standards state, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

Non-Benefit, Non-Payroll Expenses

We selected 550 non-benefit, non-payroll expenses recorded in the general ledger from October 1, 2010, through September 30, 2011, for testing. However, DOL was unable to provide supporting documentation or the documentation was not adequate for 33 of the items selected; 20 of which were related to adjustments recorded by DOL's shared service provider. Of the 517 items tested, we identified 54 errors. As a result, non-benefit, non-payroll expenses were overstated by $26 million, which we statistically extrapolated to an overstatement of $405 million as of September 30, 2011. We included these errors in the Summary of Audit Misstatements, which was attached to the FY 2011 management representation letter.

Additionally, we identified six exceptions related to grant expenses that were improperly classified as intra-governmental expenses instead of non-federal expenses. As a result of these exceptions, we analyzed grant expenses recorded in the general ledger from October 1, 2010, through September 30, 2011 and identified grant expenses in the amount of $117 million that were incorrectly classified as intra-governmental expenses. We included these errors in the Summary of Audit Misstatements, which was attached to the FY 2011 management representation letter.

The Standards state, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

In addition, the Standards state, "Controls over the design and use of records help provide reasonable assurance that expense transactions are recorded. Such controls include receiving reports, inspection documents, purchase orders, and other information such as vendor invoices, or other documents used to record delivered orders and related liabilities to provide assurance that all and only valid transactions are recorded."

Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*, states, "Costs and revenues arising from transactions with other Federal entities should be displayed separately from transactions with non-Federal entities."

USSGL Compliance: We identified the following transactions that were not compliant with the USSGL:

- A portion of the liability for estimated future benefits related to the Energy Employees Occupational Illness Compensation Program in the amount of $12.1 billion was incorrectly recorded in the general ledger as a Contingent Liability instead of an Actuarial Liability. This prior year error was inadvertently not corrected in the current year. The liability was presented correctly in the consolidated financial statements as of September 30, 2011.

- An expenditure transfers payable in the amount of $2 billion was incorrectly recorded in the general ledger as Other Liabilities with Related Budgetary Obligations. This issue occurred because the entry was not adequately reviewed by a DOL supervisor prior to it being recorded. However, the liability was reported correctly in the consolidated financial statements as of September 30, 2011.
- Grants payable in the amount of $792 million was incorrectly recorded in the general ledger as Accounts Payable instead of Other Liabilities. The OCFO made this decision for financial statement mapping purposes. The liability was presented correctly in the consolidated financial statements as of September 30, 2011.
- UTF borrowings transactions in the amount of $3 billion were not recorded in accordance with the OMB and Treasury guidance provided to DOL. This error occurred because the OCFO misapplied the guidance for returning funds to Treasury. This misclassification had no effect on the consolidated financial statements as of September 30, 2011.
- The increase of $1.6 billion in benefit overpayment receivables was incorrectly recorded in the general ledger as Benefit Expense instead of Other Expenses Not Requiring Budgetary Resources. This issue occurred because management had made a decision in prior years to record the change in benefit overpayments to the Benefits Expense general ledger account. This misclassification had no effect on the consolidated financial statements as of September 30, 2011.
- Transactions related to the Federal Employees Compensation Account (FECA) Existing Claims accrual in the amount of $360 million were incorrectly recorded as Benefit Expense instead of Future Funded Expenses. This issue occurred because management had previously made a decision in prior years to use the Benefit Expense account in lieu of the Future Funded Expenses account. The liability was presented correctly in the consolidated financial statements as of September 30, 2011.

The USSGL contains the chart of accounts that provides the basic accounting structure for Federal agencies' general ledger systems. It incorporates both proprietary and budgetary accounts. It also provides the accounting transactions for events occurring throughout the Federal Government. These transactions illustrate the proper proprietary and budgetary entries for each accounting event.

To address the issues noted above, the Chief Financial Officer should:

a) Develop and implement procedures to properly complete and document the monthly GWA FBWT reconciliations, including 1) reinstatement of the previous reconciliation process that reconciled the ending balances reported on the GWA Account Statements to the ending FBWT balances recorded in the general ledger and 2) documented research and resolution of identified differences;
b) Dedicate adequate resources to complete the monthly FBWT reconciliations and supervisor reviews timely;
c) Perform, document, and review timely the monthly FMS 6652 reconciliations to demonstrate that the differences identified on the FMS 6652 reports have been resolved;
d) Update policies and procedures to properly complete and document the monthly FMS 6652 reconciliations, including documented research and resolution of all identified differences;
e) Formalize procedures for generating data extracts of detailed general ledger transactions from NCFMS, and enhance the procedures for reviewing data extracts prior to submission for audit to ensure they reconcile to the consolidated trial balance;
f) Develop and implement a formal process for promptly researching and resolving significant financial reporting issues that are identified. In addition, resolution of each issue should be formally documented and retained to support the consolidated financial statements' compliance with GAAP;
g) Finalize draft DLMS policies and procedures requiring detailed review of all financial information in the financial statements, and ensure that OCFO personnel adhere to these policies. Financial statement review should include procedures for comparing financial data reported on the different statements to ensure accuracy and consistency; agreeing the financial data to the general ledger to ensure existence, completeness, and accuracy of financial data reported; and analyzing significant variances between current period and prior period financial information;

h) Formally document comprehensive policies and procedures related to the financial reporting process under NCFMS;
i) Develop and implement policies and procedures to address the minimum documentation requirements needed to support adjustments recorded by DOL's shared service provider, provide training to the agencies to address the minimum documentation requirements needed to sufficiently support recorded transactions, and develop and implement monitoring controls to ensure that individuals are performing sufficient reviews of expenses and related documentation before they are posted in NCFMS to ensure they are adequately supported;
j) Investigate the specific cause of the grant expense misclassification issue, and develop and implement appropriate corrective action; and
k) Record journal entries to correct the misclassified amounts identified above to their proper USSGL accounts in the general ledger, develop and implement procedures to properly record these transactions in the future, review significant transactions for USSGL compliance, and make any necessary corrections.

In addition, the Assistant Secretary for Administration and Management should perform, document, and review timely the monthly FMS 6652 reconciliations to demonstrate that the differences identified on the FMS 6652 reports have been resolved.

We also recommend the National Director for the Office of Job Corps continue working to resolve the mapping issues between HHS-PMS and NCFMS to allow the systems to communicate properly, and develop and implement procedures to investigate, resolve, and document differences identified through the quarterly HHS-PMS Synch Report.

Furthermore, we recommend that the Assistant Secretary for Employment and Training:
a) Develop and implement written policies and procedures regarding the quarterly reconciliation of E-Grants to NCFMS and resolution of identified differences, including an expected timeframe to ensure errors are detected and corrected to avoid a misstatement. Documentation should be maintained to support these activities;
b) Develop and implement comprehensive procedures for the preparation and review of the UTF disbursements accrual that address the minimum documentation needed to support management's conclusions and require individuals performing supervisory reviews to verify the accuracy of the accrual data and calculations and the adequacy of documentation maintained to substantiate management's conclusion;
c) Update written policies and procedures to include guidance on monitoring the timely completion of FPO desk reviews, which should include requirements for supervisors to periodically review a sample of active grantees to confirm that the FPO desk reviews are being completed timely. This review should be documented; and
d) Update the *Delinquent Filers Monitoring Procedures* to include 1) a control procedure designed to ensure that the quarterly notification of delinquent filers is distributed timely, 2) a deadline by which the notification of delinquent filers must be sent to the responsible individuals for follow-up, and 3) deadlines for required follow-up.

Management's Response: Although management generally concurs with the recommendations, we do not concur that the level of this deficiency continues to be at the material weakness level as of September 30, 2011. Management agreed with the auditors that in FY 2010 there was a material weakness in this area, however, with the significant improvements made during FY 2011, as noted by the auditors, this weakness no longer rises to the level of a material weakness.

During FY 2011 we have implemented corrective actions that have resulted in significant improvements and will initiate further corrective actions to address the auditors' recommendations. We have taken steps to ensure that procedures for reconciliations are properly updated and documented, including resolution of differences and required documentation. We will continue to strengthen our policies and procedures in all areas and will provide training to our staff as needed.

Regarding the reconciliations of Fund Balance with Treasury (FBWT), Statement of Differences (FMS 6652) reconciliations, general ledger transactions, and grants data, we agree with the auditors that not enough resources were dedicated to perform these reconciliations during the six month period ended March 31, 2011. Significant resources were devoted to these reconciliations in the second half of FY 2011 and significant progress was made and material differences were resolved. As noted by the auditors, "During our year-end testing, we determined that the differences identified on the FMS 6652 reports were materially resolved as of September 30, 2011." and that identified material differences in the grants reconciliation were resolved in the fourth quarter. We agree with the auditors that the data extracts of detailed general ledger transactions from NCFMS provided did not initially reconcile to the NCFMS consolidated trial balance. This was due to the way the extracts were generated and placed into the format required by the auditors and not due to the accuracy of the data in the general ledger. This issue was corrected and revised data extracts for both periods that reconciled to the consolidated trial balance were provided, as noted by the auditors. Subsequently, similar extracts we properly provided to the auditors on a timely basis for the periods ending August 31, 2011, September 30, 2011 and October 24, 2011.

Regarding the interim financial statements, the auditors noted that "During our review of the FY 2011 third quarter financial statements, we noted the following errors: Certain beginning balances reported in the Statement of Changes in Net Position (SCNP) and the Statement of Budgetary Resources (SBR) did not agree with the related ending balances reported in the FY 2010 audited financial statements issued in May 2011; differences ranged from $343 million to $1.9 billion. The balances reported for Permanently Not Available – All Other on the SBR and Unexpended Appropriations – Adjustments on the SCNP were overstated by $808 million." These differences relate to the adjustments made by DOL in preparing the FY 2010 financial statements issued in May 2011. DOL had made a specific management decision to record these adjustments during the fourth quarter of FY 2011 and this was communicated to the auditors. As such, the ending balances from the May 2011 submission of the FY 2010 financial statements would not tie to the beginning balances in the unaudited FY 2011 third quarter unaudited financial statements. DOL recorded the adjustments in a controlled manner during FY 2011 fourth quarter for proper presentation on the annual FY 2011 financial statements. In addition, the SCNP is not a required interim financial statement per Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and OMB does not require the SCNP to be submitted for quarterly reporting. As such the SCNP was not submitted to OMB or to anyone else outside of DOL.

Regarding the topside adjustments, the auditors noted that "Although management properly recorded the topside adjustments to the memo accounts, their review did not detect that one of the memo accounts was not properly mapped to the correct line item on the SBR. This error, which was subsequently corrected by the OCFO, caused the FY 2011 balances of Appropriations Received and Permanently not Available – All Other to be initially overstated by $808 million." The error to which the auditor refers to existed in a test environment and did not exist on the FY 2011 financial statements. Absent discussion with the auditors, we believe that this matter would have become apparent in the yearend evaluation of the composition of the SBR, which DOL had planned to do and communicated to the auditors.

Regarding the reconciliation of grants data and reconciliation of HHS-PMS to NCFMS for Office of Job Corps related activity, ETA will develop and implement written procedures regarding quarterly reconciliation of E-grants to NCFMS and resolution of identified differences. Beginning with the 1st quarter FY2012, ETA will investigate, resolve, and document obligation and disbursement differences using the quarterly HHS-PMS Sync report. The resolution of the OJC grant mapping issues between HHS/PMS and NCFMS continue. To date, OCFO and GCE have reduced the number/amount of incorrectly mapped items. Regarding the UTF disbursement accrual, ETA will develop a checklist for the initial review process. In terms of a quarterly retrospective review process, ETA will document the process and related results, including establishing a threshold to determine whether there are significant variances which warrant investigation and a supervisory review. ETA updated its Delinquent Filers Monitoring procedures to include timelines for notifying responsible individuals of the delinquent cost report. ETA will ensure that notification will include deadlines for required follow up.

Auditors' Response: Our consideration of internal control over financial reporting covers the entire fiscal year; as such, management's assessment of the severity of the identified deficiencies at year-end may differ from our assessment. We will conduct follow-up procedures in FY 2012 to determine whether corrective actions have been developed and implemented.

2. Lack of Sufficient Controls over Budgetary Accounting

DOL encountered significant issues in accounting for its budgetary resources and their related status during FY 2010. Although DOL made substantial improvements in its budgetary accounting during FY 2011, we continued to identify certain control deficiencies related to budgetary reconciliations, obligations and fund controls, and the status of budgetary resources. The specific issues identified in each of the aforementioned areas are discussed below.

Lack of Budgetary Reconciliations: During our FY 2011 testing, we noted that reconciliations of the *Apportionment and Reapportionment Schedules* (SF-132) to the *Report on Budget Execution and Budgetary Resources* (SF-133) were not prepared and reviewed by management for the first and second quarters of FY 2011. Additionally, the budgetary to proprietary account relationship analysis and the reconciliation of net outlays per the GWA Account Statement Expenditure Activity Report to the SBR were not performed at all for the first quarter and were not completed until July 8 and June 8, 2011, respectively, for the second quarter. Because of the aforementioned exceptions, we determined these controls were not operating effectively and, therefore, did not perform additional control testing over these reconciliations in the third and fourth quarters.

In addition, we performed testing over the reconciliation of the SBR to the SF-133s as of March 31, 2011. Based on our testing, we noted that the OCFO did not resolve differences ranging from $107.9 million to $3.7 billion between related line items reported on the SBR and the SF-133s as of June 30, 2011. These differences were materially reconciled in the fourth quarter.

Because of competing priorities related to the researching and correcting of balances reported on DOL's FY 2010 financial statements, the number of OCFO staff available to perform certain quarterly budgetary reconciliations was reduced during the first half of FY 2011.

Policies and procedures over budgetary reconciliations were not sufficient to address the minimum documentation requirements needed to substantiate that identified differences were properly researched and resolved and to outline the necessary steps to ensure supervisors were performing adequate reviews. When quarterly budgetary reconciliations are not properly performed, the risk increases that material misstatements will not be detected and corrected in a timely manner.

The Standards state, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties." It further states, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

OMB Circular No. A-136, section IV.3, states, "Agencies are required to submit an analysis of any material differences between the current quarter's unaudited SBR and the current quarter's department-wide SF 133, *Report on Budget Execution and Budgetary Resources.* Agencies should reconcile the two reports; however, agencies are only required to provide OMB with an explanation for any material differences between the SBR and SF 133 for comparable line items related to unobligated balance brought forward, gross budget authority, obligations incurred, actual offsetting collections, net outlays and distributed offsetting receipts."

OMB Circular No. A-136, section II.4.6.1, states, "Information on the SBR should be reconcilable to the budget execution information reported on the SF 133 *Report on Budget Execution and Budgetary Resources* and with information reported in the Budget of the United States Government to ensure the integrity of the numbers presented."

Obligations and Fund Control: The OCFO did not adequately monitor undelivered orders (UDOs) for the quarter ended December 31, 2010. Specifically, the OCFO did not obtain the results of the agencies' quarterly review of UDOs to determine whether any UDO balances needed to be deobligated in the general ledger. The OCFO did not have sufficient resources to implement policies and procedures to obtain the results of the agencies' review or to ensure expired and invalid UDOs were deobligated either by the agency or by the OCFO because of resource constraints and competing priorities related to the correction of NCFMS implementation issues. However, as of our March 31, 2011 control testing, we noted that the OCFO had implemented policies and procedures related to monitoring UDOs.

We selected a statistical sample of three UDO balances reported in NCFMS as of September 30, 2011 that had no activity during the fourth quarter for testing. Through our testing, we identified one invalid UDO that resulted in an overstatement of $60,994, which we statistically extrapolated to an overstatement of $379 million as of September 30, 2011. We included this error in the Summary of Audit Misstatements, which was attached to the FY 2011 management representation letter. This error occurred because of a determination that the UDO should not be deobligated that was not supported by appropriate documentation.

As of June 30, 2011, we compared the amount of obligations incurred reported on the SF-133s to the total amount available to obligate on the SF-132s. Based on our review, we determined that the reported amount of obligations incurred exceeded total funds available by $58.3 million, raising a question about compliance with the *Anti-deficiency Act*. Upon investigation, we determined that this was an accounting error, not an instance of noncompliance, caused by a batch entry that was intended to reduce obligations but caused obligations to increase instead. The automated fund controls in NCFMS did not prevent the entry from being posted even though it caused obligations to exceed the amount of funding available. The OCFO subsequently corrected the batch entry error and appropriately reduced obligations as of September 30, 2011.

During our control testing over the grant closeout process as of March 31, 2011, we noted that 4 of 55 grants tested were not closed out timely because of errors in the E-Grants system related to the acceptance of final ETA 9130s, a coding issue in E-Grants, and the improper recording of a grantee's refund check. Because of the aforementioned exceptions, we concluded this control was not operating effectively, and therefore, did not perform additional control testing. Without adequate controls to timely close out expired grants and deobligate any remaining funds, undelivered orders may be overstated.

U.S. Code Title 31 Section 1501, *Documentary Evidence Requirement for Government Obligations*, states, "An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another person (including an agency) that is (a) in writing, in a way and form, and for a purpose authorized by law; and (b) executed before the end of the period of availability for obligation of the appropriation or fund." Section 1554, *Audit, control and reporting*, states, "The head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed to support the certification required by section 1108(c) of this title."

OMB Circular No A-11, section 150.2, further states, "The purpose of your agency's fund control system is to: Restrict *both* obligations and expenditures (also known as outlays or disbursements) from each appropriation or fund account to *the lower of* the amount apportioned by OMB or the amount available for obligation or expenditure in the appropriation or fund account."

The Standards state, "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation."

The Standards also state, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

Status of Budgetary Resources*:* During our testing over appropriations received as of June 30, 2011, we noted that one of DOL's funds included $320 million in appropriations that were incorrectly recorded in NCFMS as Unapportioned Authority instead of Unobligated Funds Exempt from Apportionment. This error occurred because the NCFMS Budget Module was not configured to allow appropriations exempt from apportionment to be posted to the correct general ledger account. Although the OCFO developed a process to correct these transactions through a manual journal entry, this fund was inadvertently overlooked, and a correcting entry was not initially recorded. As a result, Unapportioned Authority was overstated and Unobligated Funds Exempt from Apportionment was understated by $320 million as of June 30, 2011. In addition, this error resulted in noncompliance with the USSGL at the transactional level. This error was corrected as of September 30, 2011.

USSGL Compliance: In addition to certain issues noted above, we identified the following budgetary transactions that were not recorded in compliance with the USSGL.

- Receipts temporarily precluded from obligation in the amount of $10 billion were incorrectly reported in the general ledger as Receipts Unavailable for Obligation upon Collection instead of Receipts and Appropriations Temporarily Precluded from Obligation as of September 30, 2011. This occurred because the OCFO did not correctly interpret the guidance in the Federal Trust Fund Accounting Guide related to receipts precluded from obligation.
- Budgetary and proprietary entries were not recorded simultaneously for economic events related to the enactment of an appropriation or budget authority. On average, the entries we identified were recorded 16 days apart, but we identified a few transactions that were recorded 30 days or more apart. The budget and proprietary entries were not recorded simultaneously because they were recorded by two separate agencies that did not coordinate accordingly.

We used the following criteria during our FY 2011 testing over the status of budgetary resources and USSGL compliance:

The USSGL contains the chart of accounts that provides the basic accounting structure for Federal agencies' general ledger systems. It incorporates both proprietary and budgetary accounts. It also provides the accounting transactions for events occurring throughout the Federal Government. These transactions illustrate the proper proprietary and budgetary entries for each accounting event.

The Standards state, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records."

To address the issues noted above, the Chief Financial Officer should:

a) Provide adequate resources to complete all necessary budgetary reconciliations timely;
b) Update policies and procedures over budgetary reconciliations 1) to address the minimum documentation requirements needed to substantiate that identified differences are properly researched and resolved, and 2) to outline the necessary steps to complete adequate supervisory reviews;
c) Provide training on the updated policies and procedures over budgetary reconciliations, including timing and frequency of reconciliation preparation;

d) Update the NCFMS configuration so that all recorded transactions are subject to the system's automated funds control;
e) Provide training to the agencies to address the minimum documentation requirements needed to sufficiently support the validity of UDOs;
f) Update the NCFMS Budget Module configuration to allow appropriations that are exempt from apportionment to be posted to the correct general ledger account. Until the NCFMS Budget Module is properly configured, procedures should be developed and implemented to periodically review funds with appropriations exempt from apportionment to ensure amounts improperly reported as Unapportioned Authority are properly reclassified to Unobligated Funds Exempt from Apportionment; and
g) Require that one agency be responsible for recording both the budgetary and proprietary journal entries for economic events, or if separate agencies continue to record the entries, develop and implement procedures that requires those agencies to coordinate appropriately to ensure almost simultaneous recording.

We recommend that the Assistant Secretary for Employment and Training:
a) Evaluate E-Grants to determine the cause of the continuing system errors related to the acceptance of ETA 9130s, and implement the appropriate corrective action;
b) Identify and correct the E-Grants coding issue that prevented timely and proper grant closeout; and
c) Develop and implement alternative procedures to properly post refunds to appropriate grants in NCFMS.

Management's Response: Although management generally concurs with the recommendations, we do not concur that the level of this deficiency continues to be at the material weakness level as of September 30, 2011. Management agreed with the auditors that in FY 2010 there was a material weakness in this area, however, with the significant improvements made during FY 2011, as noted by the auditors, this weakness no longer rises to the level of a material weakness.

During FY 2011 we have implemented corrective actions that have resulted in significant improvements and will initiate further corrective actions to address the auditors' recommendations. As noted below, we have taken steps to ensure that procedures for budgetary reconciliations and the performance of the reconciliations are given priority. We will continue to strengthen our policies and procedures in all areas and will provide training to our staff as needed.

Regarding the reconciliations of the Apportionment and Reapportionment Schedules (SF-132) to the Report on Budget Execution and Budgetary Resources (SF-133), it should be noted that U.S. Government agencies were operating under a Continuing Resolution during the first two quarters of FY 2011. As such, the majority of Treasury Appropriation Fund Symbols applicable to DOL had not yet been issued OMB-approved SF-132s for FY 2011, making budgetary resources reconciliations less pertinent and resources were used elsewhere. The reconciliations were properly performed as of June 30, 2011 and September 30, 2011.

The SBR to SF-133 reconciliation of data as of June 30, 2011 and September 30, 2011 were properly performed and all significant variances accounted for except for certain variances related to the Unemployment Insurance Trust Fund. We have worked with the appropriate Federal agency to resolve this issue and a revised SF 133 will be submitted by that agency. The issue noted by the auditors that appropriations that were incorrectly recorded in NCFMS as Unapportioned Authority instead of Unobligated Funds Exempt from Apportionment was resolved and the amounts are properly reflected in the financial statements.

With respect to the E-grants system errors, ETA's Closeout unit continues to work with the E-grants technical support staff by forwarding system errors encountered during the acceptance of 9130s. The E-grants personnel have evaluated the cause of the errors and made the necessary system changes to successfully reduce the number of overall errors of attempted 9130 acceptances to less than 5%. Errors continue to be identified and corrected on a case-by-case basis. The coding issue cited in the finding was an isolated incident and has been corrected and the grant subsequently closed. Lastly, to properly post refunds a template was developed to use when posting receipts that need to be attributed to a particular document number. This will ensure that disbursement balances are correctly stated in NCFMS and allow the grant closeout to be completed timely.

Auditors' Response: Our consideration of internal control over financial reporting covers the entire fiscal year; as such, management's assessment of the severity of the identified deficiencies at year-end may differ from our assessment. We will conduct follow-up procedures in FY 2012 to determine whether corrective actions have been developed and implemented.

3. Lack of Sufficient Security Controls over Key Financial and Support Systems

In FY 2011, DOL agencies completed corrective action to address certain previously-identified control deficiencies. However, based on our FY 2011 testing of significant DOL financial and support systems, located in four DOL agencies, we determined that security control deficiencies continued to be systemic across DOL agencies. In our testing, we identified new security control deficiencies in addition to the ones that were reported in prior years.

We have classified the deficiencies identified into the following four categories: account management, system access settings, system audit log reviews, and vulnerability management.

The first two categories summarize the identified deficiencies related to controls that are designed to help prevent unauthorized access to information technology (IT) systems. The specific deficiencies identified in these two categories were as follows:

Account Management

- User accounts were not timely removed for separated users. Certain separated users had active system accounts, and in some cases, separated users accessed systems after their separation dates;
- Shared accounts and multiple user accounts for the same user existed;
- Certain user accounts were granted more privileges than what was requested on their access request forms;
- Incidents were not timely reported;
- Developer and production roles were not separated;
- Application-level conflicting roles were not separated;
- Periodic user account reviews or re-certifications were not appropriately performed;
- Review of employees with access to data centers were not performed;
- Agencies did not maintain lists of users who could authorize new system access requests; and
- Account management controls were not performed, evidenced by incomplete or missing access requests, non-disclosure agreements, modification forms, and termination forms.

System Access Settings

- Unnecessary services were not disabled;
- Servers were not configured to the most appropriate settings;
- Inactive accounts were not disabled in a timely manner; and
- Password settings, lockout timeouts, and remote session timeouts did not comply with the Office of the Chief Information Officer Computer Security Handbook.

The account management control deficiencies increase the risk that current employees, separated employees, and/or contractors may obtain unauthorized or inappropriate access to financial systems and/or data. Such access could lead to unauthorized activities and/or inappropriate disclosures of sensitive data. Additionally, system access setting deficiencies may be exploited, in either a singular fashion or in combination, by a malicious user, which may affect the confidentiality, integrity, and/or availability of DOL systems and data.

System Audit Logs Review

The system audit logs review category represents controls designed to detect unauthorized access to IT systems. Although DOL has certain detective controls in place to mitigate the aforementioned risks, we also identified certain deficiencies in these controls, as follows:

- Certain system administrator activities were not properly logged; and
- Audit logs monitoring user and administrator activity, changes to security profiles, remote access logs, access to sensitive directories, and failed login attempts were not reviewed, or documentation of audit log reviews was not maintained.

The lack of system audit log reviews may allow for unauthorized or inappropriate activities to go undetected by management.

Vulnerability Management

Controls related to vulnerability management are designed to prevent weaknesses in IT systems from being exploited. Such controls include proactively monitoring system vulnerabilities, timely patching of related security issues, and configuring IT systems in compliance with baseline security requirements. During our FY 2011 vulnerability assessments, we identified the following deficiencies:

- Numerous critical and high risk application and operating system patches were not implemented;
- Numerous servers and workstations were not compliant with minimum security baselines; and
- Passwords did not meet the minimum security baseline requirements.

Vulnerabilities that are not remedied in a timely manner may result in information leaks or system threats. These vulnerabilities may also disrupt normal system processes, allow inappropriate access, prevent updates from being implemented, and jeopardize the integrity of financial information. Additionally, vulnerabilities that are not remedied or mitigated can present an opportunity to circumvent account management, system access settings, and audit logging controls.

Collectively, the aforementioned IT control deficiencies pose a significant risk to the integrity of DOL's data, which could ultimately impact its ability to accurately and timely perform its financial reporting duties. The specific nature of these deficiencies, their causes, and the systems impacted by them has been communicated separately to management. These deficiencies, which were noted across all four agencies selected for testing, were a result of systemic issues in the implementation and monitoring of Departmental procedures and controls. DOL agencies have not invested the necessary level of effort and resources to ensure that IT policies and procedures are operating effectively.

To address the issues noted above, the Chief Information Officer should:

a) Coordinate efforts among the DOL agencies to develop procedures and controls to address access and vulnerability management control deficiencies in financial and support systems;
b) Monitor the agencies' progress to ensure that procedures and controls are appropriately implemented and maintained; and
c) Ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address access and vulnerability management control deficiencies.

Management's Response: The Office of the Assistant Secretary for Administration and Management (OASAM) does not concur with the FY 2011 KPMG Financial Statement Audit aggregated Enterprise-wide "material weakness" regarding lack of adequate controls over access to key financial and support systems. In management's view, the auditors did not provide the requisite linkage between the findings and risks or events that could realistically be expected to rise to the level of seriousness contemplated by the term "material weakness;" nor did the report adequately represent the operating environments of the systems audited in a holistic manner. The financial systems are physically and logically separated with appropriate supporting boundary controls. The segregated environments that host DOL financial applications provide supplemental controls aligned to the security best practice concept of defense in depth. Additionally, DOL policies, procedures and standards collectively provide compound safeguards and redundant security measures to ensure the integrity of DOL financial systems.

In general, it is management's view that the auditors' characterizations of risk levels are inflated. For example, an account which is disabled, but not deleted, does not represent a high risk as portrayed in the audit Notification of Findings. A disabled account does not permit unauthorized access to a system or inappropriate access to sensitive data. Additionally, security incidents that are reported and handled appropriately, but not reported within 1 hour of occurrence do not permit unauthorized access to a system. While these are weaknesses that should be addressed, and management will see that they are mitigated, they do not support the determination of a material weakness in that they do not contribute to the material misstatements of the Department's financial statement.

Management remains committed to safeguarding DOL financial systems and will ensure corrective actions are developed and implemented to address the identified issues. In FY 2012, management will communicate with DOL Agency Heads calling attention to their agency outstanding findings and recommendations, and ask that they give priority attention and sufficient resources to their agency's mitigation strategy as well as provide guidance on developing and prioritizing corrective actions. Management will continue to deploy policies, procedures and automated tools aimed at strengthening and providing continuous monitoring of the overall security posture of DOL's computer security program, including monitoring agency corrective action activities.

Auditors' Response: The details of our FY 2011 IT findings were provided to DOL management through the established Notification of Findings process. Although we did not identify any individual finding as a material weakness, we evaluated the combination of certain findings, in accordance with auditing standards generally accepted in the United States of America, to conclude that a material weakness does exist, taking into consideration that certain findings, when assessed in aggregate, identified deficiencies in both detective and preventive access controls related to one or more financial systems. Although management stated that they do not concur with our categorization of identified deficiencies as a material weakness, they plan on taking steps to address the deficiencies. We will conduct follow-up procedures in FY 2012 to determine whether corrective actions have been developed and implemented.

4. Improvements Needed in the Preparation and Review of Journal Entries

The U.S. Department of Labor (DOL) records manual journal entries throughout the year to account for certain accounting transactions and to make corrections to general ledger account balances, as necessary. During our fiscal year (FY) 2011 audit, we tested a sample of 170 journal entries recorded in the New Core Financial Management System (NCFMS) from October 1, 2010, through March 31, 2011. The supporting documentation provided for 51 of the journal entries selected was not adequate for us to determine whether the journal entries were recorded in the proper period, represented a valid economic event, or were recorded in accordance with the United States Standard General Ledger (USSGL).

Adequate supporting documentation was provided for the remaining 119 journal entries selected, and based on our testing, we identified the following exceptions:

- 8 instances where the amount recorded for the entry did not agree with the support provided or the support did not substantiate the underlying economic transaction;
- 4 instances where the support provided indicated that the entry was not recorded in the proper period;
- 8 instances where management initially recorded the entry incorrectly and did not identify the error immediately; and
- 26 instances where the entry was not recorded in accordance with the USSGL and applicable Federal accounting standards.

The exceptions above were caused by insufficient review by DOL supervisors of journal entries to ensure they were properly prepared and supported before posting to the general ledger. Furthermore, the Office of the Chief Financial Officer (OCFO) had not revised its policies and procedures to address the minimum documentation requirements needed to adequately support journal entries during the first two quarters of FY 2011. In addition, the OCFO did not have monitoring controls in place to ensure that supervisors or individuals other than the preparer were performing adequate reviews of journal entries and related documentation to ensure they were properly supported.

The OCFO updated its policies and procedures related to journal entries in June 2011. As a result, we noted improvements in the preparation and review of journal entries during our third and fourth quarter testing. Specifically, we received adequate supporting documentation for 147 of the 169 journal entries selected from NCFMS for the period April 1, 2011, through August 31, 2011. Adequate supporting documentation was not provided for the remaining 22 items. For the 147 journal entries tested, we identified two instances where the amount recorded for the entry did not agree with the support provided or the support did not substantiate the underlying economic transaction, and two instances where the support provided indicated that the entry was not recorded in proper period. In addition, we identified 23 instances where the journal entry was not recorded in accordance with the USSGL.

Without proper review and approval of transactions, the risk increases that a material error would not be prevented or detected and corrected in a timely manner. In addition, without adequate supporting documentation, management is unable to determine the appropriateness of transactions posted to the general ledger.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (the Standards) state, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

Furthermore, the Standards state that, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

To address the issues identified above, we recommend the Chief Financial Officer:

a) Provide training on the updated policies and procedures implemented in June 2011 to address the minimum documentation requirements needed to adequately support journal entries, and
b) Develop monitoring controls to ensure that supervisors or individuals other than the preparer are performing sufficient reviews of journal entries and related documentation before the entries are posted to ensure they are adequately supported and are in compliance with the USSGL and Federal accounting standards.

***Management's Response*:** Management generally concurs with the recommendations noted above and will initiate further appropriate corrective actions to address these recommendations. As noted by the auditors, the revised policies and procedures for preparation and review of journal entries implemented in June 2011 improved the quality of the entries. Management will reinforce the policies and procedures and further improve the Department's performance in this area. Although we believe that most of the journal entries were properly supported or the support was available in other DOL files/systems, we will continue to work to improve the supporting documentation for journal vouchers and the review thereof.

Auditors' Response: We will conduct follow-up procedures in FY 2012 to determine whether corrective actions have been developed and implemented.

5. Weaknesses Noted over Payroll Accounting

During FY 2011, DOL used the U.S. Department of Agriculture's (USDA) OCFO/National Finance Center (NFC) to process its payroll. For each pay period, DOL submitted to the NFC payroll information that included all DOL employees for the period, along with their hours worked, leave used and other payroll related information for the period. The NFC processed the payroll for DOL each period and made available for download a payroll register for each DOL Human Resources (HR) office. In prior years, we identified weaknesses in DOL's controls over payroll accounting related to the Payroll/Time and Attendance Reconciliation Reports and the reconciliation between the general ledger and the payroll reports provided by the NFC. We identified similar weaknesses in the payroll accounting controls during our current year audit procedures.

Specifically, we selected 23 Payroll/Time and Attendance Reconciliation Reports from various agencies for the period of October 1, 2010, through April 30, 2011, for testing. For the 23 reports tested, we identified the following exceptions:

- 9 instances where the HR offices did not provide the requested reports,
- 1 instance where the HR offices provided the report but did not provide sufficient documentation to support that the discrepancies identified on it were adequately researched and corrective actions were initiated,
- 2 instances where the HR offices provided reports which did not have evidence that a supervisor and/or HR certifier reviewed the reports, and
- 10 instances where the HR offices did not review the reports in a timely manner.

Because of the aforementioned exceptions, we concluded this control was not operating effectively, and therefore, did not perform additional control testing.

As a result, we noted insufficient evidence existed to determine that the preparation and review of payroll-related items, including time and attendance and gross pay, were completed properly and timely and identified issues were resolved. The OCFO policy and procedures issued in July 2009, requiring the responsible HR official to review the Payroll/Time and Attendance Reconciliation Reports and investigate issues identified, were not adequately enforced by the HR officials' supervisors.

We also determined that the OCFO monitoring control for the Payroll/Time and Attendance Reconciliation Reports was not routinely performed, and therefore, could not be tested. The OCFO's failure to adequately monitor compliance with the July 2009 policy and procedures was partially attributed to the decentralized HR organization within DOL. As a result of the organizational structure, the OCFO had difficulty obtaining the needed documentation to monitor that the Payroll/Time and Attendance Reconciliation Reports were being properly completed, in a timely fashion, and adequately reviewed.

Furthermore, the Payroll/Time and Attendance Reconciliation Reports continued to lack sufficient details, such as employer withholdings, to arrive at an employee's net pay and total benefits expense. These reports were not properly designed to contain the information needed to ensure that errors in all relevant payroll-related items were identified and resolved timely because the OCFO did not sufficiently consider all items that should have been addressed in the reconciliation.

In addition, the monthly reconciliations of the payroll register provided by the NFC and the NFC-prepared SF-224, *Statement of Transactions*, to the general ledger were not prepared and/or performed during the time period of October 2010 through January 2011. Competing priorities reduced the staff time available to perform and maintain effective internal controls over payroll and benefit expense. In February 2011, management began completing the FY 2011 reconciliations, dating back to October 2010. Also, we requested that the OCFO provide us the April, May and June 2011 reconciliations of the payroll registers from the NFC to the payroll expense recorded in the general ledger by July 20, 2011; however, they were not provided until September 15, 2011, and we were not provided evidence that they were completed prior to that time.

The lack of compensating reconciliation controls around the NFC compensation outputs increases the risk that payroll-related line items may be misstated due to errors in payroll processing by the NFC. In addition, DOL's failure to reconcile the NFC payroll registers to the general ledger further increases the risk that a payroll-related misstatement would not be detected by management.

Federal agencies that use external service providers, such as the NFC, should have controls in place to ensure the accuracy of processing outputs. As stated by the USDA Office of Inspector General (OIG) in its FY 2011 Report No. 11401-2-11, "The relative effectiveness and significance of specific controls at NFC and their effect on the assessments of control risk at customer agencies are dependent on their interaction with the controls and other factors present at individual customer agencies."

Office of Management and Budget Circular No. 123, *Management's Responsibility for Internal Control*, states, "Application control should be designed to ensure that transactions are properly authorized and processed accurately and that the data is valid and complete. Controls should be established at an application's interfaces to verify inputs and outputs, such as edit checks."

Additionally, per the Standards, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

To address the issues identified above, the Chief Financial Officer should:

a) Design the Payroll/Time and Attendance Reconciliation Reports to reflect the necessary payroll-related information to conduct an adequate reconciliation;

b) Complete periodic monitoring procedures to ensure that the July 2009 policy and procedures are implemented and complied with throughout DOL; and
c) Revise procedures related to the monthly payroll reconciliations to require the preparer and the reviewer to document the preparation and review dates, respectively, and to sign the reconciliations once they have completed their work.

We also recommend that the Director of the Human Resource Center ensure that the OCFO's July 2009 policy and procedures are properly and consistently implemented, by enforcing the requirements that all payroll-related reconciliations are documented, reviewed, and approved by an appropriate supervisor, and maintained.

Management's Response: Management concurs with the recommendations noted above and has initiated appropriate corrective actions to address these recommendations. Effective reconciliation controls, including timely preparation of proper reconciliations and resolution of differences, will enhance quarterly consolidated financial statements and minimize differences between DOL's general ledger and the NFC-processed payroll data. OCFO will improve the design of the Payroll/Time and Attendance Reconciliation Reports and will work with the Director, Human Resource Center, to improve monitoring controls and compliance with procedures to help ensure timely and consistent implementation of reconciliations and reviews agency-wide.

Auditors' Response: We will conduct follow-up procedures in FY 2012 to determine whether corrective actions have been developed and implemented.

1. Federal Financial Management Improvement Act of 1996 (FFMIA)

Under section 803(a) of FFMIA, the U.S. Department of Labor's (DOL) financial management systems are required to substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. DOL represented that in accordance with the provisions and requirements of FFMIA, the Secretary of Labor determined that DOL's financial management systems were substantial compliance with FFMIA as of September 30, 2011.

As a result of our FY 2011 testing, we concluded that DOL did not substantially comply with the requirements of section 803(a) of FFMIA. Specifically, we noted the following:

- Federal financial management systems requirements - Numerous information technology (IT) general and application control weaknesses related to computer security were identified as part of our IT testing in FY 2011. These weaknesses impact the IT environments and systems in several large DOL agencies. In addition, DOL was unable to demonstrate that sufficient corrective actions had been taken to resolve its FY 2010 *Federal Information Security Management Act* significant deficiency. See Material Weakness No. 3 in Exhibit I for further information.

- USSGL at the transaction level - Several material transactions, such as certain borrowing activity ($3 billion), receipts temporarily precluded from obligation ($10 billion), grants payable ($792 million), actuarial liabilities ($12 billion), benefit overpayment receivables ($1.6 billion), and other accruals ($360 million) were not recorded in accordance with the USSGL. See Material Weakness Nos. 1 and 2 in Exhibit I for further information.

We recommend that DOL follow the recommendations provided in Material Weakness Nos. 1, 2, and 3 in Exhibit I, and improve its process to ensure compliance with FFMIA section 803(a) requirements in FY 2012.

The following table provides the FY 2011 status of all recommendations included in the Independent Auditors' Report on the U.S. Department of Labor's FY 2010 Revised Consolidated Financial Statements, Report No. 22-11-015-13-001 (May 23, 2011).

Fiscal Year (FY) 2010 Finding	FY Finding Originated	FY 2010 Recommendations	FY 2011 Status
Internal Control			
1. Lack of Sufficient Controls over Financial Reporting – Material Weakness	2009 (as a Significant Deficiency)	**Recommendation (a):** The Chief Financial Officer (CFO) should ensure that routine reconciliation controls are implemented and performed.	Open (See Exhibit I, comment no. 1)
		Recommendation (b): The CFO should ensure that all necessary financial reports are developed and available to the agencies.	Closed
		Recommendation (c): The CFO should ensure that any remaining interface errors are promptly resolved.	Closed
		Recommendation (d): The CFO should fully document and implement all business processes and controls required for the accurate and timely operation of the New Core Financial Management System (NCFMS).	Open (See Exhibit I, comment no. 1)
		Recommendation (e): The CFO should promptly resolve the classification issues related to intragovernmental balances.	Closed
		Recommendation (f): The CFO should develop and implement policies and procedures to monitor the work of Office of the CFO (OCFO) contractors, including the designation of appropriately skilled and knowledgeable individuals from the OCFO to monitor each accounting process that is primarily performed by an OCFO contractor, to ensure the work is being properly performed.	Partially Open and Revised to Control Deficiency
		Recommendation (g): The CFO should ensure that someone other than the preparer is properly reviewing the grant accrual calculation and the Unemployment Trust Fund (UTF) accounts receivable journal entry prior to recording them in the general ledger.	Closed
		Recommendation (h): The CFO should review significant transactions for U.S. Standard General Ledger compliance and make any necessary corrections.	Open (See Exhibit I, comment no. 1)
		Recommendation (i): The CFO should review its Federal Managers' Financial Integrity Act (FMFIA) assessment process and implement enhancements to better identify material weaknesses in internal control and more timely complete its draft FMFIA assurance statement.	Open and Revised to Control Deficiency
		Recommendation (j): The CFO should ensure that the draft U. S. Department of Labor (DOL) Manual Series (DLMS) policies and procedures requiring detailed review of all financial information in the draft financial statements are comprehensive and finalized and that OCFO personnel	Open (See Exhibit I, comment no. 1)

Fiscal Year (FY) 2010 Finding	FY Finding Originated	FY 2010 Recommendations	FY 2011 Status
		adhere to these policies. Financial statement review should include procedures for comparing financial data reported on the different statements to ensure accuracy and consistency; agreeing the financial data to the general ledger to ensure existence, completeness, and accuracy of financial data reported; and analyzing significant variances between current period and prior period financial information.	
2. Lack of Sufficient Controls over Budgetary Accounting – Material Weakness	2009 (as a Significant Deficiency)	**Recommendation (a):** The CFO should ensure that policies and procedures over the *Apportionment and Reapportionment Schedules* (SF-132) and *Report on Budget Execution and Budgetary Resources* (SF-133) reconciliations are enhanced to address the minimum documentation requirements needed to substantiate that identified differences were properly researched and resolved.	Open (See Exhibit I, comment no. 2)
		Recommendation (b): The CFO should ensure that individuals performing supervisory reviews are required to check the reconciliations for appropriate supporting documentation.	Open (See Exhibit I, comment no. 2)
		Recommendation (c): The CFO should ensure that adequate resources are in place to complete all necessary reconciliations timely and to maintain adequate internal controls over financial reporting, both while NCFMS implementation issues are being resolved and for all periods thereafter.	Open (See Exhibit I, comment no. 2)
		Recommendation (d): The CFO should ensure that procedures are implemented to periodically obtain and review the results of the agencies' review of their unliquidated obligations and ensure expired and invalid undelivered orders are deobligated timely in the general ledger either by the agency or OCFO.	Closed
		Recommendation (e): The CFO should ensure that appropriate corrective actions are performed to ensure that the identifying information and balances for obligations are correct, and that the posting logic in NCFMS is properly configured.	Closed
		Recommendation (f): The CFO should ensure that preparers of budgetary entries are properly trained and possess the technical accounting proficiencies needed to properly record the entries.	Closed
		Recommendation (g): The CFO should ensure that one agency is responsible for recording both the budgetary and proprietary journal entries for economic events, or if separate agencies continue to record the entries, that those agencies are appropriately coordinating.	Open (See Exhibit I, comment no. 2)
		Recommendation (h): The CFO should ensure that	Closed

Fiscal Year (FY) 2010 Finding	FY Finding Originated	FY 2010 Recommendations	FY 2011 Status
		procedures are developed and implemented for multi-year and no-year funds to ensure that post-closing entries for unobligated balances are properly recorded at year end, and reapportionments are promptly recorded to the general ledger in the subsequent year.	
3. Improvements Needed in the Preparation and Review of Journal Entries – Material Weakness	2006 (as a Reportable Condition[2])	**Recommendation (a):** The CFO should evaluate the system errors that are preventing certain journal entries from being routed to the approver, and develop and implement appropriate corrective action.	Closed
		Recommendation (b): The CFO should enhance policies and procedures and provide related training to address the minimum documentation requirements needed to sufficiently support journal entries.	Partially Open (See Exhibit II, comment no. 4)
		Recommendation (c): The CFO should develop monitoring controls to ensure that supervisors or individuals other than the preparer are performing adequate reviews of journal entries and related documentation before the entries are posted to ensure they are properly supported.	Open (See Exhibit II, comment no. 4)
4. Lack of Adequate Controls over Access to Key Financial and Support Systems – Material Weakness	2001 (as a Reportable Condition[2])	**Recommendation (a):** The Chief Information Officer (CIO) should coordinate efforts among the DOL agencies to develop procedures and controls to address access control weaknesses in current financial management systems.	Open (See Exhibit I, comment no. 3)
		Recommendation (b): The CIO should monitor the agencies' progress to ensure that procedures and controls are appropriately implemented and maintained.	Open (See Exhibit I, comment no. 3)
		Recommendation (c): The CIO should ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address access control weaknesses.	Open (See Exhibit I, comment no. 3)
5. Weakness Noted over Payroll Accounting – Significant Deficiency	2006 (as a Reportable Condition[2])	**Recommendation (a):** The CFO should ensure that the Payroll/Time and Attendance Reconciliation Reports are properly designed to reflect the necessary payroll-related information to conduct an adequate reconciliation.	Open (See Exhibit II, comment no. 5)
		Recommendation (b): The CFO should ensure that proper monitoring is routinely completed by the OCFO to ensure that the July 2009 policy and procedures are implemented and complied with throughout DOL.	Open (See Exhibit II, comment no. 5)
		Recommendation (c): The Director of the Human	Open (See

[2] The term "reportable condition" was used through FY 2006 in accordance with Statement on Auditing Standards (SAS) No. 60. However, the term "reportable condition" was discontinued in FY 2007 as a result of the implementation of SAS No. 112 and replaced with the term "significant deficiency," which had a revised definition.

Fiscal Year (FY) 2010 Finding	FY Finding Originated	FY 2010 Recommendations	FY 2011 Status
		Resource Center should ensure that the OCFO July 2009 policy and procedures are properly and consistently implemented, by enforcing the requirements that all payroll-related reconciliations are documented, reviewed, and approved by an appropriate supervisor, and maintained.	Exhibit II, comment no. 5)
6. Untimely and Inaccurate Processing of Property, Plant, and Equipment (PP&E) Transactions – Significant Deficiency	2010 (as a Significant Deficiency)	**Recommendation (a):** The CFO should dedicate the appropriate resources to implement the documented process for identifying and recording PP&E additions and deletions in NCFMS to ensure that these transactions are accurately and timely recorded.	Partially Open and Revised to Control Deficiency
		Recommendation (b): The CFO should configure NCFMS to accurately calculate both accumulated depreciation balances and current year depreciation expense amounts.	Open and Revised to Control Deficiency
Compliance			
1. Federal Managers' Financial Integrity Act of 1982 (FMFIA)	2010 (as Non-compliance	We recommend that DOL follow the recommendation provided in Material Weakness No. 1 and improve its process to ensure compliance with the requirements of FMFIA in FY 2011	Open and Revised to Control Deficiency
2. Federal Financial Management Improvement Act of 1996	2010 (as Non-compliance	We recommend that DOL follow the recommendations provided in Material Weakness Nos. 1, 2, 3 and 4 and improve its processes to ensure compliance with FFMIA section 803(a) requirements in FY 2011.	Open (See Exhibit III)

Annual Financial Statements

Principal Financial Statements and Notes

Principal Financial Statements Included in This Report

The principal financial statements included in this report have been prepared in accordance with the requirements of the Chief Financial Officers Act of 1990 (P.L. 101-576), the Government Management Reform Act of 1994 and Office of Management and Budget's (OMB) Circular No. A-136, Financial Reporting Requirements. The responsibility for the integrity of the financial information included in these statements rests with management of the U.S. Department of Labor (DOL). The audit of DOL's principal financial statements was performed by KPMG LLP. The auditors' report accompanies the principal statements.

The Department's principal financial statements for fiscal years (FYs) 2011 and 2010 consist of the following:

- The **Consolidated Balance Sheet**, which presents as of September 30, 2011 and 2010 those resources owned or managed by DOL that are available to provide future economic benefits (assets); amounts owed by DOL that will require payments from those resources or future resources (liabilities); and residual amounts retained by DOL, comprising the difference (net position).

- The **Consolidated Statement of Net Cost**, which presents the net cost of DOL operations for the years ended September 30, 2011 and 2010. DOL's net cost of operations includes the gross costs incurred by DOL less any exchange revenue earned from DOL activities. Due to the complexity of DOL's operations, the classification of gross cost and exchange revenues by major program and suborganization is presented in Note 15 to the consolidated financial statements.

- The **Consolidated Statement of Changes in Net Position**, which presents the change in DOL's net position resulting from the net cost of DOL operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2011 and 2010.

- The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to DOL during FY 2011 and 2010, the status of these resources at September 30, 2011 and 2010, the change in obligated balance during FY 2011 and 2010, and net outlays of budgetary resources for the years ended September 30, 2011 and 2010.

- The **Statement of Social Insurance,** which presents the net present value of projected cash inflows and cash outflows of the Black Lung Disability Trust Fund as of September 30, 2011, 2010, 2009, 2008, and 2007; the net present value of these cash flows is also known as the open and closed group measure. The summary section presents the total of open and closed group measure plus fund assets (Funds with U.S. Treasury and receivables).

- The **Statement of Changes in Social Insurance Amounts**, which presents the net change in the open and closed group measure of the Black Lung Disability Trust Fund for the year ended September 30, 2011 and provides information about the change.

CONSOLIDATED BALANCE SHEET
As of September 30, 2011 and 2010
(Dollars in Thousands)

	2011	2010
ASSETS		
Intra-governmental		
Funds with U.S. Treasury (Notes 1-C and 2)	$ 10,954,458	$ 12,618,146
Investments (Notes 1-D and 3)	16,213,789	19,281,093
Accounts receivable (Notes 1-E and 4)	5,944,955	5,882,371
Total intra-governmental	33,113,202	37,781,610
Accounts receivable, net of allowance (Notes 1-E and 4)	2,170,862	2,011,881
Property, plant and equipment, net of accumulated depreciation (Notes 1-F and 5)	1,219,912	1,174,713
Other		
Advances (Notes 1-G and 6)	1,590,397	1,872,192
Total assets	$ 38,094,373	$ 42,840,396
LIABILITIES AND NET POSITION		
Liabilities (Note 1-I)		
Intra-governmental		
Accounts payable	$ 43,327	$ 11,965
Debt (Notes 1-J and 8)	48,935,904	40,400,725
Other liabilities (Note 9)	202,438	222,511
Total intra-governmental	49,181,669	40,635,201
Accounts payable	1,149,278	1,466,974
Accrued benefits (Notes 1-K and 10)	3,320,444	5,284,543
Future workers' compensation benefits (Notes 1-L and 11)	1,732,024	2,075,547
Other		
Energy employees occupational illness compensation benefits (Note 1-M)	15,145,777	12,114,480
Accrued leave (Note 1-N)	116,659	116,505
Other liabilities (Note 9)	176,333	155,209
Total liabilities	70,822,184	61,848,459
Contingencies (Note 13)		
Net position (Note 1-R)		
Unexpended appropriations - other funds	9,210,647	10,539,272
Cumulative results of operations		
Earmarked funds (Note 21)	(33,466,525)	(23,762,133)
Other funds	(8,471,933)	(5,785,202)
Total net position	(32,727,811)	(19,008,063)
Total liabilities and net position	$ 38,094,373	$ 42,840,396

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2011 and 2010
(Dollars in Thousands)

	2011	2010
NET COST OF OPERATIONS (Notes 1-S and 15)		
CROSSCUTTING PROGRAMS		
Income maintenance		
Gross cost	$ 129,233,668	$ 173,153,232
Less earned revenue	(4,335,839)	(4,302,214)
Net program cost	124,897,829	168,851,018
Employment and training		
Gross cost	7,658,729	8,420,173
Less earned revenue	(13,914)	(11,262)
Net program cost	7,644,815	8,408,911
Labor, employment and pension standards		
Gross cost	836,184	779,994
Less earned revenue	(9,944)	(8,872)
Net program cost	826,240	771,122
Worker safety and health		
Gross cost	996,362	1,020,139
Less earned revenue	(4,028)	(6,025)
Net program cost	992,334	1,014,114
OTHER PROGRAMS		
Statistics		
Gross cost	683,562	694,918
Less earned revenue	(11,320)	(13,634)
Net program cost	672,242	681,284
COSTS NOT ASSIGNED TO PROGRAMS		
Gross cost	60,472	96,580
Less earned revenue not attributed to programs	(22,774)	(9,453)
Net cost not assigned to programs	37,698	87,127
Net cost of operations	$ 135,071,158	$ 179,813,576

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2011 and 2010
(Dollars in Thousands)

	2011			2010		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Cumulative results of operations, beginning	$ (23,762,133)	$ (5,785,202)	$ (29,547,335)	$ 4,562,666	$ (859,326)	$ 3,703,340
Budgetary financing sources (Note 1-T)						
Appropriations used	-	63,729,728	63,729,728	-	99,719,400	99,719,400
Non-exchange revenue (Note 16)						
Employer taxes	52,679,104	-	52,679,104	41,060,101	-	41,060,101
Interest	1,886,494	1,402	1,887,896	778,939	10	778,949
Assessments	-	-	-	-	8	8
Reimbursement of unemployment benefits	4,035,503	(21,582)	4,013,921	4,721,275	3,997	4,725,272
Total non-exchange revenue	58,601,101	(20,180)	58,580,921	46,560,315	4,015	46,564,330
Transfers without reimbursement (Note 17)	45,540,978	(45,333,891)	207,087	70,525,944	(70,322,150)	203,794
Other financing sources (Note 1-U)						
Imputed financing from costs absorbed by others	4,787	153,249	158,036	214	172,840	173,054
Transfers without reimbursement (Note 17)	-	2,075	2,075	-	3,507	3,507
Other	2,950	(762)	2,188	(52,950)	(48,234)	(101,184)
Total financing sources	104,149,816	18,530,219	122,680,035	117,033,523	29,529,378	146,562,901
Net cost of operations	(113,854,208)	(21,216,950)	(135,071,158)	(145,358,322)	(34,455,254)	(179,813,576)
Net change	(9,704,392)	(2,686,731)	(12,391,123)	(28,324,799)	(4,925,876)	(33,250,675)
Cumulative results of operations, ending	(33,466,525)	(8,471,933)	(41,938,458)	(23,762,133)	(5,785,202)	(29,547,335)
Unexpended appropriations, beginning	-	10,539,272	10,539,272	-	10,825,237	10,825,237
Budgetary financing sources (Note 1-T)						
Appropriations received (Note 18-F)	-	67,405,860	67,405,860	-	101,266,852	101,266,852
Appropriations transferred	-	20,157	20,157	-	(214,474)	(214,474)
Appropriations not available	-	(5,024,914)	(5,024,914)	-	(1,618,943)	(1,618,943)
Appropriations used	-	(63,729,728)	(63,729,728)	-	(99,719,400)	(99,719,400)
Subtotal	-	(1,328,625)	(1,328,625)	-	(285,965)	(285,965)
Unexpended appropriations, ending	-	9,210,647	9,210,647	-	10,539,272	10,539,272
Net position	$ (33,466,525)	$ 738,714	$ (32,727,811)	$ (23,762,133)	$ 4,754,070	$ (19,008,063)

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2011 and 2010
(Dollars in Thousands)

	2011	2010
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	$ 4,191,543	$ 4,124,635
Recoveries of prior year unpaid obligations	436,261	162,552
Budget authority		
Appropriations received (Note 18-F)	179,309,030	227,533,225
Borrowing authority	26,747,749	29,110,000
Spending authority from offsetting collections		
Earned		
Collected	3,123,935	2,973,698
Change in receivables from Federal sources	(82,064)	(20,973)
Change in unfilled customer orders		
Advance received	(22,402)	33,299
Without advance from Federal sources	822	(822)
Expenditure transfers from trust funds	5,108,201	5,070,175
Total budget authority	214,185,271	264,698,602
Nonexpenditure transfers, net	26,157	(6,382)
Temporarily not available pursuant to Public Law	(16,004)	(38,626)
Permanently not available		
Redemption of debt	(13,699,216)	(3,242,445)
All other	(9,812,648)	(1,730,312)
Total budgetary resources	$ 195,311,364	$ 263,968,024
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 18-A)		
Direct	$ 188,956,056	$ 256,587,422
Reimbursable	2,979,047	3,189,059
Total obligations incurred	191,935,103	259,776,481
Unobligated balances available		
Apportioned	1,189,123	3,067,897
Exempt from apportionment	62,478	386,996
Total unobligated balances available	1,251,601	3,454,893
Unobligated balances not available	2,124,660	736,650
Total status of budgetary resources	$ 195,311,364	$ 263,968,024
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 18,448,078	$ 18,216,935
Less uncollected customer payments from Federal sources, brought forward, October 1	(1,911,539)	(2,331,775)
Total unpaid obligated balance, net	16,536,539	15,885,160
Obligations incurred, net	191,935,103	259,776,481
Less gross outlays	(194,159,697)	(259,382,936)
Other	-	150
Less recoveries of prior year unpaid obligations, actual	(436,261)	(162,552)
Change in uncollected customer payments from Federal sources	(56,958)	420,236
Obligated balance, net, end of period		
Unpaid obligations	15,787,223	18,448,078
Less uncollected customer payments from Federal sources	(1,968,497)	(1,911,539)
Total unpaid obligated balance, net, end of period	$ 13,818,726	$ 16,536,539
NET OUTLAYS		
Gross outlays	$ 194,159,697	$ 259,382,936
Less offsetting collections	(8,071,535)	(8,475,613)
Less distributed offsetting receipts	(53,119,556)	(76,620,902)
Net outlays	$ 132,968,606	$ 174,286,421

The accompanying notes are an integral part of these statements.

STATEMENT OF SOCIAL INSURANCE

As of September 30, 2011, 2010, 2009, 2008, and 2007
(Dollars in Thousands)

	For the Projection Period Ending September 30, 2040 (Note 1-W)				
	2011	2010	2009	2008	2007
BLACK LUNG DISABILITY BENEFIT PROGRAM (Note 1-W)					
Actuarial present value of future benefit payments during the projection period to disabled coal miners and dependent survivors	$ 1,951,755	$ 2,125,231	$ 2,170,943	$ 2,139,810	$ 2,450,064
Present value of estimated future administrative costs during the projection period	935,444	881,311	984,996	827,437	831,439
Actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants	2,887,199	3,006,542	3,155,939	2,967,247	3,281,503
Less the present value of estimated future excise tax income during the projection period	7,607,428	8,457,022	8,876,813	8,009,265	7,897,423
Excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants (open and closed group measure)	$ 4,720,229	$ 5,450,480	$ 5,720,874	$ 5,042,018	$ 4,615,920
Trust fund net position deficit at start of projection period (Note 21)	$ (6,099,261)	$ (6,238,612)	$ (6,320,321)	$ (10,439,186)	$ (10,027,701)
Summary Section					
Open and closed group measure	$ 4,720,229	$ 5,450,480	$ 5,720,874	$ 5,042,018	$ 4,615,920
Add: Funds with U.S. Treasury and receivables from benefit overpayments (Note 21)	63,814	68,028	67,598	63,840	50,415
Total of open and closed group measure plus fund assets (Note 1-W)	$ 4,784,043	$ 5,518,508	$ 5,788,472	$ 5,105,858	$ 4,666,335

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN SOCIAL INSURANCE AMOUNTS

For the Year Ended September 30, 2011
(Dollars in Thousands)

BLACK LUNG DISABILITY BENEFIT PROGRAM (Note 1-W)
Open and Closed Group Measure

		2011
Excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants (open and closed group measure), September 30, 2010, beginning of year	$	5,450,480
Reasons for changes in the excess of present value during the year:		
Changes in the assumptions about beneficiaries, including costs, number, type, age and life expectancy		202,800
Changes in assumptions about coal excise tax revenues		(1,144,303)
Changes in assumptions about Federal civilian pay raises for income benefits		33,839
Changes in assumptions about medical cost inflation for medical benefits		(1,152)
Changes in assumptions about administrative costs		(19,155)
Change in assumption about interest rate		197,720
Net change in open and closed group measure		(730,251)
Open and closed group measure, September 30, 2011, end of year	$	4,720,229

The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The U.S. Department of Labor (DOL or the Department), a cabinet level agency of the Executive Branch of the United States Government, was established in 1913, to promote the welfare of the wage earners of the United States. Today the Department's mission remains the same: to foster, promote and develop the welfare of the job seekers, wage earners and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights.

DOL accomplishes this mission through the execution of its congressionally approved budget, operating in five major Federal program areas, under five major budget functions: (i) education, training, employment, and social services; (ii) health (occupational health and safety); (iii) income security; and (iv) national defense. DOL is organized into major program agencies, which administer the various statutes and programs for which the Department is responsible. DOL's major program agencies and the major programs in which they operate, are shown below.

1.Major program agencies

- Employment and Training Administration (ETA)
  - *Office of Job Corps*
- Employment Standards Administration (ESA)
- Occupational Safety and Health Administration (OSHA)
- Bureau of Labor Statistics (BLS)
- Mine Safety and Health Administration (MSHA)
- Employee Benefits Security Administration (EBSA)
- Veterans' Employment and Training Service (VETS)
- Departmental Management
  - *Office of the Secretary*
  - *Office of the Assistant Secretary for Administration and Management*
  - *Office of the Assistant Secretary for Policy*
  - *Women's Bureau*
  - *Bureau of International Labor Affairs*
  - *Office of the Deputy Secretary*
  - *Office of Inspector General*
  - *Office of the Solicitor*
  - *Office of Public Affairs*
  - *Office of the Chief Financial Officer*
  - *Office of Disability Employment Policy*

In FY 2010, DOL dissolved ESA and established its four component offices/divisions: the *Office of Federal Contract Compliance Programs*, the *Office of Labor-Management Standards*, the *Office of Workers' Compensation Programs*, and the *Wage and Hour Division,* as stand-alone agencies reporting directly to the Office of the Secretary. This reorganization was reflected in DOL's FY 2011 budget, in which funding previously requested for ESA was requested separately for these four component agencies, but was not acted upon by Congress. Funding for these four component agencies was requested again in the FY 2012 budget. In FY 2010 and 2011, funding for these component agencies occurred under the ESA appropriation; consequently, references to ESA are retained throughout this report.

The Consolidated Appropriations Act of 2010 transferred funding for the Office of Job Corps and the Job Corps program from Departmental Management to a separate appropriation account under ETA, to better coordinate management of the Job Corps program with other employment and training programs managed by ETA. However, the Office of Job Corps continues to be reported as a separate major program agency in Note 15.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

1.Major program agencies (continued)

The Pension Benefit Guaranty Corporation (PBGC), wholly owned by the Federal government under the chairmanship of the Secretary of Labor, has been designated by OMB as a separate reporting entity for financial statement purposes and has been excluded from these financial statements.

2.Major programs

- Income maintenance
- Employment and training
- Labor, employment, and pension standards
- Worker safety and health
- Statistics

Note 15 presents earned revenues and expenses by major program agency and by major program.

The table below shows the relationship between the Department's strategic goals and its major programs.

Major Programs / Strategic Goals	Income Maintenance	Employment and Training	Labor, Employment, and Pension Standards	Worker Safety and Health	Statistics
1: Prepare workers for good jobs and ensure fair compensation.		●	●		
2: Ensure workplaces are safe and healthy.				●	
3: Assure fair and high quality work-life environments.			●		
4: Secure health benefits and, for those not working, provide income security.	●		●		
5: Produce timely and accurate data on the economic conditions of workers and their families.					●

3.Fund accounting structure

DOL's financial activities are accounted for by Federal account symbol, using individual funds and fund accounts within distinct fund types to report to the U.S. Department of the Treasury's (Treasury) Financial Management Service and to OMB. For financial statement purposes, DOL funds are further classified as earmarked funds, fiduciary funds and all other funds. DOL's earmarked funds, fiduciary funds and all other funds are discussed below:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3.Fund accounting structure - continued

Earmarked funds

Earmarked funds are financed by specifically identified revenues, which can be supplemented by other financing sources, both of which remain available over time. These revenues and financing sources are required by statute to be used for designated purposes and must be accounted for separately from the Government's general revenues. DOL's earmarked funds are shown below:

The Unemployment Trust Fund was established under the authority of Section 904 of the Social Security Act of 1935, as amended, to receive, hold, invest, and disburse monies collected under the Federal Unemployment Tax Act, as well as state unemployment taxes collected by the states and transferred to the Fund, and unemployment taxes collected by the Railroad Retirement Board and transferred to the Fund.

The Black Lung Disability Trust Fund was established under Part C of the Black Lung Benefits Act, to provide compensation and medical benefits to coal miners who suffer disability due to pneumoconiosis (Black Lung disease), and compensation benefits to their dependent survivors for claims filed subsequent to June 30, 1973. Claims filed from the origination of the program until June 30, 1973 are paid by the Special Benefits for Disabled Coal Miners fund. (See Note 1.A.3 – All other funds.)

The Gifts and Bequests Fund uses miscellaneous funds received by gift or bequest to support various activities of the Secretary of Labor.

The Panama Canal Commission Compensation Fund was established to provide for the accumulation of funds provided by the Commission to pay the workers compensation obligations of the Panama Canal Commission under the Federal Employees' Compensation Act.

H-1B Funds provide demonstration grants to regional and local entities to provide technical skills training to unemployed and incumbent workers. The funds are supported by fees paid by employers applying for foreign workers under the H-1B temporary alien labor certification program authorized by the American Competitiveness and Workforce Improvement Act of 1998.

Fiduciary funds

Fiduciary funds are used to account for DOL's fiduciary activities, which involve the collection or receipt and subsequent disposition of cash or other assets in which non-Federal entities have an ownership interest that the Department must uphold. Fiduciary assets are not assets of DOL or the Federal Government, and accordingly, are not recognized on the Department's balance sheet. The fiduciary assets held by DOL and the fiduciary activities related to these assets are disclosed in Note 22 to these financial statements. DOL's fiduciary funds are discussed below.

The Wage and Hour and Public Contracts Restitution Fund, a deposit fund established by the Fair Labor Standards Amendments of 1949, receives deposits from employers assessed by the Department for unpaid

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3.Fund accounting structure - continued

Fiduciary funds - continued

minimum wages or unpaid overtime compensation owed to employees as a result of labor law violations, and pays these wages directly to the affected employees.

The Longshore and Harbor Workers' Compensation Act Trust Fund, established under the authority of the Longshore and Harbor Workers' Compensation Act, provides medical benefits, compensation for lost wages, and rehabilitation services for job-related injuries and diseases or death to private sector workers in certain maritime and related employment. The Act authorizes the Department to assess insurance carriers on behalf of these beneficiaries.

The District of Columbia Workmen's Compensation Act Trust Fund, established under the authority of the District of Columbia Workmen's Compensation Act, provides compensation and medical payments to the District of Columbia employees for work-related injuries or death which occurred prior to July 26, 1982. The Act authorizes the Department to assess insurance carriers on behalf of these beneficiaries.

All other funds

Salaries and Expenses include appropriated funds which are used to carry out the missions and functions of the Department, except where specifically provided for from other Departmental funds.

Training and Employment Services provides for a flexible, decentralized system of Federal and local programs of training and other services for the economically disadvantaged designed to lead to permanent gains in employment, through grants to states and Federal programs, authorized by the Workforce Investment Act and the Job Training Partnership Act.

The Office of Job Corps supports the administration and management of the Job Corps program, which helps at-risk youth who need and can benefit from intensive education and training services to become more employable, responsible, and productive citizens. The Consolidated Appropriations Act of 2008 appropriated Job Corps funding directly to the Office of Job Corps in a separate appropriation account under a new Federal account symbol as a sub-organization of Departmental Management, Office of the Secretary. In FY 2009, under mandate by OMB, all outstanding Job Corps balances under prior year appropriations were transferred from ETA to the new appropriation account for the Office of Job Corps under Departmental Management. The Consolidated Appropriations Act of 2010 transferred funding for the Job Corps program from Departmental Management back to ETA. Funding for the Job Corps program in FY 2011 and FY 2010 is recorded in a separate appropriation account for the Office of Job Corps under ETA.

Welfare to Work Jobs provides funding for the activities of the Welfare-to-Work Grants program established by the Balanced Budget Act of 1997. The program provides formula grants to States and Federally administered competitive grants to other eligible entities to assist welfare recipients in securing lasting unsubsidized employment.

State Unemployment Insurance and Employment Service Operations includes grants to states for administering the Unemployment Compensation and Employment Service programs. Unemployment

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3.Fund accounting structure - continued

All other funds - continued

Compensation Program provides administrative grants to state agencies which pay unemployment benefits to eligible individuals and collect state unemployment taxes from employers. The Employment Service Program is a nationwide system providing no-fee employment services to individuals seeking employment and to employers seeking workers. Employment Service activities are financed by allotments to states distributed under a demographically based funding formula established under the Wagner-Peyser Act, as amended.

Payments to the Unemployment Trust Fund was initiated as a result of amendments to the Emergency Unemployment Compensation (EUC) law, which provided general fund financing to the Unemployment Trust Fund to pay emergency unemployment benefits and the related administrative costs. This account is also used to make general fund reimbursements for benefits and administrative costs incurred under the new Emergency Unemployment Compensation program, first enacted in Public Law 110-252, and subsequently expanded and extended. Funds are transferred from the account to a receipt account in the Unemployment Trust Fund, for transfer to the Trust Fund's Employment Security Administration Account for administrative costs or the Extended Unemployment Compensation Account for benefit costs.

Advances to the Unemployment Trust Fund and Other Funds provides advances to other accounts within the Unemployment Trust Fund to pay unemployment compensation whenever the balances in these accounts prove insufficient or whenever reimbursements to certain accounts, as allowed by law, are to be made. This account also makes advances to the Federal Unemployment and Benefits Allowances account to pay the cost of benefits and services under the Trade Adjustment Assistance for Workers program; and provides loans to the Black Lung Disability Trust Fund to make disability payments whenever the fund balance proves insufficient.

Federal Unemployment Benefits and Allowances provides for payment of benefits, training, job search, and relocation allowances as authorized by the Trade Act of 1974.

Community Service Employment for Older Americans provides part-time work experience in community service activities to unemployed, low income persons aged 55 and over.

The Federal Employees' Compensation Act (FECA) Special Benefit Fund provides wage replacement benefits and payment for medical services to covered Federal civilian employees injured on the job, Federal employees and certain other workers who have incurred a work-related illness or injury, and survivors of employees whose death is attributable to a job-related injury. The Fund also provides for vocational rehabilitation of injured employees to facilitate their return to work. Under extensions of FECA, benefits are also paid to certain groups such as people related to War Hazards, non-Federal law enforcement officers, Job Corps enrollees, and certain Federally-supported volunteers. Section 10(h) of the amended Longshore and Harbor Workers' Compensation Act authorized payments from the Special Benefit fund for 50% of the annual increase in benefits for compensation and related benefits for certain pre-1972 Longshore cases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3.Fund accounting structure - continued

All other funds - continued

The Energy Employees Occupational Illness Compensation Fund was established to adjudicate, administer, and pay claims for benefits under the Energy Employees Occupational Illness Compensation Program Act of 2000. The Act authorizes lump sum payments and the reimbursement of medical expenses to employees of the Department of Energy (DOE) or of private companies under contract with DOE, who suffer from specified diseases as a result of their work in the nuclear weapons industry. The Act also authorizes compensation to the survivors of these employees under certain circumstances. The Act was amended by the Ronald Reagan National Defense Authorization Act of 2005 to provide coverage to additional claimants.

Special Benefits for Disabled Coal Miners was established under the Federal Mine Safety and Health Act to pay benefits to coal miners disabled from pneumoconiosis and to their widows and certain other dependents. Part B of the Act assigned processing of claims filed from the origination of the program until June 30, 1973 to the Social Security Administration. Part B claims processing and payment operations were transferred to DOL effective October 1, 2003.

Federal Additional Unemployment Compensation was established under the American Recovery and Reinvestment Act of 2009 (Recovery Act) to provide a $25 weekly supplement to the unemployment compensation of eligible claimants.

DOL played a key role in the implementation of the Recovery Act, enacted in February 2009. Departmental efforts included the provision of worker job training; the payment of extended and expanded unemployment benefits to help ease the burden of the recession on workers and employers; and the education and assistance of workers and employers regarding expanded access to continued health benefits. These efforts were funded under additional Federal account symbols established within existing DOL programs, including Training and Employment Services, Office of Job Corps, State Unemployment Insurance and Employment Service Operations, and Payments to the Unemployment Trust Fund.

The Working Capital Fund maintains and operates a program of centralized services in the national office and the field. The Fund is paid in advance by the agencies, bureaus, and offices for which centralized services are provided at rates which return the full cost of operations.

Miscellaneous receipt accounts hold non-entity receipts and accounts receivable from DOL activities which by law cannot be deposited into funds under DOL control. The Treasury automatically transfers all cash balances in these receipt accounts to the general fund of the Treasury at the end of each fiscal year.

Clearing accounts hold monies that belong to DOL, but for which a specific receipt account has not been determined.

Deposit funds account for monies held temporarily by DOL until ownership is determined or monies held by DOL as an agent for others.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

4.Inter-departmental relationships

DOL and Treasury are jointly responsible for the operations of the Unemployment Trust Fund and the Black Lung Disability Trust Fund. DOL is responsible for the administrative oversight and policy direction of the programs financed by these trust funds. Treasury acts as custodian over monies deposited into the funds and also invests amounts in excess of disbursing requirements in Treasury securities on behalf of DOL. DOL consolidates the financial results of the Unemployment Trust Fund and the Black Lung Disability Trust Fund into these financial statements.

B. Basis of Accounting and Presentation

These consolidated financial statements present the financial position, net cost of operations, changes in net position and budgetary resources of the U.S. Department of Labor, and estimated and actuarial projections, and changes therein, for the Department's Black Lung social insurance program, in accordance with U.S. generally accepted accounting principles and the form and content requirements of OMB Circular No. A 136, Financial Reporting Requirements. Except as described in the following paragraphs, they have been prepared from the books and records of DOL, and include the accounts of all funds under the control of the DOL reporting entity. All inter-fund balances and transactions have been eliminated, except in the Statement of Budgetary Resources, which is presented on a combined basis, as required by OMB Circular No. A-136.

DOL is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account to track and report allocation transfers. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity on behalf of the parent entity are charged to this allocation account. OMB Circular No. A-136 requires the parent to report all budgetary and proprietary activity in its financial statements. DOL (parent entity) allocates appropriations to the U.S. Department of Agriculture and the U.S. Department of Interior (child entities) to provide funds for youth training programs. Accordingly, all activity for these allocation accounts is included in the DOL financial statements. DOL (child entity) receives allocated appropriations from the U.S. Environmental Protection Agency, the U.S. Department of State and the U.S. Agency for International Development (parent entities). Accordingly, all activity for these allocation accounts is excluded from the DOL financial statements and reported by the parent agencies.

The Department implemented SFFAS 37, "Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements," in FY 2011. SFFAS 37 amended, among other things, certain requirements of SFFAS 17, "Accounting for Social Insurance." In accordance with SFFAS 37, the Statement of Social Insurance has been amended to include a new summary section which presents the total of open and closed group measure plus fund assets for the projection period ending September 30, 2040 as of September 30, 2007, 2008, 2009, 2010, and 2011. Furthermore, SFFAS 37 required a new Statement of Changes in Social Insurance Amounts for the open group measure and new notes describing the reasons for the changes in the open group measure from September 30, 2010 to September 30, 2011 (see Note 1-W). Finally, SFFAS 37 required new disclosures in Management's Discussion and Analysis and Required Supplementary Information.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Basis of Accounting and Presentation - Continued

U.S. generally accepted accounting principles encompass both accrual and budgetary transactions. Under accrual accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred. Budgetary accounting facilitates compliance with legal constraints on, and controls over, the use of federal funds. These consolidated financial statements are different from the financial reports, also prepared by DOL pursuant to OMB directives, used to monitor DOL's use of budgetary resources.

Throughout these financial statements, assets, liabilities, earned revenue, and costs have been classified according to the type of entity with whom the transactions were made. Intra-governmental assets and liabilities are those from or to other federal entities. Intra-governmental earned revenue represents collections or accruals of revenue from other federal entities, and intra-governmental costs are payments or accruals to other federal entities.

C. Funds with U.S. Treasury

DOL's cash receipts and disbursements are processed by the U.S. Treasury. Funds with U.S. Treasury represent obligated and unobligated balances available to finance allowable expenditures and restricted balances, including amounts related to expired authority and amounts not available for use by DOL. (See Note 2)

D. Investments

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with DOL's earmarked funds. The cash receipts collected from the public for earmarked funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Interest earning Treasury securities are issued to DOL's earmarked funds as evidence of the receipts. These Treasury securities are assets to DOL and liabilities to the U.S. Treasury. Because DOL and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. Treasury securities provide DOL with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When DOL requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures, just as the Government finances all other expenditures.

Balances held in the Unemployment Trust Fund are invested in non-marketable, special issue Treasury securities (certificates of indebtedness and bonds) available for purchase exclusively by Federal government agencies and trust funds. Special issues are purchased and redeemed at face value (cost), which is equivalent to their net carrying value on the Consolidated Balance Sheet. Interest rates and maturity dates vary. The UTF special issue Treasury bonds may be redeemed, in whole or in part, prior to their maturity date and continue to accrue interest until fully redeemed.

Balances held in the Panama Canal Commission Compensation Fund are invested in marketable Treasury securities. These investments are stated at amortized costs that equal their net carrying value on the Consolidated Balance Sheet. Discounts and premiums are amortized using the effective interest method. Interest rates and maturity dates vary. Management expects to hold these marketable securities until maturity; therefore, no provision is made in the financial statements for unrealized gains or losses.

Balances held in the Energy Employees Occupational Illness Compensation Fund are invested in non-marketable Treasury one-day certificates. (See Note 3)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Accounts Receivable, Net of Allowance

Accounts receivable consists of intra-governmental amounts due to DOL, as well as amounts due from the public.

1.Intra-governmental accounts receivable

The Federal Employees Compensation (FEC) account within the Unemployment Trust Fund provides unemployment insurance to eligible Federal workers (UCFE) and ex-service members (UCX). DOL recognizes as accounts receivable amounts due from other Federal agencies for unreimbursed UCFE and UCX benefits. DOL's Federal Employees' Compensation Act (FECA) Special Benefit Fund provides workers' compensation benefits to eligible Federal workers on behalf of other Federal agencies. DOL recognizes as accounts receivable amounts due from other Federal agencies to the Special Benefit Fund for unreimbursed FECA benefits.

DOL also has receivables from other Federal agencies for work performed on their behalf under various reimbursable agreements.

2.Accounts receivable due from the public

DOL recognizes as accounts receivable state unemployment taxes due from covered employers and reimbursements of benefits paid on behalf of reimbursable employers. Also recognized as accounts receivable are benefit overpayments made by DOL to individuals not entitled to receive the benefit.

DOL recognizes as accounts receivable amounts due from the public for fines and penalties levied against employers by OSHA, MSHA, ESA, and EBSA and for amounts due from grantees and contractors for grant and contract costs disallowed by ETA.

3.Allowance for doubtful accounts

Accounts receivable due from the public are stated net of an allowance for uncollectible accounts. The allowance is estimated based on an aging of account balances, past collection experience, and an analysis of outstanding accounts at year-end. Intra-governmental accounts receivable are considered fully collectible. (See Note 4)

F. Property, Plant and Equipment, Net of Accumulated Depreciation

The majority of DOL's property, plant and equipment (PP&E) is general purpose PP&E held by Job Corps centers owned and operated by DOL through a network of contractors. Internal use software is considered general purpose PP&E.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Property, Plant and Equipment, Net of Accumulated Depreciation - Continued

DOL's capitalization thresholds are displayed in the following table.

Property classification	Prior to FY 1996	FY 1996 through FY 2001	FY 2002 and thereafter	Useful life
Equipment – WCF	> $5,000	> $5,000	>= $50,000	>= 2 years
Equipment – Non WCF	> $5,000	> $25,000	>= $50,000	>= 2 years
Real Property Purchases or Improvements	> $5,000	> $25,000	> $500,000	>= 2 years
Leasehold Improvements	> $5,000	> $25,000	> $500,000	>= 2 years
Internal Use Software – WCF	> $5,000	> $5,000	> $300,000	>= 2 years
Internal Use Software – Non WCF	> $5,000	> $300,000	> $300,000	>= 2 years

PP&E purchases and additions are stated at cost. Normal repairs and maintenance are charged to expense as incurred. PP&E are depreciated over their estimated useful lives using the straight-line method of depreciation.

Job Corps center construction costs are capitalized as construction-in-progress until completed. Upon completion they are reclassified as structures or facilities and depreciated over their estimated useful lives. Leasehold improvements made at Job Corps centers and DOL facilities leased from the General Services Administration are recorded at cost and amortized over the remaining life of the lease or the useful life of the improvements, whichever is shorter, using the straight-line method of amortization. DOL operating leases have one-year terms with multiple option years. The leases are cancelable by the government upon appropriate notice as specified in the lease agreements. Historically, these leases have not been canceled and DOL has no intention to cancel these leases in the near term.

Internal use software development costs are capitalized as software development in progress until the development stage has been completed and successfully tested. Upon completion and testing, software development-in-progress costs are reclassified as internal use software and amortized over their estimated useful lives.

The table below shows the major classes of DOL's depreciable PP&E, and the depreciation periods used for each major classification. (See Note 5)

	Years
Structures, facilities and improvements	20 - 50
Furniture and equipment	2 - 36
Internal use software	2 - 15

G. Advances

DOL advances consist primarily of payments made to state employment security agencies (SESAs) and to grantees and contractors to provide for future DOL program expenditures. These advance payments are recorded by DOL as an asset, which is reduced when actual expenditures or the accrual of estimated unreported expenditures are recorded by DOL. (See Note 6)

H. Non-entity Assets

Assets held by DOL which are not available to DOL for obligation are considered non-entity assets. DOL holds non-entity assets for the Railroad Retirement Board and for transfer to the U.S. Treasury. (See Note 7)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. Liabilities

Liabilities represent probable amounts to be paid by DOL as a result of past transactions and are recognized when incurred, regardless of whether there are budgetary resources available to pay them. However, the liquidation of these liabilities will consume budgetary resources and cannot be made until available resources have been obligated. For financial reporting purposes, DOL's liabilities are classified as covered or not covered by budgetary resources.

Liabilities are classified as covered by budgetary resources if budgetary resources are available to pay them. Liabilities are also considered covered by budgetary resources if they are to be funded by permanent indefinite appropriations, which have been enacted and signed into law and are available for use as of the balance sheet date, provided that the resources may be apportioned by OMB without further action by the Congress and without a contingency having to be met first. Liabilities are classified as not covered by budgetary resources if budgetary resources are not available. These classifications differ from budgetary reporting, which categorizes liabilities as obligated, consuming budgetary resources, or unobligated, not consuming budgetary resources. Unobligated liabilities include those covered liabilities for which available budgetary resources have not been obligated, as well as liabilities not covered for which budgetary resources are not available to pay them. (See Note 12)

J. Debt

DOL's debt consisted of the following:

1. Black Lung Disability Trust Fund borrowings from U.S. Treasury

The Energy Improvement and Extension Act of 2008 (P.L. 110-343, section 113), enacted October 3, 2008, authorized restructuring of the Black Lung Disability Trust Fund (BLDTF) debt by the repayment at market value the fund's outstanding repayable Advances from U.S. Treasury, using the proceeds from borrowings from Treasury's Bureau of Public Debt and a one-time appropriation. Pursuant to this authority, in FY 2009, the BLDTF borrowed from Treasury $6.496 billion which was structured into 32 discounted instruments with sequential annual September 30th maturities over the 32-year period 2009 through 2040, bearing interest rates ranging from 1.412% to 4.556%. Interest on each instrument accrues until its September 30th maturity date or the instrument's prepayment, whichever occurs first. These debt payments are to be made from the excise taxes assessed on coal mined. In the event that the BLDTF cannot repay a discounted instrument when it matures, or make benefit payments or other authorized expenditures, the Act authorizes the issuance of one-year discounted instruments to finance these activities. The BLDTF issued additional debt on September 30, 2010 (due September 30, 2011) bearing an interest rate of 0.267%, and on September 30, 2011 (due September 30, 2012) bearing an interest rate of 0.106%. (See Note 8)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Debt - Continued

2.Unemployment Trust Fund Advances from U.S. Treasury

Unemployment Trust Fund advances from U.S. Treasury outstanding as of September 30, 2011 and 2010 represent borrowings from the General Fund of the U.S. Treasury pursuant to the authority of section 1203 of the Social Security Act (42 USC 1323) and appropriated through P.L. 111-8 (123 Stat. 754), P.L. 111-46 (123 Stat. 1970), and P.L. 111-117 (123 Stat. 3230) to pay unemployment benefits, when amounts in the Unemployment Trust Fund are insufficient to fund these benefits. These repayable advances bear interest rates of 3.25%, 3.0% and 2.875% and were computed as the average interest rate, as of the end of the calendar month preceding the issuance date of the advance, for all interest bearing obligations of the United States then forming the public debt, to the nearest lower one-eighth of 1%. Interest on the repayable advances is due on September 30th of each year. Advances will be repaid by transfers from the Unemployment Trust Fund to the General Fund of the Treasury when the Secretary of the Treasury, in consultation with the Secretary of Labor, has determined that the balances in the Unemployment Trust Fund allow repayment. (See Note 8)

K. Accrued Benefits

The financial statements include a liability for unemployment, workers' compensation, and disability benefits due and payable from various DOL funds, as discussed below. (See Note 10)

1.Unemployment benefits payable

The Unemployment Trust Fund provides benefits to unemployed workers who meet State and Federal eligibility requirements. Regular and extended unemployment benefits are paid from State accounts within the Unemployment Trust Fund, financed primarily by a State unemployment tax on employer payrolls. Fifty percent of the cost of extended unemployment benefits is paid from the Extended Unemployment Compensation Account (EUCA) within the Unemployment Trust Fund, financed by a Federal unemployment tax on employer payrolls. The Recovery Act provided for a 100% Federal funding of extended benefits through December 2009. This 100% Federal funding provision has been extended several times until January 4, 2012.

Emergency unemployment compensation benefits, first authorized by the Supplemental Appropriations Act of 2008, and financed by Federal unemployment taxes paid from EUCA, were extended by the Recovery Act through December 2009, and funded entirely from Treasury General Fund revenues, which the Recovery Act appropriated. Emergency unemployment compensation benefits have been extended several times until January 3, 2012.

The Recovery Act also provided for Federal Additional Unemployment Compensation (FAUC), a $25 weekly supplement entirely funded from Treasury General Fund revenues, payable through December 2009 to individuals who are entitled under state law to otherwise receive any type of unemployment compensation. FAUC benefits were extended three times after the expiration of the Recovery Act in May 2010, with phase out through December 2010.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. Accrued Benefits - Continued

1.Unemployment benefits payable – continued

Unemployment benefits to unemployed Federal workers are paid from the Federal Employees Compensation Account within the Unemployment Trust Fund, which is then reimbursed by the responsible Federal agency.

A liability is recognized for unpaid unemployment benefits applicable to the current period and for benefits paid by states that have not been reimbursed by the fund. DOL also recognizes a liability for Federal employees' unpaid unemployment benefits for existing claims filed during the current period, payable in the subsequent period, to the extent reimbursed by other Federal entities.

2.Federal employees disability and 10(h) benefits payable

The Federal Employees' Compensation Act Special Benefit Fund provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The fund is reimbursed by other Federal agencies for the FECA benefit payments made on behalf of their workers. The fund assumes the liability for unreimbursed (non-chargeable) FECA benefits. The fund also provides 50% of the annual cost-of-living adjustments for pre-1972 compensation cases under the authority of Section 10(h) of the Longshore and Harbor Workers' Compensation Act and the District of Columbia Workmen's Compensation Act. A liability for FECA benefits payable by the Special Benefit Fund to the employees of DOL and other Federal agencies and for 10(h) benefits is accrued to the extent of unpaid benefits applicable to the current period.

3.Black lung disability benefits payable

The Black Lung Disability Trust Fund and Special Benefits for Disabled Coal Miners provide compensation and medical benefits for eligible coal miners who are disabled due to pneumoconiosis (black lung disease). DOL recognizes a liability for disability benefits to the extent of unpaid benefits applicable to the current period.

4.Energy employees occupational illness compensation benefits payable

The Energy Employees Occupational Illness Compensation Fund provides benefits to eligible current or former employees of the U.S. Department of Energy (DOE) and its contractors suffering from designated illnesses incurred as a result of their work with DOE. Benefits are also paid to certain survivors of those employees and contractors, as well as to certain beneficiaries of the Radiation Exposure Compensation Act (RECA). DOL recognizes a liability for disability benefits to the extent of unpaid benefits applicable to the current period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L. Future Workers' Compensation Benefits

The financial statements include an actuarial liability for future workers' compensation benefits payable by DOL to its employees, to employees of the Panama Canal Commission and to enrollees of the Job Corps, as well as benefits not chargeable to other Federal agencies, which must be paid by DOL's Federal Employees' Compensation Act Special Benefit Fund. The liability includes the expected payments for death, disability, medical, and miscellaneous costs for approved compensation cases, as well as a component for incurred but not reported claims. The liability is determined using historical benefit payment patterns related to injury years to predict the ultimate payments.

The actuarial methodology provides for the effects of inflation and adjusts historical payments to current year constant dollars by applying wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index-medical or CPIMs) to the calculation of projected benefits. The COLAs and CPIMs used in the projections for FY 2011 and FY 2010 were as follows:

	COLA		CPIM	
FY	2011	2010	2011	2010
2011	N/A	2.23%	N/A	3.45%
2012	2.10%	1.13%	3.07%	3.43%
2013	2.53%	1.70%	3.62%	3.64%
2014	1.83%	1.90%	3.66%	3.66%
2015	1.93%	1.93%	3.73%	3.73%
2016+	2.00%	1.93%	3.73%	3.73%

Projected annual payments were discounted to present value based on OMB's interest rate assumptions for ten year Treasury notes. For FY 2011, interest rate assumptions were 3.535% in year one and 4.025% in year two and thereafter. For FY 2010, interest rate assumptions were 3.653% in year one and 4.300% in year two and thereafter. (See Note 11.) The use of these rates approximates the use of average historical rates on marketable Treasury securities with maturities consistent with the projected benefit payments

M. Energy Employees Occupational Illness Compensation Benefits

The Energy Employees Occupational Illness Compensation Fund, established under the authority of the Energy Employees Occupational Illness Compensation Program Act of 2000 (EEOICPA), provides benefits to eligible current or former employees of DOE and its contractors, or to certain survivors of those employees and contractors, as well as benefits to certain beneficiaries of RECA. DOL is responsible for adjudicating and administering claims filed under the EEOICPA. Effective July 31, 2001, compensation of $150,000 and payment of medical expenses from the date a claim is filed are available to covered individuals suffering from designated illnesses incurred as a result of their work with DOE. Prior to October 2004, compensation of $50,000 and payment of medical expenses from the date a claim is filed are available to individuals eligible for compensation under RECA. As a result of the October 2004 changes, new RECA cases are paid the full $150,000 under EEOICPA.

The Ronald Reagan National Defense Authorization Act of 2005 amended EEOICPA to include Subtitle E – Contractor Employee Compensation. This amendment replaces Part D of the EEOICPA, which provided assistance from DOE in obtaining state workers' compensation benefits. The amended program grants workers' compensation benefits to covered employees and their families for illness and death arising from exposure to toxic

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

M. Energy Employees Occupational Illness Compensation Benefits - Continued

substances at a DOE facility. The amendment also makes it possible for uranium workers as defined under Section 5 of RECA to receive compensation under Part E for illnesses due to toxic substance exposure at a uranium mine or mill covered under that Act. These claims were formerly paid by the Department of Justice (DOJ).

DOL has recognized a $15.1 billion and $12.1 billion actuarial liability for estimated future benefits payable by DOL at September 30, 2011 and 2010, respectively, to eligible individuals under the EEOICPA. At September 30, 2011 the undiscounted liability is $22.6 billion discounted to a present value liability of $15.1 billion based on an interest rate of 4.025% projected over a 55-year period. The present value liability increased significantly at September 30, 2011 due to increased cancer Special Exposure Cohort (SEC) classes, increased number of projected approvals for Part E cases, higher medical costs and a lower discount rate. At September 30, 2010 the undiscounted liability was $19.8 billion discounted to a present value liability of $12.1 billion based on an interest rate of 4.30% projected over a 51-year period. The estimated liability includes the expected lump sum and estimated medical payments for approved compensation cases and cases filed pending approval, as well as claims incurred but not yet filed. The actuarial projection methodology provided an estimate of the ultimate number of reported cases as a result of estimating future claims from the historical patterns of reported claims and subsequent claim approval rates. Medical payments were derived by estimating an average benefit award per living employee claimant.

N. Accrued Leave

A liability for annual and compensatory leave is accrued as leave is earned and paid when leave is taken. The balance of leave earned but not taken will be paid from future funding sources. Sick leave and other types of non-vested leave are expensed as taken.

O. Employee Health and Life Insurance Benefits

DOL employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP). DOL matches the employee contributions to each program to pay for current benefits. During FY 2011, DOL's contributions to the FEHBP and FEGLIP were $99.2 million and $1.4 million, respectively. During FY 2010, DOL's contributions to the FEHBP and FEGLIP were $91.3 million and $2.3 million, respectively. These contributions are recognized as current operating expenses.

P. Other Retirement Benefits

DOL employees eligible to participate in the FEHBP and the FEGLIP may continue to participate in these programs after their retirement. DOL recognizes a current operating expense for the future cost of these other retirement benefits (ORB) at the time the employee's services are rendered. This ORB expense must be financed by U.S. Office of Personnel Management (OPM). Using cost factors supplied by OPM, DOL recorded ORB imputed costs and imputed financing sources of $96.8 million in FY 2011 and $107.8 million in FY 2010.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Q. Employee Pension Benefits

DOL employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). For employees participating in CSRS, 7.0% of their gross earnings is withheld and transferred to the Civil Service Retirement and Disability Fund. DOL contributes an additional 7.0% of the employee gross earnings to the Civil Service Retirement and Disability Fund. For employees participating in FERS, DOL withholds 0.8% of gross earnings and makes an 11.2% employer contribution. This total is transferred to the Federal Employees' Retirement Fund. The CSRS and FERS retirement funds are administered by the OPM. DOL contributions to the CSRS and FERS are recognized as current operating expenses. FERS participants are also covered under the Federal Insurance Contribution Act (FICA) and are subject to withholdings. DOL makes matching FICA contributions, recognized as operating expenses. DOL's matching contributions were $88.6 million in FY 2011 and $86.7 million in FY 2010.

The Thrift Savings Plan (TSP) is a defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS. CSRS participants may contribute up to $16,500 of their gross pay to the TSP during calendar years 2011 and 2010, but there is no departmental matching contribution. FERS participants may contribute up to $16,500 of their gross pay to the TSP during calendar years 2011 and 2010. CSRS and FERS participants aged 50 years or older may also contribute an additional $5,500 each calendar year in "catch-up" contributions during calendar years 2011 and 2010, but there is no departmental matching on "catch-up" contributions. For employees covered under FERS, DOL contributes 1% of the employees' gross pay to the TSP. DOL also matches employees' contributions dollar-for-dollar on the first 3% of pay contributed each pay period and 50 cents on the dollar for the next 2% of pay contributed. DOL contributions to the TSP are recognized as current operating expenses. Employee and employer contributions to the TSP are transferred to the Federal Retirement Thrift Investment Board. (See Note 14)

DOL recognizes the full cost of providing future CSRS and FERS pension benefits to covered employees at the time the employees' services are rendered. The pension expense recognized in the financial statements equals the service cost for covered DOL employees, less amounts contributed by these employees. Service cost represents the actuarial present value of benefits attributed to services rendered by covered employees during the accounting period.

The measurement of service cost requires the use of actuarial cost methods to determine the percentage of the employees' basic compensation sufficient to fund their projected pension benefit. These percentages (cost factors) are provided by OPM, and applied by DOL to the basic annual compensation of covered employees to arrive at the amount of total pension expense to be recognized in DOL's financial statements.

The excess of total pension expense over the amount contributed by the Department and by DOL's employees represents the amount of pension expense which must be financed directly by OPM. DOL recognized an imputed cost and an imputed financing source equal to the excess amount. DOL does not recognize in its financial statements FERS or CSRS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees. (See Note 14)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

R. Net Position

DOL's net position consists of the following:

1.Unexpended appropriations

Unexpended appropriations include the unobligated balances and undelivered orders of DOL's appropriated funds. Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until those appropriations are closed, five years after the appropriations expire. Unexpired multi-year and no-year appropriations remain available to DOL for obligation in future periods.

2.Cumulative results of operations

Cumulative results of operations include the accumulated historical difference between expenses consuming budgetary resources and financing sources providing budgetary resources in DOL's trust, revolving and special funds; liabilities not consuming budgetary resources net of assets not providing budgetary resources; and DOL's net investment in capitalized assets.

S. Net Cost of Operations

1.Operating costs

Full operating costs are comprised of all direct costs consumed by the program and those indirect costs which can be reasonably assigned or allocated to the program. Full costs are reduced by exchange (earned) revenues to arrive at net program cost. The full and net operating costs of DOL's major programs are presented in the Consolidated Statement of Net Cost, and are also reported by sub-organization in Note 15 to the financial statements.

2.Earned revenue

Earned revenues arise from exchange transactions which occur through the provision of goods and services for a price, and are deducted from the full cost of DOL's major programs to arrive at net program cost. Earned revenues are recognized by DOL to the extent reimbursements are payable from other Federal agencies and from the public, as a result of costs incurred or services performed on their behalf. Major sources of DOL's earned revenue include reimbursements to the Federal Employees' Compensation Act Special Benefit Fund from Federal agencies for the costs of disability compensation and medical care provided to or accrued on behalf of their employees and reimbursements to the Unemployment Trust Fund from Federal agencies for the cost of unemployment benefits provided to or accrued on behalf of their former employees.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

T. Budgetary Financing Sources

Budgetary financing sources other than earned revenues provide funding for the Department's net cost of operations and are reported on the Consolidated Statement of Changes in Net Position. These financing sources include appropriations received, less appropriations transferred and not available, non-exchange revenue, and transfers without reimbursement, as discussed below:

1.Appropriations received, appropriations transferred and appropriations not available

DOL receives financing sources through congressional appropriations to support its operations. A financing source is recognized for these appropriated funds received, less appropriations transferred or not available through rescission or cancellation.

2.Non-exchange revenue

Non-exchange revenues arise primarily from the Federal government's power to demand payments from the public. Non-exchange revenues are recognized by DOL on the Consolidated Statement of Changes in Net Position for the transfer of employer and excise taxes from the entities collecting these taxes and for interest from investments, as discussed below. (See Note 16)

- Employer taxes

Employer tax revenues are recognized on a modified cash basis, to the extent of cash transferred by the collecting entity to DOL, plus the change in inter-entity balances between the collecting entity and DOL. Inter-entity balances represent revenue received by the collecting entity, net amounts due to the collecting entity and adjustments made to previous transactions by the collecting entity which have not been transferred to DOL.

Federal and state unemployment taxes represent non-exchange revenues collected from employers based on wages paid to employees in covered employment. Federal unemployment taxes are collected by the Internal Revenue Service and transferred to designated accounts within the Unemployment Trust Fund. State unemployment taxes are collected by each State and deposited in separate State accounts within the Unemployment Trust Fund. Federal unemployment taxes are used to pay the Federal share of extended unemployment benefits and to provide for Federal and State administrative expenses related to the operation of the unemployment insurance program. State unemployment taxes are restricted in their use to the payment of unemployment benefits.

- Interest

The Unemployment Trust Fund, the Panama Canal Commission Compensation Fund, and the Energy Employees Occupational Illness Compensation Fund receive interest on fund investments. The Unemployment Trust Fund receives interest from states that had accounts with loans payable to the Federal unemployment account at the end of the prior fiscal year. Interest is also earned on Federal funds in the possession of non-Federal entities. Interest is recognized as non-exchange revenue when earned.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

T. Budgetary Financing Sources - Continued

2.Non-exchange revenue - continued

- Assessments

Assessments consist of penalties levied against employers by ESA for regulatory violations. Assessments are recognized as non-exchange revenues when earned.

- Reimbursement of unemployment benefits

The Unemployment Trust Fund receives reimbursements from state and local government entities and non-profit organizations for the cost of unemployment benefits provided to or accrued on behalf of their employees. These reimbursements are recognized as non-exchange revenue when earned.

3.Transfers without reimbursement

Transfers recognized as budgetary financing sources by DOL include transfers from the Department of Homeland Security H-1B Nonimmigrant Petitioner Account to H-1B Funds in ETA and ESA. Also included are transfers from various DOL general fund unexpended appropriation accounts to the Working Capital Fund's cumulative results of operations. There are also transfers between DOL entities, primarily for the administration of the unemployment insurance program and additional appropriations for extended unemployment benefits. (See Note 17)

U. Other Financing Sources

Other financing sources include items that do not represent budgetary resources.

1.Imputed financing

A financing source is imputed by DOL to provide for pension and other retirement benefit expenses recognized by DOL but financed by OPM. (See Notes 1-P and Q)

2.Transfers without reimbursement

Transfers recognized as other financing sources by DOL include the transfers of property from the General Services Administration. (See Note 17)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

V. Custodial Activity

DOL collects and transfers to the general fund of the U.S. Treasury custodial non-exchange revenues for penalties levied against employers by OSHA, MSHA, ESA, and EBSA for regulatory violations; for ETA disallowed grant costs assessed against canceled appropriations; and for FECA administrative costs assessed against government corporations in excess of amounts reserved to finance capital improvements in the Federal Employees' Compensation Act Special Benefit Fund. These collections are not available to the agencies for obligation or expenditure. Penalties and other assessments are recognized as custodial revenues when collected or subject to collection. (See Notes 1-B and 20)

W. Significant Assumptions Used in the Statement of Social Insurance (SOSI) and Statement of Changes in Social Insurance Amounts and Other Social Insurance Disclosures

The Black Lung Disability Benefit Program provides for compensation, medical and survivor benefits for eligible coal miners who are disabled due to pneumoconiosis (black lung disease) arising out of their coal mine employment. The Black Lung Disability Trust Fund (BLDTF) provides benefit payments to eligible coal miners disabled by pneumoconiosis when no responsible mine operator can be assigned the liability.

Black lung disability benefit payments are funded by excise taxes from coal mine operators based on the sale of coal, as are the fund's administrative costs. These taxes are collected by the Internal Revenue Service and transferred to the BLDTF, which was established under the authority of the Black Lung Benefits Revenue Act, and administered by the U.S. Department of the Treasury. Prior to October 3, 2008, the Black Lung Benefits Revenue Act provided for repayable advances to the BLDTF from the general fund of the Treasury in the event that BLDTF resources were not adequate to meet program obligations.

P.L. 110-343, Division B--Energy Improvement and Extension Act of 2008, enacted on October 3, 2008, in section 113, (1) allowed for the temporary increase in coal excise tax rates to continue an additional five years beyond the current statutory limit and (2) restructured the BLDTF debt by refinancing the outstanding high interest rate repayable advances with the proceeds from issuing low interest rate discounted debt instruments similar in form to zero-coupon bonds, plus a one-time appropriation. This Act also allowed that any debt issued by the BLDTF subsequent to the refinancing may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing. Debt issued by the BLDTF subsequent to the initial refinancing will have a maturity date of one year and bear interest at the Treasury 1-year rate. All debt issued by the BLDTF was effected as borrowing from the Bureau of Public Debt. (See Notes 1-J and 8)

P.L. 111-148, Patient Protection and Affordable Care Act of 2010, enacted on March 23, 2010, in section 1556, amended the Black Lung Benefits Act and became effective immediately. Among other things, section 1556 affects claims for (1) total disability benefits filed by miners with long histories of employment in the coal industry and (2) survivors benefits filed by widows and other surviving dependents of totally disabled coal miners upon their death. The amendments apply to claims which were filed after 2004 and pending on this Act's effective date and thereafter. These amendments may make it easier for some coal miners and their surviving dependents to meet the eligibility requirements for total disability and survivors benefits.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

W. Significant Assumptions Used in the Statement of Social Insurance (SOSI) and Statement of Changes in Social Insurance Amounts and Other Social Insurance Disclosures - Continued

The Division of Coal Mine Workers' Compensation (DCMWC) within the Office of Workers' Compensation Programs administers the Black Lung Program and the payment of benefits under the Black Lung Benefits Act. The Federal Coal Mine Health and Safety Act sets Black Lung benefits at 37.5% of the base salary of a Federal employee at level GS-2, Step 1. P.L. 111-322, the Continuing Appropriations and Surface Transportation Extensions Act of 2011, was enacted on December 22, 2010. This Act, among other things, provided that no Federal employee statutory pay adjustment would take effect during the period January 1, 2011 through December 31, 2012. As a result, because the Federal employee base salary will remain unchanged through 2012, the rates for Black Lung benefits will likewise remain unchanged through 2012.

The significant assumptions used in the projections for the Statement of Social Insurance (SOSI) are the number of beneficiaries, life expectancy, coal excise tax revenue estimates, the tax rate structure, Federal civilian pay raises and medical cost inflation. These assumptions also affect the amounts reported on the SOSI summary section and the Statement of Changes in Social Insurance Amounts.

Treasury's Office of Tax Analysis provides estimates of future receipts of the black lung excise tax. Its estimates are based on projections of future coal production and sale prices prepared by the Energy Information Agency of the U.S. Department of Energy. Treasury's Office of Tax Analysis provides the first eleven years of tax receipt estimates. The remaining years are estimated using a growth rate based on both historical tax receipts and the Treasury's estimated tax receipts. The higher coal excise tax rate structure is $1.10 per ton of underground-mined coal and $0.55 per ton of surface-mined coal sold, with a cap of 4.4% of sales price. Based on Treasury's interpretation of section 113 of P.L. 110-343, the higher excise tax rates will continue until the earlier of December 31, 2018 or the first December 31 after 2008 in which there exist no (1) balance of repayable debt described in section 9501 of the Internal Revenue Code and (2) unpaid interest on the debt. Starting in 2019, the tax rates revert to $0.50 per ton of underground-mined coal and $0.25 per ton surface-mined coal sold, with a limit of 2.0% of sales price. Although section 9501 of the Internal Revenue Code uses the terminology "advance," the Treasury has interpreted this to mean any debt owed by the BLDTF to the Bureau of the Public Debt.

The beneficiary population data is updated from information supplied by the program. The beneficiary population is a nearly closed universe in which attrition by death exceeds new entrants by a ratio of more than ten to one. Projections for new participants are included in the overall projections and are considered immaterial. Therefore, the difference between the open group measure and the closed group measure due to new participants is immaterial and the same measure is presented for both the open group and the closed group. Social Security Administration life tables are used to project the life expectancies of the beneficiary population. OMB supplies assumptions for future monthly benefit rate increases based on increases in the Federal pay scale and future medical cost inflation based on increases in the consumer price index-medical, which are used to calculate future benefit costs. During the current projection period, the future benefit rate (annualized for the fiscal year) increases 0% in 2012, 1.125% in 2013, 2.629% in 2014, and 3% in each year thereafter and medical cost increases 3.2% in 2012, and ranges from 3.6% to 3.8% thereafter. Estimates for administrative costs for the first 11 years of the projection are supplied by DOL's Budget Office, based on current year enacted amounts, while later years are based on the number of projected beneficiaries.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

W. Significant Assumptions Used in the Statement of Social Insurance (SOSI) and Statement of Changes in Social Insurance Amounts and Other Social Insurance Disclosures - Continued

The projection period ends September 30, 2040, because the primary purpose of the BLDTF, which was established in 1978, is to compensate the victims of coal mine dust exposures which occurred prior to 1970. By the end of FY 2040, not only the disabled miners and their widows in that class, but also virtually all of their eligible dependent disabled adult children will be deceased. All of the current year projections are discounted using an interest rate of 3.375% published by Treasury as of the start of the projection period. This rate is for Treasury loans to government agencies for loans up to 30 years. Thirty years is the maximum period for which Treasury publishes rates for loans to government agencies and approximates the projection period. The valuation date for the FY 2011 information presented in the SOSI, including the summary section, and the Statement of Changes in Social Insurance Amounts is September 30, 2011.

The accumulated deficit of all past disbursements over past cash receipts, including interest on investments, is ($6.1) billion, the amount of the trust fund net position deficit at the start of the projection period, September 30, 2011. The excess of the present value of estimated future excise tax income over the actuarial present value of future benefits payments and present value of estimated administrative costs during the projection period for current and future participants (open and closed group measure) is calculated by adding the outflows of:

(1) actuarial present value of future benefit payments during the projection period to disabled coal miners and dependent survivors and
(2) present value of estimated future administrative costs during the projection period;

and then subtracting the inflows of:

(3) the present value of estimated future excise tax income during the projection period.

SFFAS 37 requires the SOSI summary section to present the total of open and closed group measure plus fund assets. This consists of the (1) open and closed group measure, which is the excess of the present value of the estimated future excise tax revenue over actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants, plus the (2) Funds with U.S. Treasury and receivables from benefit overpayments and represents a net positive cash flow that may be used to liquidate the liabilities of the BLDTF.

SFFAS 37 requires the Statement of Changes in Social Insurance Amounts to present the changes in the open and closed group measure from $5.4 billion as of September 30, 2010 to $4.7 billion as of September 30, 2011 and to disclose the reasons for the change of ($730.3) million. From FY 2010 to FY 2011, the decrease in the assumptions about coal excise tax revenues of ($1.1) billion represents the largest decrease in the open and closed group measure. From FY 2010 to FY 2011, the coal excise tax revenue projections were revised downward to reflect current year experience and a decrease in future collections. From FY 2010 to FY 2011, the increase in the assumptions about beneficiaries, including costs (not associated with medical inflation or Federal civilian pay raises), number, type, age, and life expectancy, of $203 million represents the largest increase in the open and closed group measure. From FY 2010 to FY 2011, the assumptions about the beneficiaries were revised downward to reflect current year experience and a decrease in future costs.

From FY 2010 to FY 2011, the increases and decreases with respect to changes in assumptions for Federal civilian pay raises for income benefits of $33.8 million, medical cost inflation for medical benefits of ($1.2) million, and

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

W. Significant Assumptions Used in the Statement of Social Insurance (SOSI) and Statement of Changes in Social Insurance Amounts and Other Social Insurance Disclosures - Continued

administrative costs of ($19.2) million were based on revisions to reflect current year experience and future costs. From FY 2010 to FY 2011, the increase of $197.7 million for the change in assumption about interest rate represents the change in the discount rate from 3.75% to 3.375%.

X. Tax Exempt Status

As an agency of the Federal government, the Department is exempt from all taxes imposed by any governing body whether it is a Federal, state, commonwealth, local, or foreign government.

Y. Application of Critical Accounting Estimates

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions.

Estimates and assumptions affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates and assumptions also affect the amounts reported on the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

Z. Reclassifications

The FY 2010 statements were reclassified to conform to the FY 2011 Departmental financial statement presentation requirements. The reclassifications had no effect on total assets, liabilities, net position, and change in net position or budgetary resources as previously reported.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 2 - FUNDS WITH U.S. TREASURY

Funds with U.S. Treasury at September 30, 2011 consisted of the following:

	Entity Assets					
(Dollars in thousands)	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed	Total Entity Assets	Non-entity Assets	Total
Revolving funds	$ 5,647	$ 6,655	$ 85,078	$ 97,380	$ -	$ 97,380
Trust funds	91	-	44,385	44,476	(555)	43,921
General funds	1,245,780	2,118,005	7,445,531	10,809,316	-	10,809,316
Other	-	-	-	-	3,841	3,841
	$ 1,251,518	$ 2,124,660	$ 7,574,994	$ 10,951,172	$ 3,286	$ 10,954,458

Funds with U.S. Treasury at September 30, 2010 consisted of the following:

	Entity Assets					
(Dollars in thousands)	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed	Total Entity Assets	Non-entity Assets	Total
Revolving funds	$ 14,633	$ 23,630	$ 58,361	$ 96,624	$ -	$ 96,624
Trust funds	91	-	141,599	141,690	(629)	141,061
General funds	3,029,238	705,680	8,641,922	12,376,840	-	12,376,840
Other	-	-	-	-	3,621	3,621
	$ 3,043,962	$ 729,310	$ 8,841,882	$ 12,615,154	$ 2,992	$ 12,618,146

The negative fund balances reported as of September 30, 2011 and 2010 relate to the Unemployment Trust Fund (UTF) and are the result of the timing of processing the investments and redemptions of UTF. The investments and redemptions relating to the last business day of the month are not processed until the first day of the next month. This could result in a negative cash position for the preceding business day if the disbursements are greater than the receipts to the fund.

Annual and multi-year budget authority expires at the end of its period of availability. During the first through the fifth expired years, the unobligated balance is unavailable and may be used to adjust obligations and disbursements that were recorded before the budgetary authority expired or to meet a legitimate or bona fide need arising in the fiscal year for which the appropriation was made. The unobligated balance for no-year budget authority may be used to incur obligations indefinitely for the purpose specified by the appropriation act. No-year budget authority unobligated balances, except those specifically exempt, are still subject to the annual apportionment and allotment process.

Unobligated Balance Available at September 30, 2011 includes $483 million of funds apportioned for use in the subsequent year.

NOTE 3 - INVESTMENTS

Investments at September 30, 2011 consisted of the following:

(Dollars in thousands)	Face Value	Premium (Discount)	Interest Receivable	Net Value	Market Value
Unemployment Trust Fund					
Non-marketable					
Special issue U.S. Treasury Bonds					
3.000% maturing June 30, 2012	$ 16,030,410	-	$ 120,228	$ 16,150,638	$ 16,030,410
	16,030,410	-	120,228	16,150,638	16,030,410
Panama Canal Commission Compensation Fund					
Marketable					
U.S. Treasury Bills					
Maturing November 17, 2011	580	-	-	580	580
U.S. Treasury Notes					
1.750% Maturing November 15, 2011	58,126	103	381	58,610	58,126
3.625% Maturing May 15, 2013	3,968	(61)	54	3,961	3,968
	62,674	42	435	63,151	62,674
	$ 16,093,084	$ 42	$ 120,663	$ 16,213,789	$ 16,093,084
Entity investments	$ 16,037,946	$ 42	$ 120,249	$ 16,158,237	$ 16,037,946
Non-entity investments	55,138	-	414	55,552	55,138
	$ 16,093,084	$ 42	$ 120,663	$ 16,213,789	$ 16,093,084

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 3 - INVESTMENTS - Continued

Investments at September 30, 2010 consisted of the following:

(Dollars in thousands)	Face Value	Premium (Discount)	Interest Receivable	Net Value	Market Value
Unemployment Trust Fund					
Non-marketable					
Special issue U.S. Treasury Bonds					
3.125% maturing June 30, 2011	$ 5,981,782	$ -	$ 20,672	$ 6,002,454	$ 5,981,782
4.500% maturing June 30, 2011	12,720,998	-	143,111	12,864,109	12,720,998
	18,702,780	-	163,783	18,866,563	18,702,780
Panama Canal Commission Compensation Fund					
Marketable					
U.S. Treasury Notes					
3.625% maturing May 15, 2013	3,968	(96)	54	3,926	3,968
4.500% Maturing November 15, 2010	62,967	(794)	1,063	63,236	62,967
	66,935	(890)	1,117	67,162	66,935
Energy Employees Occupational Illness Compensation Fund					
Non-marketable					
One Day Certificate					
0.120% maturing October 1, 2010	347,368	-	-	347,368	347,368
	$ 19,117,083	$ (890)	$ 164,900	$ 19,281,093	$ 19,117,083
Entity investments	$ 19,087,134	$ (890)	$ 164,638	$ 19,250,882	$ 19,087,134
Non-entity investments	29,949	-	262	30,211	29,949
	$ 19,117,083	$ (890)	$ 164,900	$ 19,281,093	$ 19,117,083

NOTE 4 - ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

Accounts receivable at September 30, 2011 consisted of the following:

(Dollars in thousands)	Gross Receivables	Allowance	Net Receivables
Entity intra-governmental assets			
Due for UCFE and UCX benefits	$ 666,272	$ -	$ 666,272
Due for workers' compensation benefits	5,262,735	-	5,262,735
Other	15,948	-	15,948
	5,944,955	-	5,944,955
Entity assets			
State unemployment taxes	1,164,204	(829,016)	335,188
Due from reimbursable employers	1,209,305	(109,110)	1,100,195
Benefit overpayments	4,175,940	(3,545,419)	630,521
Other	3,142	-	3,142
	6,552,591	(4,483,545)	2,069,046
Non-entity assets			
Fines and penalties	149,637	(47,821)	101,816
	6,702,228	(4,531,366)	2,170,862
	$ 12,647,183	$ (4,531,366)	$ 8,115,817

Accounts receivable at September 30, 2010 consisted of the following:

(Dollars in thousands)	Gross Receivables	Allowance	Net Receivables
Entity intra-governmental assets			
Due for UCFE and UCX benefits	$ 745,405	$ -	$ 745,405
Due for workers' compensation benefits	5,135,704	-	5,135,704
Other	1,262	-	1,262
	5,882,371	-	5,882,371
Entity assets			
State unemployment taxes	953,709	(691,600)	262,109
Due from reimbursable employers	1,235,093	(92,864)	1,142,229
Benefit overpayments	2,980,496	(2,500,582)	479,914
Other	8,275	-	8,275
	5,177,573	(3,285,046)	1,892,527
Non-entity assets			
Fines and penalties	169,680	(50,326)	119,354
	5,347,253	(3,335,372)	2,011,881
	$ 11,229,624	$ (3,335,372)	$ 7,894,252

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

Property, plant and equipment at September 30, 2011 consisted of the following:

	2011		
(Dollars in thousands)	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Structures, facilities and improvements			
Structures and facilities	$ 1,219,588	$ (515,118)	$ 704,470
Improvements to leased facilities	423,263	(265,376)	157,887
	1,642,851	(780,494)	862,357
Furniture and equipment			
Equipment held by contractors	155,493	(149,832)	5,661
Furniture and equipment	46,146	(35,235)	10,911
	201,639	(185,067)	16,572
Internal use software	217,602	(78,250)	139,352
Construction-in-progress	107,530	-	107,530
Land	94,101	-	94,101
	$ 2,263,723	$ (1,043,811)	$ 1,219,912

Property, plant and equipment at September 30, 2010 consisted of the following:

	2010		
(Dollars in thousands)	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Structures, facilities and improvements			
Structures and facilities	$ 1,134,773	$ (482,666)	$ 652,107
Improvements to leased facilities	423,915	(257,028)	166,887
	1,558,688	(739,694)	818,994
Furniture and equipment			
Equipment held by contractors	153,333	(148,963)	4,370
Furniture and equipment	39,410	(27,100)	12,310
	192,743	(176,063)	16,680
Internal use software	216,452	(101,714)	114,738
Construction-in-progress	130,200	-	130,200
Land	94,101	-	94,101
	$ 2,192,184	$ (1,017,471)	$ 1,174,713

NOTE 6 – ADVANCES

Advances at September 30, 2011 and 2010 consisted of the following:

(Dollars in thousands)	2011	2010
Advances to states for UI benefit payments	$ 1,545,979	$ 1,746,918
Other	44,418	125,274
	$ 1,590,397	$ 1,872,192

NOTE 7 - NON-ENTITY ASSETS

Non-entity assets consisted of the following at September 30, 2011 and 2010:

(Dollars in thousands)	2011	2010
Intra-governmental		
Funds with U.S. Treasury	$ 3,286	$ 2,992
Investments	55,552	30,211
	58,838	33,203
Accounts receivable, net of allowance	101,816	119,354
	$ 160,654	$ 152,557

NOTE 8 - DEBT

DOL's debt during FY 2011 consisted of the following:

(Dollars in thousands)	Balance at September 30, 2010	Net Borrowing	Balance at September 30, 2011
Intra-governmental			
Debt to Treasury			
Black Lung Disability Trust Fund			
Borrowing from U.S. Treasury	$ 6,289,746	$ (126,671)	$ 6,163,075
Unemployment Trust Fund			
Advances from U.S. Treasury	34,110,979	8,661,850	42,772,829
	$ 40,400,725	$ 8,535,179	$ 48,935,904

DOL's debt during FY 2010 consisted of the following:

(Dollars in thousands)	Balance at September 30, 2009	Net Borrowing	Balance at September 30, 2010
Intra-governmental			
Debt to Treasury			
Black Lung Disability Trust Fund			
Borrowing from U.S. Treasury	$ 6,370,580	$ (80,834)	$ 6,289,746
Unemployment Trust Fund			
Advances from U.S. Treasury	7,981,387	26,129,592	34,110,979
	$ 14,351,967	$ 26,048,758	$ 40,400,725

NOTE 8 - DEBT - Continued

For the Black Lung Disability Trust Fund, net borrowing includes capitalized interest of $226.6 million, repaid debt of ($439.3 million), paid interest of ($21.7 million) on the repaid debt, and additional borrowing of $107.7 million, for a net total of ($126.7 million); and capitalized interest of $223.9 million, repaid debt of ($353.4 million), paid interest of ($11.3 million) on the repaid debt, and additional borrowing of $60.0 million, for a net total of ($80.8 million) in FY 2011 and FY 2010, respectively.

For the Unemployment Trust Fund, net borrowing includes new advances of $21.9 billion and repayments of debt ($13.3 billion) for a net total of $8.6 billion and new advances of $29.05 billion, repayments of debt ($2.9 billion) and ($31.4 million) for accrued interest for a net total of $26.1 billion in FYs 2011 and 2010, respectively. At September 30, 2011, all accrued interest was paid; interest paid in FY 2011 was $1.4 billion.

NOTE 9 - OTHER LIABILITIES

Other liabilities at September 30, 2011 and 2010 consisted of the following current liabilities:

(Dollars in thousands)	2011	2010
Intra-governmental		
Accrued payroll benefits	$ 56,219	$ 53,930
Non-entity receivables due to U.S. Treasury	101,816	119,354
Amounts held for the Railroad Retirement Board and other liabilities	44,403	49,227
Total intra-governmental	202,438	222,511
Accrued payroll and benefits	106,717	95,086
Deposit and clearing accounts	4,067	3,930
Readjustment allowances and other liabilities	65,549	56,193
	176,333	155,209
	$ 378,771	$ 377,720

NOTE 10 - ACCRUED BENEFITS

Accrued benefits at September 30, 2011 and 2010 consisted of the following:

(Dollars in thousands)	2011	2010
State regular and extended unemployment benefits payable	$ 1,454,256	$ 2,634,528
Federal extended unemployment benefits payable	464,429	436,522
Federal emergency unemployment benefits payable	817,232	1,524,946
Federal employees' unemployment benefits payable	426,141	455,940
Federal additional unemployment benefits payable	18,787	130,446
Total unemployment benefits payable	3,180,845	5,182,382
Black lung disability benefits payable	16,255	33,606
Federal employees' disability and 10(h) benefits payable	101,175	40,639
Energy employees occupational illness compensation benefits payable	22,169	27,916
	$ 3,320,444	$ 5,284,543

NOTE 11 - FUTURE WORKERS' COMPENSATION BENEFITS

DOL's liability for future workers' compensation benefits at September 30, 2011 and 2010 consisted of the following:

(Dollars in thousands)	2011	2010
Projected gross liability of the Federal government for future FECA benefits	$ 31,342,564	$ 29,819,932
Less liabilities attributed to other agencies:		
U.S. Postal Service	(12,218,674)	(10,597,448)
Department of Navy	(2,394,057)	(2,463,087)
Department of Army	(1,828,972)	(1,813,932)
Department of Veterans Affairs	(1,890,635)	(1,862,265)
Department of Air Force	(1,349,859)	(1,321,451)
Department of Transportation	(977,634)	(976,753)
Department of Homeland Security	(2,055,225)	(1,937,837)
Tennessee Valley Authority	(475,090)	(499,357)
Department of the Treasury	(558,388)	(544,345)
Department of Agriculture	(903,734)	(881,453)
Department of Justice	(1,359,361)	(1,314,107)
Department of Interior	(747,211)	(723,131)
Department of Defense, Other	(794,008)	(820,707)
Department of Health and Human Services	(269,073)	(259,500)
Social Security Administration	(334,083)	(319,295)
General Services Administration	(132,195)	(135,331)
Department of Commerce	(235,982)	(210,235)
Department of Energy	(94,065)	(93,317)
Department of State	(73,829)	(71,997)
Department of Housing and Urban Development	(75,875)	(72,289)
Department of Education	(16,231)	(17,603)
National Aeronautics and Space Administration	(51,078)	(55,402)
Environmental Protection Agency	(44,832)	(44,938)
Small Business Administration	(30,630)	(29,960)
Office of Personnel Management	(21,712)	(22,043)
National Science Foundation	(1,272)	(1,356)
Nuclear Regulatory Commission	(7,245)	(7,575)
Agency for International Development	(22,175)	(26,035)
Other	(647,415)	(621,636)
	(29,610,540)	(27,744,385)
	$ 1,732,024	$ 2,075,547
Projected liability of the Department of Labor for future FECA benefits		
FECA benefits not chargeable to other Federal agencies payable by DOL's Federal Employees' Compensation Act Special Benefit Fund	$ 1,457,173	$ 1,794,522
FECA benefits due to eligible workers of DOL and Job Corps enrollees	226,156	226,491
FECA benefits due to eligible workers of the Panama Canal Commission	48,695	54,534
	$ 1,732,024	$ 2,075,547

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 12 - LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources at September 30, 2011 and 2010 consisted of the following:

(Dollars in thousands)	2011	2010
Intra-governmental		
Debt	$ 48,935,905	$ 40,400,725
Accrued benefits	220,682	359,002
Future workers' compensation benefits	1,269,098	1,524,846
Accrued annual leave	112,639	116,505
Readjustment allowances and other Job Corps liabilities	122,973	53,453
	1,725,392	2,053,806
	$ 50,661,297	$ 42,454,531

NOTE 13 – CONTINGENCIES

The Department is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Department are generally paid by the Department of Justice. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial position.

NOTE 14 - PENSION EXPENSE

Pension expense in FY 2011 consisted of the following:

(Dollars in thousands)	Employer Contributions	Costs Imputed by OPM	Total Pension Expense
Civil Service Retirement System	$ 17,695	$ 41,243	$ 58,938
Federal Employees' Retirement System	135,039	19,985	155,024
Thrift Savings Plan	50,149	-	50,149
	$ 202,883	$ 61,228	$ 264,111

Pension expense in FY 2010 consisted of the following:

(Dollars in thousands)	Employer Contributions	Costs Imputed by OPM	Total Pension Expense
Civil Service Retirement System	$ 20,299	$ 46,277	$ 66,576
Federal Employees' Retirement System	123,176	18,996	142,172
Thrift Savings Plan	46,947	-	46,947
	$ 190,422	$ 65,273	$ 255,695

NOTE 15 - PROGRAM COST

Schedule A presents detailed cost and revenue information by major program and major program agency (responsibility segment) in support of the summary information presented in the Consolidated Statement of Net Cost for FY 2011. Schedules B and C present a further breakdown of this cost and revenue information for DOL's two largest program agencies, the Employment and Training Administration and the Employment Standards Administration. (See Note 1-A.1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 15 - PROGRAM COST - Continued

A. Consolidating Statement of Net Cost by Major Program Agency

Net cost by major program agency for the year ended September 30, 2011 consisted of the following (intra-agency transactions for a total of approximately $235.1 million were eliminated within each agency column rather than shown under an eliminations column):

(Dollars in thousands)	Employment and Training Administration	Employment Standards Administration	Office of Job Corps	Occupational Safety and Health Administration
CROSSCUTTING PROGRAMS				
Income maintenance				
Intra-governmental	$ 1,615,853	$ 367,534	$ -	$ 11
With the public	119,690,548	7,527,531	-	1,075
Gross cost	121,306,401	7,895,065	-	1,086
Intra-governmental earned revenue	(1,332,733)	(3,000,544)	-	-
Public earned revenue	(1,074)	(1,015)	-	-
Less earned revenue	(1,333,807)	(3,001,559)	-	-
Net program cost	119,972,594	4,893,506	-	1,086
Employment and training				
Intra-governmental	114,403	1,211	51,405	-
With the public	5,616,821	140	1,666,657	-
Gross cost	5,731,224	1,351	1,718,062	-
Intra-governmental earned revenue	(11,921)	-	(860)	-
Public earned revenue	(501)	-	(506)	-
Less earned revenue	(12,422)	-	(1,366)	-
Net program cost	5,718,802	1,351	1,716,696	-
Labor, employment and pension standards				
Intra-governmental	-	165,341	-	-
With the public	-	370,283	-	-
Gross cost	-	535,624	-	-
Intra-governmental earned revenue	-	(854)	-	-
Public earned revenue	-	(3,035)	-	-
Less earned revenue	-	(3,889)	-	-
Net program cost	-	531,735	-	-
Worker safety and health				
Intra-governmental	-	-	-	144,847
With the public	-	-	-	452,208
Gross cost	-	-	-	597,055
Intra-governmental earned revenue	-	-	-	(1,411)
Public earned revenue	-	-	-	(720)
Less earned revenue	-	-	-	(2,131)
Net program cost	-	-	-	594,924
OTHER PROGRAMS				
Statistics				
Intra-governmental	-	-	-	-
With the public	-	-	-	-
Gross cost	-	-	-	-
Intra-governmental earned revenue	-	-	-	-
Public earned revenue	-	-	-	-
Less earned revenue	-	-	-	-
Net program cost	-	-	-	-
COSTS NOT ASSIGNED TO PROGRAMS				
Gross cost	-	-	-	-
Less earned revenue not attributed to programs	-	-	-	-
Net cost not assigned to programs	-	-	-	-
Net cost of operations	$ 125,691,396	$ 5,426,592	$ 1,716,696	$ 596,010

Bureau of Labor Statistics	Mine Safety and Health Administration	Employee Benefits Security Administration	Veterans' Employment and Training	Other Departmental Programs	Total
$ -	$ -	$ 9,200	$ -	$ 67	$ 1,992,665
-	-	18,426	-	3,423	127,241,003
-	-	27,626	-	3,490	129,233,668
-	-	(388)	-	-	(4,333,665)
-	-	(85)	-	-	(2,174)
-	-	(473)	-	-	(4,335,839)
-	-	27,153	-	3,490	124,897,829
-	-	-	14,712	203	181,934
-	-	-	192,752	425	7,476,795
-	-	-	207,464	628	7,658,729
-	-	-	(33)	(45)	(12,859)
-	-	-	(38)	(10)	(1,055)
-	-	-	(71)	(55)	(13,914)
-	-	-	207,393	573	7,644,815
-	-	53,146	1,599	37,516	257,602
-	-	132,546	18,730	57,023	578,582
-	-	185,692	20,329	94,539	836,184
-	-	(5,817)	(4)	(200)	(6,875)
-	-	(32)	(2)	-	(3,069)
-	-	(5,849)	(6)	(200)	(9,944)
-	-	179,843	20,323	94,339	826,240
-	131,306	-	-	-	276,153
-	267,885	-	-	116	720,209
-	399,191	-	-	116	996,362
-	(344)	-	-	-	(1,755)
-	(1,553)	-	-	-	(2,273)
-	(1,897)	-	-	-	(4,028)
-	397,294	-	-	116	992,334
225,032	-	-	-	-	225,032
458,240	-	-	-	290	458,530
683,272	-	-	-	290	683,562
(10,580)	-	-	-	-	(10,580)
(740)	-	-	-	-	(740)
(11,320)	-	-	-	-	(11,320)
671,952	-	-	-	290	672,242
-	-	-	-	60,472	60,472
-	-	-	-	(22,774)	(22,774)
-	-	-	-	37,698	37,698
$ 671,952	$ 397,294	$ 206,996	$ 227,716	$ 136,506	$ 135,071,158

NOTE 15 - PROGRAM COST - Continued

B. Consolidating Statement of Net Cost - Employment and Training Administration

Net cost of the Employment and Training Administration for the year ended September 30, 2011 consisted of the following (intra-agency transactions were eliminated within each program column rather than shown under an eliminations column):

(Dollars in thousands)	Employment Security	Training and Employment Programs	Total
CROSSCUTTING PROGRAMS			
Income maintenance			
Benefits	$ 112,595,374	$ -	$ 112,595,374
Grants	5,327,043	-	5,327,043
Interest	1,431,079	-	1,431,079
Administrative and other	1,952,905	-	1,952,905
Gross cost	121,306,401	-	121,306,401
Less earned revenue	(1,333,807)	-	(1,333,807)
Net program cost	119,972,594	-	119,972,594
Employment and training			
Benefits	-	-	-
Grants	-	5,698,976	5,698,976
Administrative and other	-	32,248	32,248
Gross cost	-	5,731,224	5,731,224
Less earned revenue	-	(12,422)	(12,422)
Net program cost	-	5,718,802	5,718,802
Net cost of operations	$ 119,972,594	$ 5,718,802	$ 125,691,396

NOTE 15 - PROGRAM COST - Continued

C. Consolidating Statement of Net Cost - Employment Standards Administration

Net cost of the Employment Standards Administration for the year ended September 30, 2011 consisted of the following (intra-agency transactions were eliminated within each office column rather than shown under an eliminations column):

(Dollars in thousands)	Office of Workers' Compensation Programs	Office of Federal Contract Compliance	Wage and Hour Division	Office of Labor Management Standards	Total
CROSSCUTTING PROGRAMS					
Income maintenance					
Benefits	$ 7,192,332	$ -	$ -	$ -	$ 7,192,332
Interest	226,708	-	-	-	226,708
Administrative and other	476,025	-	-	-	476,025
Gross cost	7,895,065	-	-	-	7,895,065
Less earned revenue	(3,001,559)	-	-	-	(3,001,559)
Net program cost	4,893,506	-	-	-	4,893,506
Labor, employment and pension standards					
Benefits	-	-	-	-	-
Administrative and other	-	138,987	333,797	62,840	535,624
Gross cost	-	138,987	333,797	62,840	535,624
Less earned revenue	-	(294)	(3,446)	(149)	(3,889)
Net program cost	-	138,693	330,351	62,691	531,735
Employment and training					
Benefits	-	-	-	-	-
Administrative and other	-	-	1,351	-	1,351
Gross cost	-	-	1,351	-	1,351
Less earned revenue	-	-	-	-	-
Net program cost	-	-	1,351	-	1,351
Net cost of operations	$ 4,893,506	$ 138,693	$ 331,702	$ 62,691	$ 5,426,592

Schedules D, E and F present detailed cost and revenue information by suborganization (responsibility segment) for programs in the Department, the Employment and Training Administration, and the Employment Standards Administration in support of the summary information presented in the Consolidated Statement of Net Cost for FY 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 15 - PROGRAM COST - Continued

D. Consolidating Statement of Net Cost by Major Program Agency

Net cost by major program agency for the year ended September 30, 2010 consisted of the following (intra-agency transactions for a total of approximately $203.7 million were eliminated within each agency column rather than shown under an eliminations column):

(Dollars in thousands)	Employment and Training Administration	Employment Standards Administration	Office of Job Corps	Occupational Safety and Health Administration
CROSSCUTTING PROGRAMS				
Income maintenance				
Intra-governmental	$ 1,030,572	$ 289,538	$ -	$ 108
With the public	161,898,525	9,893,696	-	3,984
Gross cost	162,929,097	10,183,234	-	4,092
Intra-governmental earned revenue	(1,515,084)	(2,778,843)	-	-
Public earned revenue	(932)	(6,729)	-	-
Less earned revenue	(1,516,016)	(2,785,572)	-	-
Net program cost	161,413,081	7,397,662	-	4,092
Employment and training				
Intra-governmental	24,832	270	39,026	-
With the public	6,506,059	610	1,623,673	-
Gross cost	6,530,891	880	1,662,699	-
Intra-governmental earned revenue	(11,043)	-	(82)	-
Public earned revenue	-	-	-	-
Less earned revenue	(11,043)	-	(82)	-
Net program cost	6,519,848	880	1,662,617	-
Labor, employment and pension standards				
Intra-governmental	-	110,188	-	-
With the public	-	366,591	-	-
Gross cost	-	476,779	-	-
Intra-governmental earned revenue	-	(1,404)	-	-
Public earned revenue	-	-	-	-
Less earned revenue	-	(1,404)	-	-
Net program cost	-	475,375	-	-
Worker safety and health				
Intra-governmental	-	-	-	82,496
With the public	-	-	-	533,284
Gross cost	-	-	-	615,780
Intra-governmental earned revenue	-	-	-	(2,744)
Public earned revenue	-	-	-	(1,354)
Less earned revenue	-	-	-	(4,098)
Net program cost	-	-	-	611,682
OTHER PROGRAMS				
Statistics				
Intra-governmental	-	-	-	-
With the public	-	-	-	-
Gross cost	-	-	-	-
Intra-governmental earned revenue	-	-	-	-
Public earned revenue	-	-	-	-
Less earned revenue	-	-	-	-
Net program cost	-	-	-	-
COSTS NOT ASSIGNED TO PROGRAMS				
Gross cost	-	-	-	-
Less earned revenue not attributed to programs	-	-	-	-
Net cost not assigned to programs	-	-	-	-
Net cost of operations	$ 167,932,929	$ 7,873,917	$ 1,662,617	$ 615,774

Bureau of Labor Statistics	Mine Safety and Health Administration	Employee Benefits Security Administration	Veterans' Employment and Training	Other Departmental Programs	Total
$ -	$ -	$ 5,388	$ -	$ 489	$ 1,326,095
-	-	20,538	-	10,394	171,827,137
-	-	25,926	-	10,883	173,153,232
-	-	(626)	-	-	(4,294,553)
-	-	-	-	-	(7,661)
-	-	(626)	-	-	(4,302,214)
-	-	25,300	-	10,883	168,851,018
-	-	-	8,066	136	72,330
-	-	-	216,566	935	8,347,843
-	-	-	224,632	1,071	8,420,173
-	-	-	(64)	(73)	(11,262)
-	-	-	-	-	-
-	-	-	(64)	(73)	(11,262)
-	-	-	224,568	998	8,408,911
-	-	30,021	795	4,373	145,377
-	-	149,630	30,841	87,555	634,617
-	-	179,651	31,636	91,928	779,994
-	-	(7,461)	(7)	-	(8,872)
-	-	-	-	-	-
-	-	(7,461)	(7)	-	(8,872)
-	-	172,190	31,629	91,928	771,122
	72,816	-	-	17	155,329
-	329,539	-	-	1,987	864,810
-	402,355	-	-	2,004	1,020,139
-	(562)	-	-	-	(3,306)
-	(1,365)	-	-	-	(2,719)
-	(1,927)	-	-	-	(6,025)
-	400,428	-	-	2,004	1,014,114
190,112	-	-	-	42	190,154
499,797	-	-	-	4,967	504,764
689,909	-	-	-	5,009	694,918
(10,725)	-	-	-	-	(10,725)
(2,909)	-	-	-	-	(2,909)
(13,634)	-	-	-	-	(13,634)
676,275	-	-	-	5,009	681,284
-	-	-	-	96,580	96,580
-	-	-	-	(9,453)	(9,453)
-	-	-	-	87,127	87,127
$ 676,275	$ 400,428	$ 197,490	$ 256,197	$ 197,949	$ 179,813,576

NOTE 15 - PROGRAM COST - Continued

E. Consolidating Statement of Net Cost - Employment and Training Administration

Net cost of the Employment and Training Administration for the year ended September 30, 2010 consisted of the following (intra-agency transactions were eliminated within each agency column rather than shown under an eliminations column):

(Dollars in thousands)	Employment Security	Training and Employment Programs	Total
CROSSCUTTING PROGRAMS			
Income maintenance			
Benefits	$ 155,373,085	$ -	$ 155,373,085
Grants	4,545,418	-	4,545,418
Interest	1,001,890	-	1,001,890
Administrative and other	2,008,704	-	2,008,704
Gross cost	162,929,097	-	162,929,097
Less earned revenue	(1,516,016)	-	(1,516,016)
Net program cost	161,413,081	-	161,413,081
Employment and training			
Benefits	-	-	-
Grants	-	6,498,223	6,498,223
Administrative and other	-	32,668	32,668
Gross cost	-	6,530,891	6,530,891
Less earned revenue	-	(11,043)	(11,043)
Net program cost	-	6,519,848	6,519,848
Net cost of operations	$ 161,413,081	$ 6,519,848	$ 167,932,929

NOTE 15 - PROGRAM COST - Continued

F. Consolidating Statement of Net Cost - Employment Standards Administration

Net cost of the Employment Standards Administration for the year ended September 30, 2010 consisted of the following (intra-agency transactions were eliminated within each agency column rather than shown under an eliminations column):

(Dollars in thousands)	Office of Workers' Compensation Programs	Office of Federal Contract Compliance	Wage and Hour Division	Office of Labor Management Standards	Total
CROSSCUTTING PROGRAMS					
Income maintenance					
Benefits	$ 9,533,632	$ -	$ -	$ -	$ 9,533,632
Interest	223,923	-	-	-	223,923
Administrative and other	425,679	-	-	-	425,679
Gross cost	10,183,234	-	-	-	10,183,234
Less earned revenue	(2,785,572)	-	-	-	(2,785,572)
Net program cost	7,397,662	-	-	-	7,397,662
Labor, employment and pension standards					
Benefits	-	-	-	-	-
Administrative and other	-	124,828	295,139	56,812	476,779
Gross cost	-	124,828	295,139	56,812	476,779
Less earned revenue	-	(380)	(832)	(192)	(1,404)
Net program cost	-	124,448	294,307	56,620	475,375
Employment and training					
Benefits	-	-	-	-	-
Administrative and other	-	-	880	-	880
Gross cost	-	-	880	-	880
Less earned revenue	-	-	-	-	-
Net program cost	-	-	880	-	880
Net cost of operations	$ 7,397,662	$ 124,448	$ 295,187	$ 56,620	$ 7,873,917

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 16 - NON-EXCHANGE REVENUE

Non-exchange revenues reported on the Consolidated Statement of Changes in Net Position in FY 2011 and FY 2010 consisted of the following:

(Dollars in thousands)	2011	2010
Employer taxes		
Unemployment Trust Fund		
Federal unemployment taxes	$ 6,791,564	$ 6,451,722
State unemployment taxes	45,264,659	34,013,576
	52,056,223	40,465,298
Black Lung Disability Trust Fund excise taxes	622,881	594,803
	52,679,104	41,060,101
Interest		
Unemployment Trust Fund	1,884,900	776,082
Panama Canal Commission Compensation Fund	367	553
Energy Employees Occupational Illness Compensation Fund	-	10
Black Lung Disability Trust Fund	1,227	2,304
Other	1,402	-
	1,887,896	778,949
Assessments	-	8
Reimbursement of unemployment benefits from state and local governments and non-profit organizations to the Unemployment Trust Fund	4,013,921	4,725,272
	$ 58,580,921	$ 46,564,330

NOTE 17 - TRANSFERS WITHOUT REIMBURSEMENT

Transfers from (to) other Federal agencies in FY 2011 and FY 2010 consisted of the following:

(Dollars in thousands)	2011	2010
Budgetary financing sources		
From H-1B Nonimmigrant Petitioner Account, Department of Homeland Security	$ 204,987	$ 201,794
From DOL general fund unexpended appropriation accounts to the DOL Working Capital Fund	6,000	2,000
From DOL Working Capital Fund to the General Fund of the U.S. Treasury	(3,900)	-
	207,087	203,794
Other financing sources		
From General Services Administration	2,075	3,507
	2,075	3,507
	$ 209,162	$ 207,301

The balance of $207.0 and $203.8 million in budgetary financing sources for FY 2011 and 2010, respectively, reflects the elimination of intra-DOL transfers of $45.5 and $70.5 billion.

NOTE 18 - STATUS OF BUDGETARY RESOURCES

A. Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Combined Statement of Budgetary Resources in FY 2011 and FY 2010 consisted of the following:

(Dollars in thousands)	2011	2010
Direct Obligations		
Category A	$ 4,812,366	$ 4,325,174
Category B	62,910,921	100,212,112
Exempt from apportionment	121,232,769	152,050,136
Total direct obligations	188,956,056	256,587,422
Reimbursable Obligations		
Category A	264,788	254,927
Category B	2,714,259	2,934,132
Total reimbursable obligations	2,979,047	3,189,059
	$ 191,935,103	$ 259,776,481

B. Permanent Indefinite Appropriations

DOL's permanent indefinite appropriations include all trust funds, the Federal Additional Unemployment Compensation Fund, the Panama Canal Commission Compensation Fund, the Energy Employees Occupational Illness Compensation Fund, ETA and ESA H-1B funds, ETA's Advances and Payments to the Unemployment Trust Funds, and portions of State Unemployment Insurance and Employment Service Operations and Federal Unemployment Benefits and Allowances. These funds are described in Note 1-A.3. At September 30, 2011, the Department returned unobligated, indefinite authority to Treasury in the amount of $9.3 billion.

C. Legal Arrangements Affecting Use of Unobligated Balances

Unemployment Trust Fund receipts are reported as budget authority in the Combined Statement of Budgetary Resources. The portion of UTF receipts collected in the current year in excess of amounts needed to pay benefits and other valid obligations are precluded by law from being available for obligation. Therefore, these excess receipts are not classified as budgetary resources in the Combined Statement of Budgetary Resources. Current year excess receipts are reported as temporarily not available pursuant to Public Law. Conversely, when obligations exceed receipts in the current year, amounts are drawn from unavailable collections to meet these obligations. Cumulative excess receipts are not included in unobligated balances in the status of budgetary resources included in that Statement. All excess receipts are reported as assets of the UTF and are included in the Consolidated Balance Sheet. They will become available for obligation as needed in the future.

The cumulative amounts of excess UTF receipts are denoted as unavailable collections in the Budget of the United States Government. The cumulative amount of these excess receipts at September 30, 2011 and 2010 reclassified from unobligated balances to UTF unavailable collections is presented on the following page.

NOTE 18 - STATUS OF BUDGETARY RESOURCES - Continued

C. Legal Arrangements Affecting Use of Unobligated Balances - Continued

(Dollars in millions)	2011	2010
Unemployment Trust Fund unavailable collections, beginning	$ 10,963	$ 14,221
Budget authority from current year appropriations and borrowing authority	118,505	148,378
Less obligations	(119,732)	(151,636)
Excess (deficiency) of budget authority over obligations	(1,227)	(3,258)
Unemployment Trust Fund unavailable collections, ending	$ 9,736	$ 10,963

D. Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government

The Budget of the United States Government with actual amounts for the year ended September 30, 2011, has not been published as of the issue date of these financial statements. This document will be available in February 2012.

A reconciliation of budgetary resources, obligations incurred and net outlays, as presented in the Combined Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2010, is shown below.

(Dollars in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 263,968	$ 259,776	$ 76,621	$ 174,286
Pension Benefit Guaranty Corporation reported separately	19,756	5,617	-	(1,333)
Distributed offsetting receipts	-	-	-	76,621
Amounts included in the Combined Statement of Budgetary Resources (SBR) subsequent to submission of the budget	3,918	3,127	-	-
Expired accounts	(456)	(26)	-	-
Fiduciary Funds (included in the budget but not in the SBR)	213	139	-	139
Other	(193)	(12)	-	(8)
Budget of the United States Government	$ 287,206	$ 268,621	$ 76,621	$ 249,705

E. Undelivered Orders

Undelivered orders at September 30, 2011 and 2010 were as follows.

(Dollars in thousands)	2011	2010
Undelivered orders	$ 11,164,367	$ 12,015,527

NOTE 18 - STATUS OF BUDGETARY RESOURCES - Continued

F. Appropriations Received

The Combined Statement of Budgetary Resources discloses appropriations received of $179,309 and $227,533 million for FY 2011 and 2010, respectively. Appropriations received on the Consolidated Statement of Changes in Net Position are $67,406 and $101,267 million for FY 2011 and 2010, respectively. The differences of $111,903 and $126,266 million primarily represent certain fiduciary and earmarked receipts recognized as exchange revenue or non-exchange revenue reported on the Consolidated Statement of Net Cost or the Consolidated Statement of Changes in Net Position, respectively, in the current or prior years. Detail of these differences is presented below.

(Dollars in millions)	2011	2010
Receipts recognized as revenue and transfers in current or prior years		
Unemployment Trust Fund	$ 111,069	$ 125,474
Black Lung Disability Trust Fund	629	596
Other earmarked funds	203	196
	111,901	126,266
Other	2	-
	$ 111,903	$ 126,266

G. Borrowing Authority

As of September 30, 2011, P.L. 111-117 (123 Stat. 3230 dated December 16, 2009) granted borrowing authority for repayable advances and other debt in the amount of “such sums as may be necessary” to the following trust funds: (1) Unemployment Trust Fund for advances as authorized by sections 905(d) and 1203 of the Social Security Act and (2) Black Lung Disability Trust Fund (BLDTF) for advances as authorized by section 9501(c)(1) of the Internal Revenue Code. Although section 9501 of the Internal Revenue Code and section 2 of P.L. 111-46 both use the terminology "advance," the Treasury has interpreted this to mean any debt owed by the BLDTF to the Bureau of the Public Debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 19 - RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS

(Dollars in thousands)	2011	2010
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 191,935,103	$ 259,776,481
Recoveries of prior year obligations	(436,261)	(162,552)
Less spending authority from offsetting collections	(8,128,492)	(8,055,377)
Obligations, net of offsetting collections and recoveries	183,370,350	251,558,552
Other resources		
Imputed financing from costs absorbed by others	158,036	173,055
Transfers, net	2,075	3,507
Exchange revenue not in budget	(1,556,689)	(1,613,215)
Total resources used to finance activities	181,973,772	250,121,899
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet received or provided	816,928	188,220
Resources that finance the acquisition of assets	(124,884)	(113,686)
Transfers that do not effect the net cost of operations	(50,510,629)	(75,452,547)
Total resources used to finance items not part of the net cost of operations	(49,818,585)	(75,378,013)
Total resources used to finance the net cost of operations	132,155,187	174,743,886
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in other periods		
Increase (decrease) in annual leave liability	154	9,194
Increase in benefits liabilities	2,654,189	4,993,544
Other	226,537	103,613
Total	2,880,880	5,106,351
Components not requiring or generating resources		
Depreciation and amortization	67,188	82,310
Revaluation of assets and liabilities	1,630,224	1,342,385
Benefit overpayments	(1,662,321)	(1,461,356)
Total	35,091	(36,661)
Total components of the net cost of operations that will not require or generate resources in the current period	2,915,971	5,069,690
Net cost of operations	$ 135,071,158	$ 179,813,576

NOTE 20 - SOURCES AND DISPOSITIONS OF CUSTODIAL REVENUE

Custodial revenues in FY 2011 consisted of the following:

(Dollars in thousands)	Cash Collections	Less Refunds	Net Cash Collections and Transfers to U.S. Treasury General Fund	Increase (Decrease) in Amounts to be Collected and Transferred	Total Revenues
Civil monetary penalties					
OSHA	$ 151,167	$ -	$ 151,167	$ (36,710)	$ 114,457
MSHA	100,128	(17)	100,111	6,610	106,721
EBSA	20,727	(19)	20,708	1,801	22,509
ESA	11,588	(10)	11,578	840	12,418
	283,610	(46)	283,564	(27,459)	256,105
ETA disallowed grant costs	2,989	(42)	2,947	171	3,118
Other	4,660	-	4,660	24	4,684
	$ 291,259	$ (88)	$ 291,171	$ (27,264)	$ 263,907

Custodial revenues in FY 2010 consisted of the following:

(Dollars in thousands)	Cash Collections	Less Refunds	Net Cash Collections and Transfers to U.S. Treasury General Fund	Increase (Decrease) in Amounts to be Collected and Transferred	Total Revenues
Civil monetary penalties					
OSHA	$ 120,259	$ (59)	$ 120,200	$ 28,128	$ 148,328
MSHA	82,986	(4)	82,982	(18,375)	64,607
EBSA	24,761	2	24,763	(5)	24,758
ESA	13,270	(123)	13,147	(5,212)	7,935
	241,276	(184)	241,092	4,536	245,628
ETA disallowed grant costs	8,133	(86)	8,047	(1,098)	6,949
Other	580	(757)	(177)	(76)	(253)
	$ 249,989	$ (1,027)	$ 248,962	$ 3,362	$ 252,324

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 21 - EARMARKED FUNDS

DOL is responsible for the operation of certain earmarked funds. Other earmarked funds include Gifts and Bequests, Panama Canal Commission Compensation Fund, and H-1B Funds. The financial position of the earmarked funds as of September 30, 2011 is shown below.

(Dollars in thousands)	Unemployment	Black Lung Disability	Other	Total
Assets				
Intra-governmental				
Funds with U.S. Treasury	$ -	$ 50,019	$ 471,794	$ 521,813
Investments	16,150,638	-	63,151	16,213,789
Accounts receivable, net				
Due from other Federal agencies				
for UCX and UCFE benefits	666,272	-	-	666,272
Other	-	-	1,619	1,619
Total intra-governmental	16,816,910	50,019	536,564	17,403,493
Accounts receivable, net				
State unemployment tax	335,188	-	-	335,188
Due from reimbursable employers	1,100,195	-	-	1,100,195
Benefit overpayments	552,225	13,795	-	566,020
Other	-	-	7	7
Advances	1,366,403	-	1	1,366,404
Other	-	-	822	822
Total assets	$ 20,170,921	$ 63,814	$ 537,394	$ 20,772,129
Liabilities				
Intra-governmental				
Accounts payable to DOL agencies	$ 2,020,603	$ -	$ 139	$ 2,020,742
Debt	42,772,829	6,163,075	-	48,935,904
Amounts held for the Railroad				
Retirement Board	54,995	-	-	54,995
Other	-	-	7,169	7,169
Total intra-governmental	44,848,427	6,163,075	7,308	51,018,810
Accounts payable	5,508	-	2,811	8,319
Future workers' compensation benefits	-	-	48,695	48,695
Accrued benefits	3,162,058	-	-	3,162,058
Other Liabilities	-	-	772	772
Total liabilities	48,015,993	6,163,075	59,586	54,238,654
Net position				
Cumulative results of operations	(27,845,072)	(6,099,261)	477,808	(33,466,525)
Total liabilities and net position	$ 20,170,921	$ 63,814	$ 537,394	$ 20,772,129

NOTE 21 - EARMARKED FUNDS - Continued

The net results of operations of the earmarked funds for the year ended September 30, 2011 are shown below.

(Dollars in thousands)	Unemployment	Black Lung Disability	Other	Total
Cost, net of earned revenues				
Benefits	$ (111,241,172)	$ (201,219)	$ (10,650)	$ (111,453,041)
Grants	-	-	(23,304)	(23,304)
Interest	(1,431,065)	(226,646)	(1)	(1,657,712)
Administrative and other	(2,002,696)	(1,493)	(47,660)	(2,051,849)
	(114,674,933)	(429,358)	(81,615)	(115,185,906)
Earned revenue	1,331,620	78	-	1,331,698
Net cost of operations	(113,343,313)	(429,280)	(81,615)	(113,854,208)
Net financing sources				
Taxes	52,056,223	622,881	-	52,679,104
Interest	1,884,900	1,227	367	1,886,494
Reimbursement of unemployment benefits	4,035,503	-	-	4,035,503
Imputed financing	-	-	4,787	4,787
Transfers-in				
Department of Homeland Security	-	-	201,564	201,564
DOL entities	50,444,186	-	-	50,444,186
Transfers-out	-	-	-	
DOL entities	(5,046,345)	(58,427)	-	(5,104,772)
Other financing sources	-	2,950	-	2,950
	103,374,467	568,631	206,718	104,149,816
Net results of operations	(9,968,846)	139,351	125,103	(9,704,392)
Net position, beginning of period	(17,876,226)	(6,238,612)	352,705	(23,762,133)
Net position, end of period	$ (27,845,072)	$ (6,099,261)	$ 477,808	$ (33,466,525)

NOTE 21 - EARMARKED FUNDS - Continued

The financial position of the earmarked funds as of September 30, 2010 is shown below.

(Dollars in thousands)	Unemployment	Black Lung Disability	Other	Total
Assets				
Intra-governmental				
Funds with U.S. Treasury	$ 88,491	$ 52,471	$ 349,615	$ 490,577
Investments	18,866,563	-	67,162	18,933,725
Accounts receivable, net				
Due from other Federal agencies for UCX and UCFE benefits	745,405	-	-	745,405
Other	-	-	1,113	1,113
Total intra-governmental	19,700,459	52,471	417,890	20,170,820
Accounts receivable, net				
State unemployment tax	262,109	-	3	262,112
Due from reimbursable employers	1,142,229	-	-	1,142,229
Benefit overpayments	450,248	15,557	-	465,805
Other	-	-	-	-
Advances	1,628,384	-	2,871	1,631,255
Other	-	-	705	705
Total assets	$ 23,183,429	$ 68,028	$ 421,469	$ 23,672,926
Liabilities				
Intra-governmental				
Accounts payable to DOL agencies	$ 1,866,105	$ -	$ 139	$ 1,866,244
Debt	34,110,979	6,289,746	-	40,400,725
Amounts held for the Railroad Retirement Board	29,582	-	-	29,582
Other	(690)	-	3,102	2,412
Total intra-governmental	36,005,976	6,289,746	3,241	42,298,963
Accounts payable	1,861	-	10,374	12,235
Future workers' compensation benefits			54,534	54,534
Accrued benefits	5,051,818	16,894	615	5,069,327
Total liabilities	41,059,655	6,306,640	68,764	47,435,059
Net position				
Cumulative results of operations	(17,876,226)	(6,238,612)	352,705	(23,762,133)
Total liabilities and net position	$ 23,183,429	$ 68,028	$ 421,469	$ 23,672,926

NOTE 21 - EARMARKED FUNDS - Continued

The net results of operations of the earmarked funds for the year ended September 30, 2010 is shown below.

(Dollars in thousands)	Unemployment	Black Lung Disability	Other	Total
Cost, net of earned revenues				
Benefits	$ (143,689,319)	$ (220,977)	$ (289)	$ (143,910,585)
Grants	-	-	(132,912)	(132,912)
Interest	(1,001,853)	(223,923)	(5)	(1,225,781)
Administrative and other	(1,568,235)	(9,410)	(10,714)	(1,588,359)
	(146,259,407)	(454,310)	(143,920)	(146,857,637)
Earned revenue	1,499,315	-	-	1,499,315
Net cost of operations	(144,760,092)	(454,310)	(143,920)	(145,358,322)
Net financing sources				
Taxes	40,465,298	594,803	-	41,060,101
Interest	776,082	2,304	553	778,939
Reimbursement of unemployment benefits	4,721,275	-	-	4,721,275
Imputed financing	-	-	214	214
Transfers-in				
Department of Homeland Security	-	-	195,728	195,728
DOL entities	75,392,284	-	6,000	75,398,284
Transfers-out				
DOL entities	(5,009,930)	(58,138)	-	(5,068,068)
Other financing sources	-	(2,950)	(50,000)	(52,950)
	116,345,009	536,019	152,495	117,033,523
Net results of operations	(28,415,083)	81,709	8,575	(28,324,799)
Net position, beginning of period	10,538,857	(6,320,321)	344,130	4,562,666
Net position, end of period	$ (17,876,226)	$ (6,238,612)	$ 352,705	$ (23,762,133)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 22 - FIDUCIARY ACTIVITY

The Department has one deposit fund and two trust funds that fall under the definition of fiduciary activity promulgated by SFFAS 31, "Accounting for Fiduciary Activities". The schedule of fiduciary activity for these funds for the year ended September 30, 2011 is shown below.

(Dollars in thousands)	Wage and Hour and Public Contracts Restitution Fund	Longshore and Harbor Workers' Compensation Act Trust Fund	District of Columbia Workmen's Compensation Act Trust Fund	Total Fiduciary Funds
Fiduciary activity				
Assessments	$ 9,376	$ 126,877	$ 5,371	$ 141,624
Investment earnings	-	25	2	27
Administrative and other expenses	-	(1,744)	-	(1,744)
Transfer of funds to Treasury	-	(2,118)	-	(2,118)
Disbursements to beneficiaries	(99)	(126,737)	(9,095)	(135,931)
Increase (decrease) in fiduciary net assets	9,277	(3,697)	(3,722)	1,858
Fiduciary net assets, beginning of year	92,330	25,210	5,691	123,231
Fiduciary net assets, end of year	$ 101,607	$ 21,513	$ 1,969	$ 125,089

The schedule of fiduciary net assets for these funds as of September 30, 2011 is shown below.

(Dollars in thousands)	Wage and Hour and Public Contracts Restitution Fund	Longshore and Harbor Workers' Compensation Act Trust Fund	District of Columbia Workmen's Compensation Act Trust Fund	Total Fiduciary Funds
Fiduciary assets				
Cash	$ 110,473	$ 5	$ -	$ 110,478
Investments	-	58,170	4,042	62,212
Other assets		1,763	129	1,892
Less: liabilities	(8,866)	(38,425)	(2,202)	(49,493)
Total fiduciary net assets	$ 101,607	$ 21,513	$ 1,969	$ 125,089

Unqualified opinions were expressed on separate financial statements issued for the Longshore and Harbor Workers' Compensation Act Trust Fund and the District of Columbia Workmen's Compensation Act Trust Fund for FY 2010. These separate financial statements were presented in accordance with U.S. GAAP. Copies of these financial statements are available on DOL's website at www.oig.dol.gov.

NOTE 22 - FIDUCIARY ACTIVITY - Continued

The schedule of fiduciary activity for the fiduciary funds for the year ended September 30, 2010 is shown below.

(Dollars in thousands)	Wage and Hour and Public Contracts Restitution Fund	Longshore and Harbor Workers' Compensation Act Trust Fund	District of Columbia Workmen's Compensation Act Trust Fund	Total Fiduciary Funds
Fiduciary activity				
Assessments	$ 35,318	$ 129,761	$ 11,094	$ 176,173
Investment earnings	-	41	5	46
Administrative and other expenses	-	(322)	(6)	(328)
Transfer of funds to Treasury	(8,162)	(2,124)	-	(10,286)
Disbursements to beneficiaries	(21,273)	(128,550)	(9,382)	(159,205)
Increase (decrease) in fiduciary net assets	5,883	(1,194)	1,711	6,400
Fiduciary net assets, beginning of year	86,447	26,404	3,980	116,831
Fiduciary net assets, end of year	$ 92,330	$ 25,210	$ 5,691	$ 123,231

The schedule of fiduciary net assets for these funds as of September 30, 2010 is shown below.

(Dollars in thousands)	Wage and Hour and Public Contracts Restitution Fund	Longshore and Harbor Workers' Compensation Act Trust Fund	District of Columbia Workmen's Compensation Act Trust Fund	Total Fiduciary Funds
Fiduciary assets				
Cash	$ 91,304	$ 5,446	$ 2,870	$ 99,620
Investments	-	60,579	5,143	65,722
Other assets	1,026	2,946	148	4,120
Less: liabilities	-	(43,761)	(2,470)	(46,231)
Total fiduciary net assets	$ 92,330	$ 25,210	$ 5,691	$ 123,231

NOTE 23 - MATERIAL CONCENTRATION OF RISK

The Division of Federal Employees' Compensation within the Office of Workers' Compensation Programs (OWCP) administers the Federal Employees' Compensation Act (FECA) program and the payment of workers' compensation benefits to federal and postal workers for employment-related injuries and occupational diseases. Federal agencies and the U.S. Postal Service (USPS) reimburse the FECA Special Benefits Fund for payments made on behalf of their workers. In Note 11, Future Workers' Compensation Benefits, the USPS liability as of September 30, 2011, of $12.2 billion represents the largest portion of the total projected gross liability of the Federal government for future FECA benefits attributed to other agencies of $29.6 billion as of September 30, 2011. In October 2011, the USPS timely reimbursed the FECA Special Benefits Fund for costs incurred on their behalf during the 12 months ended June 30, 2011.

In the USPS FY 2011 quarterly report for the nine months ended June 30, 2011, USPS disclosed in the notes to their unaudited interim financial statements that their liquidity was projected at critically low levels for all of FY 2012 and that they had suspended certain of their employer defined benefit pension contributions to the Office of Personnel Management in June 2011; USPS reported net losses of $5.7 billion for the nine months ended June 30, 2011 and reported on their balance sheet as of June 30, 2011, that their largest noncurrent liability was $11.2 billion for the long-term portion of workers' compensation costs (out of $19.6 total noncurrent liabilities). USPS reported annual losses of $8.5 billion, $3.8 billion, and $2.8 billion for the fiscal years ended September 30, 2010, 2009, and 2008, respectively.

The size of the USPS FECA liability and its share of the total FECA liability as of September 30, 2011 (as reported in Note 11), together with the USPS' poor financial condition, represent a material concentration of risk for DOL.

NOTE 24 - SUBSEQUENT EVENTS

The financial statements, notes, and required supplementary information do not reflect the effects of the subsequent event described below.

Unemployment Insurance

Subsequent to September 30, 2011, the Extended Unemployment Compensation Account (EUCA) of the Unemployment Trust Fund (UTF) borrowed, as Advances from U.S. Treasury, $1.3 billion at interest rates of 2.75% and 2.875%. During the same period, the Federal Unemployment Account (FUA) of the UTF borrowed, as Advances from U.S. Treasury, $600 million at an interest rate of 2.875%.

Required Supplementary Stewardship Information

STEWARDSHIP INVESTMENTS IN HUMAN CAPITAL

Stewardship investments are made by DOL on behalf of the nation, providing long-term benefits that cannot be measured in traditional financial reports. These investments are made for the general public, and are intended to maintain or increase national economic productive capacity. DOL's stewardship investments are in human capital, reported as employment and training expenses in DOL's net cost of operations. Within DOL, the **Employment and Training Administration** (ETA), the **Office of Job Corps** (OJC), and the **Veterans' Employment and Training Service** (VETS) administer training programs that invest in human capital.

Employment and Training Administration and the Office of Job Corps

In FY 2011, **ETA** incurred total net costs of $125.7 billion. The majority of these costs consisted of unemployment benefits, which increased in FY 2011 by over $60 billion from pre-recession levels. Also included in ETA's total net costs were investments in human capital of $5.7 billion, which provided services to over 9.75 million participants in FY 2011. These investments were made through job training programs authorized by the Workforce Investment Act of 1998 (WIA), Title V of the Older Americans Act, as amended, the Trade Act of 1974, as amended, the Health Care and Education Reconciliation Act of 2010, the National Apprenticeship Act of 1937, the American Recovery and Reinvestment Act of 2009 (ARRA) and other legislation.

The **Office of Job Corps** also invests in human capital through WIA training programs. OJC's investment in human capital in FY 2011 was $1.7 billion, providing services to 56.2 thousand participants in primarily residential settings at 125 Job Corps centers. The ETA and OJC job training programs authorized by WIA are discussed below.

Adult, Dislocated Worker, Youth and Job Corps Programs Authorized by the Workforce Investment Act (WIA) of 1998

- **Adult employment and training programs** – ETA awards grants to states to design and operate training and employment assistance programs for disadvantaged adults, including public assistance recipients. ETA's FY 2011 investment in human capital through WIA adult programs was $960 million.

- **Dislocated worker employment and training programs** – ETA awards grants to states to provide reemployment services and retraining assistance to individuals dislocated from their employment. ETA's FY 2011 investment in human capital through WIA dislocated worker programs was $2,039 million.

- **Youth programs** – ETA awards grants to states to support a wide range of program activities and services to prepare low-income youth for academic and employment success, including summer jobs, by linking academic and occupational learning with youth development activities. ETA's FY 2011 investment in human capital through WIA youth programs was $1,124 million.

- **Job Corps program** – ETA's Office of Job Corps awards contracts to support a system of primarily residential centers offering basic academic education, career technical training, work experience and other support, to economically disadvantaged youth. Large and small corporations and non-profit organizations manage and operate 97 Job Corps centers under these contractual arrangements. The remaining 28 centers are operated through interagency agreements between DOL and the U.S. Department of Agriculture. In addition, 24 operators are contracted to provide outreach and admissions and career transition services. OJC's FY 2011 investment in human capital through the Job Corps program was $1,717 million.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(Unaudited)

- **Reintegration of Ex-Offenders programs** – ETA supports programs to help individuals exiting prison make a successful transition to community life and long-term employment through the provision of mentoring and job training programs to promote the successful return of adult and juvenile ex-offenders into mainstream society. ETA's FY 2011 investment in human capital through ex-offender programs was $67 million.

- **National programs** – ETA's National programs provide evaluation resources and program support for WIA activities; including nationally administered programs providing employment and training services to segments of the population that have special disadvantages in the labor market, including grants to federally recognized Indian tribes and other Native American governments or non-profit organizations, and to Migrant and Seasonal Farmworker service organizations ETA's FY 2011 human capital investment in WIA National Programs was $150 million.

<u>Community Service Employment for Older Americans (CSEOA) Program</u>

ETA also invests in human capital through the Community Service Employment for Older Americans program, authorized under Title V of the Older Americans Act, as amended in 2006. Known as the Senior Community Service Employment Program (SCSEP), the SCSEP is a federally sponsored community service employment and training program that provides part-time training through on-the-job work experience in community service activities for unemployed, low-income individuals ages 55 and older, so that they can prepare to enter or re-enter the workforce. ETA's FY 2011 investment in human capital through the CSEOA's SCSEP program was $707 million.

<u>Trade Adjustment Assistance (TAA) Programs</u>

- **Trade Adjustment Assistance for Workers Program –** The TAA for Workers program was authorized by the Trade Act of 1974, as amended and reauthorized with expanded eligibility to service sector workers by the Trade and Globalization Adjustment Assistance Act of 2009. This expanded eligibility was extended through February 12, 2011 by the Omnibus Trade Act of 2010 through December 31, 2013, by the Trade Adjustment Assistance Extension Act of 2011. The TAA for Workers program provides cash benefits; job search and relocation allowances; employment services; and training to eligible workers displaced by international trade. Only TAA training costs are considered investments in human capital.

- **Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grant Fund -** Implemented in cooperation with the Department of Education, the TAACCCT program provides grants to eligible institutions of higher learning to improve education and employment outcomes for students. Authorized by the Trade Act of 1974 and Health Care and Education Reconciliation Act of 2010, the program enables educational institutions to prepare students to succeed in growing occupations by acquiring the skills necessary for high-wage, in-demand jobs.

ETA's FY 2011 human capital investment in the trade adjustment assistance programs was $506 million.

<u>National Apprenticeship Program</u>

The National Apprenticeship Act of 1937 established the foundation for development of the nation's skilled workforce through apprenticeship programs, which combine on-the-job learning with related technical instruction to teach workers the theoretical aspects of skilled occupations. Funding provides oversight for a national system of skilled and technical occupational training, which promotes apprentices, registers apprenticeship programs, certifies apprenticeship standards, and safeguards the welfare of apprentices. ETA's FY 2011 investment in apprenticeship programs was $32 million.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(Unaudited)

Program Costs and Outputs

The cost of ETA and OJC investments in human capital and the participants served are shown in the chart below, for the five year period FY 2007 through FY 2011.

ETA and OJC Investments in Human Capital
Program Costs (in Millions) and Participants Served (in Thousands)
For The Five Year Period FY 2007 through FY 2011

	2011		2010		2009		2008		2007	
Program	**Costs**	***Part. Served***	**Costs**	***Part. Served***	**Costs**	***Part. Served***	**Costs**	***Part. Served***	**Costs**	***Part. Served***
WIA										
Adult (1)	$960	7,025.2	$899	6,695.3	$878	4,921.8	$844	2,828.7	$ 896	1,723.2
Dislocated Worker (2)	2,039	1,570.6	2,539	1,250.4	1,440	842.1	1,307	401.3	1,409	413.1
Youth (3)	1,124	245.0	1,431	316.3	1,125	438.9	966	250.7	866	248.9
Job Corps	1,717	56.2	1,663	59.8	1,640	60.9	1,589	63.4	1,485	64.8
Ex-Offenders (4)	67	39.0	70	36.1	58	9.8	61	14.2	76	15.7
National Programs (5)	150	38.9	134	61.3	206	35.0	206	44.7	220	44.0
CSEOA										
SCSEP	707	105.9	740	103.6	543	89.0	479	89.6	444	86.4
TAA (6)										
TAA for Workers training	506	193.1	540	232.7	286	105.0	248	82.1	223	79.2
Apprenticeship	32	432.2	28	485.4	25	301.6	25	385.7	24	309.5
Other (7)	135	104.9	139	95.8	120	Na	108	Na	91	Na
TOTAL	$7,437	9,811.0	$8,183	9,336.7	$6,321	6,804.1	$5,833	4,160.4	$5,734	2,984.8

(1) Adult program increases in participants served, beginning in 2008, may be attributed to the increased demand for services as a result of the economic downturn. Yearly increases can also be attributed to state reports that include self-service only participants and/or co-enrolled Wagner-Peyser participants.
(2) Dislocated Worker programs include Community Based Job Training Grants, National Emergency Grants and High Growth and Emerging Industry Training. ARRA activities account for the increases, beginning in 2009, in costs and participants.
(3) Youth program participants served, beginning in 2009, include youth reported under ARRA.
(4) Ex-Offender programs include the Prisoner Re-entry and Youthful Offender programs.
(5) National Programs include the Native American and Migrant and Seasonal Farmworker programs.
(6) TAACCCT grants were not funded until the final week of FY 2011; as a result, direct obligations but no accrued costs or participants were reported for the TAACCCT program during the fiscal year.
(7) Other includes training programs for highly skilled occupations funded through H1-B fees, green jobs initiatives and costs for lapsed programs.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(Unaudited)

Program Outcomes

Outcomes for training programs comprising ETA's investment in human capital are presented in the Department's Annual Performance Report for FY 2011, available on the DOL website at www.dol.gov/ sec/media/reports/ in February 2012.

Veterans' Employment and Training Service

The mission of the Veterans' Employment and Training Service (VETS) is to provide veterans and transitioning service members with the resources and services to succeed in the 21st century workforce, maximizing employment opportunities, protecting employment rights, and meeting labor market demands with qualified veterans.

Program Activities

Jobs for Veterans State Grants

The Jobs for Veterans Act (JVA) of 2002, which allocates resources to the States through the Jobs for Veterans State Grants (JVSG) program (38 U.S.C. 4102A(b)(5)), supports the majority of VETS activities through three major VETS programs:

- **Disabled Veterans' Outreach Program (DVOP) Specialists** – The DVOP Specialists (as required by 38 U.S.C. 4103A), provide intensive services to meet the employment needs of veterans, including counseling, assessment, lifelong learning skills and referral to training, particularly to veterans with disabilities or those who recently separated from the military.

- **Local Veterans' Employment Representatives (LVER) Staff** – The LVER staff (as required by 38 U.S.C. 4104) conducts employer outreach on behalf of veterans, allowing States to develop marketing strategies and outreach activities that promote the hiring of veterans. The staff also provides individualized job development services for veterans, especially veterans determined to be job-ready after receipt of intensive services from a DVOP specialist.

- **Transition Assistance Program (TAP)** – The TAP (established by 10 U.S.C. 1144) operates as a partnership between the Departments of Labor, Defense, Homeland Security and Veterans Affairs. The program provides separating service members and their spouses or individuals retiring from military service with career counseling and training. TAP workshops are provided throughout the United States and overseas.

Federal Management

VETS Federal management activities provide programs and policies to meet the employment and training needs of veterans. The majority of resources are devoted to Uniformed Services Employment and Reemployment Rights Act (USERRA) and Veterans' Preference Rights (5 U.S.C. 2108, 3309) compliance and outreach. Activities, as discussed below:

- **Uniformed Services Employment and Reemployment Rights Act and Veterans' Preference Rights** – The Uniformed Services Employment and Reemployment Rights Act (USERRA) of 1994, codified at 38 U.S.C. Chapter 43, protects civilian job rights and benefits for veterans, members of the National Guard and Reserves. Veterans Preference for Federal Employment is codified in 5 U.S.C. 2108 and 3309. VETS promotes a productive relationship between employer and employee by educating both on the employment rights of the individual veterans.

Homeless Veterans and Veterans' Workforce Investment Programs

- **Homeless Veterans Reintegration Program (HVRP)** – The HVRP, codified at 38 U.S.C. 2021, provides employment assistance to homeless veterans through competitive grants to States or other entities in both urban and rural areas to operate employment programs to reach out to homeless veterans and help them become employed.

- **Veterans' Workforce Investment Program (VWIP) -** The VWIP, (29 U.S.C. 2913), provides competitive grants for training and retraining of veterans to create highly skilled employment opportunities for targeted veterans.

Program Costs and Outputs

The full cost of VETS programs is presented in the Consolidated Statement of Net Cost. The costs of VETS investments in human capital, and the participants served by this investment, are presented below, by major program.

VETS Investments in Human Capital
Program Costs and Participants Served (in Thousands)
For the Fiscal Years Ended FY 2007 through FY 2011

	2011		2010		2009		2008		2007	
Program	**Costs**	***Part. Served***	**Costs**	***Part. Served***	**Costs**	***Part. Served***	**Costs**	***Part. Served***	**Costs**	***Part. Served***
DVOP	**$89,251**	***329.4***	**$99,818**	***351.1***	**$91,064**	***345.1***	**$86,844**	***363.8***	**$86,667**	***363.4***
LVER	**82,246**	***302.2***	**91,984**	***357.9***	**83,917**	***362.3***	**80,028**	***366.4***	**80,000**	***400.6***
TAP	**7,089**	***143.1***	**7,928**	***129.0***	**7,233**	***124.7***	**6,898**	***150.0***	**7,704**	***151.3***
USERRA	**9,874**	***79.9***	**11,043**	***101.6***	**10,075**	***107.9***	**9,100**	***93.0***	**9,170**	***70.8***
HVRP	**28,385**	***17.0***	**31,746**	***14.4***	**28,962**	***13.7***	**27,620**	***14.0***	**27,504**	***12.8***
VWIP	**7,863**	***3.9***	**8,794**	***3.3***	**8,023**	***3.6***	**7,651**	***3.3***	**7,667**	***3.6***
TOTAL	**$224,708**	***875.5***	**$251,313**	***957.3***	**$229,274**	***957.3***	**$218,141**	***990.5***	**$218,712**	***1,002.5***

Program Outcomes

Outcomes for the programs comprising VETS' investment in human capital are presented in the Department's Annual Performance Report for FY 2011 available on the DOL website, www.dol.gov/_sec/media/reports/,
in February 2012.

Required Supplementary Information

DEFERRED MAINTENANCE

The U.S. Department of Labor (DOL) maintains one hundred twenty-five (125) Job Corps centers located throughout the United States. Periodic maintenance is performed to keep these centers in acceptable condition, as determined by Job Corps management. Maintenance requirements are stratified by management into critical and non-critical projects. Critical maintenance involves life, safety, health, and environmental issues, as well as building code compliance deficiencies. Critical maintenance projects are funded and performed in the year they are identified. Non-critical maintenance projects are performed each year to the extent that funding constraints allow. Non-critical maintenance projects that cannot be funded when scheduled are deferred to a future period.

Condition Assessment Surveys

Condition assessment surveys are conducted every three years at each Job Corps center to determine the current condition of buildings and structures (constructed assets) and the estimated maintenance cost to correct deficiencies. Surveys conducted during years one and two of this three year cycle are updated annually to reflect maintenance performed, and rolled up with current assessments to provide a condition assessment for the entire Job Corps portfolio of constructed assets. Condition assessment surveys are based on methods and standards consistently applied, including:

- condition descriptions of facilities
- estimated costs of maintenance actions
- recommended maintenance schedules
- standardized condition codes

Asset Condition

Condition assessment surveys are used to estimate the current plant replacement value and deferred maintenance repair backlog for every constructed asset at each Job Corps center. Plant replacement value and repair backlog are used to calculate a Facilities Condition Index (FCI) for each building and structure. The chart below ranks each asset within one of five categories of asset condition, based on the assets FCI score, for the previous five year period.

Job Corps Center Constructed Assets
Ranking of Individual Asset Condition By FCI Score(1)
at September 30, 2007 – 2011

		2011		**2010**		**2009**		**2008**		**2007**	
Asset Condition	***FCI Score***	No. of Assets	Asset %	No. of Assets	Asset %	No. of Assets	Asset %	No. of Assets	Asset %	No. of Assets	Asset %
Excellent	*90- 100%*	3,338	86.2	3,273	86.4	3,037	84.6	2,878	81.9	2,966	80.9
Good	*80- 89%*	301	7.8	282	7.4	290	8.1	311	8.9	338	9.2
Fair	*70- 79%*	100	2.6	90	2.4	95	2.6	115	3.3	126	3.4
Poor	*60- 69%*	52	1.3	57	1.5	71	2.0	89	2.5	98	2.7
Very Poor	*< 60%*	83	2.1	88	2.3	96	2.7	118	3.4	136	3.8
		3,874	100.0	3,790	100.0	3,589	100.0	3,511	100.0	3,664	100.0

(1) FCI = 1 – (Repair Backlog / Plant Replacement Value). An FCI closer to 100 % indicates better asset condition.

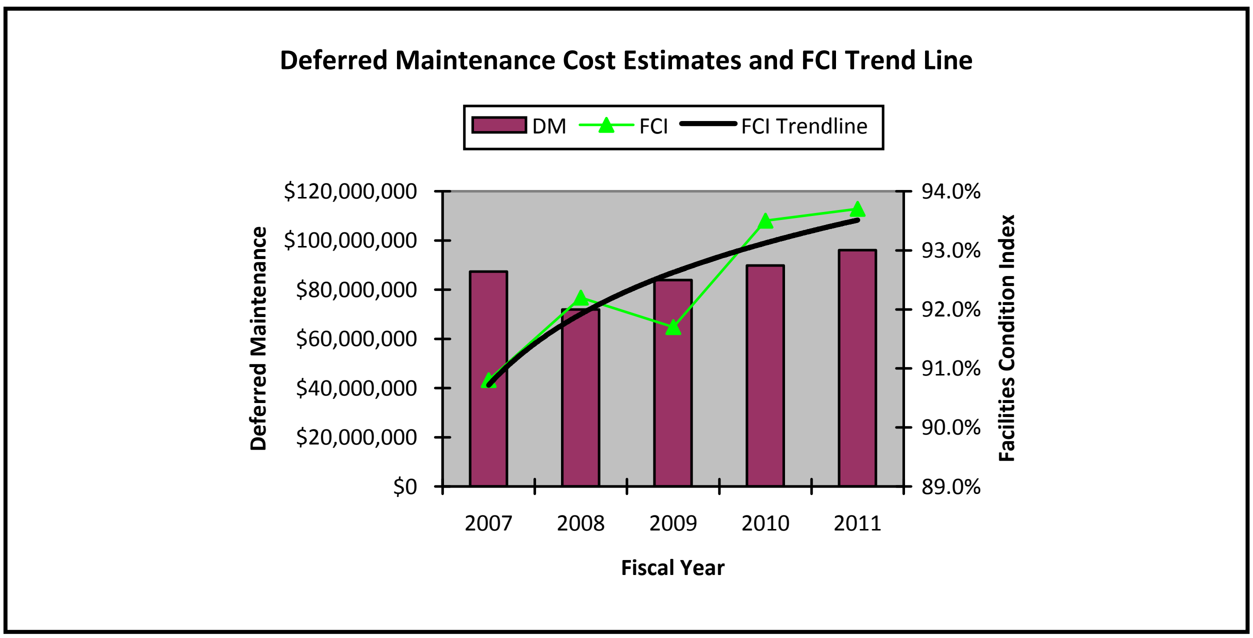
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Portfolio Condition and Deferred Maintenance Cost Estimates

The FCI assessments by building and structure are consolidated to calculate an FCI score for the entire portfolio of constructed assets, which is used to evaluate the overall asset condition of the Job Corps portfolio. Job Corps has set the goal of achieving and maintaining an FCI of 90% or greater (the standard used by the National Association of College and University Business Offices) for its portfolio of constructed assets. In 2011, the portfolio's aggregate FCI score for 3,874 constructed assets was 93.7%, and deferred maintenance costs to return the portfolio to an acceptable condition were estimated at $96.1 million, as shown in the table below. The final graph juxtaposes deferred maintenance cost estimates with the FCI trend line for the five year period ending in 2011.

Job Corps Center Constructed Assets
Portfolio Condition and Deferred Maintenance Cost Estimates
at September 30, 2007 - 2011

Constructed Assets - FY	Number of Constructed Assets	Portfolio Condition Based on Aggregate FCI Score	Deferred Maintenance Costs to Return Assets To Acceptable Condition
Buildings and structures - 2011	3,874	Excellent - 93.7%	$96,136,092
Buildings and structures - 2010	3,790	Excellent - 93.4%	$89,827,363
Buildings and structures - 2009	3,589	Excellent - 91.7%	$83,861,828
Buildings and structures - 2008	3,511	Excellent - 92.2%	$71,901,425
Buildings and structures - 2007	3,664	Excellent - 90.8%	$87,372,700



SOCIAL INSURANCE PROGRAMS

The Federal Accounting Standards Advisory Board (FASAB) has classified certain government income transfer programs as social insurance programs. Recognizing that these programs have complex characteristics that do not fit traditional accounting models, the FASAB has developed accounting standards for social insurance programs which require the presentation of supplementary information to facilitate the assessment of the program's long-term sustainability. Effective in FY 2011, the Department implemented FASAB Statement of Federal Financial Accounting Standards 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*, and has modified, among other things, the disclosures and presentations of the Required Supplementary Information (RSI) reporting for its social insurance programs to conform to the requirements of the accounting standard.

The U.S. Department of Labor operates two programs classified under Federal accounting standards as social insurance programs, the Unemployment Insurance Program and the Black Lung Disability Benefits Program. Presented below is the supplementary information for the two programs.

Unemployment Insurance Program

The Unemployment Insurance (UI) Program was created in 1935 to provide income assistance to unemployed workers who lose their jobs generally through no fault of their own and are unemployed due to a lack of suitable work. The program protects workers during temporary periods of unemployment through the provision of unemployment compensation benefits. These benefits replace part of the unemployed worker's lost wages and, in so doing, stabilize the economy during recessionary periods by increasing the unemployed worker's purchasing power. The UI program operates counter cyclically, with benefits exceeding tax collections during recessionary periods and UI tax revenues exceeding benefit payments during periods of recovery.

Program Administration and Funding

The UI program is administered through a unique system of Federal-state partnerships, established in Federal law but executed through conforming state laws by state officials. The Federal government provides broad policy guidance and program direction through the oversight of the U.S. Department of Labor, while program details are established through individual state UI statutes, administered through state UI agencies.

Federal and State Unemployment Taxes

The UI program is financed through the collection of Federal and state unemployment taxes levied on subject employers and deposited in the Unemployment Trust Fund (UTF). The UTF was established to account for the receipt, investment and disbursement of unemployment taxes. Federal unemployment taxes are used to pay for the administrative costs of the UI program, including grants to each state to cover the costs of state UI operations and the Federal share of extended UI benefits. Federal unemployment taxes are also used to fund an account within the UTF, to make advances to insolvent states to pay UI benefits. State UI taxes are used exclusively for the payment of regular UI benefits, as well as the state's share of extended benefits.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Federal Unemployment Taxes

Under the provisions of the Federal Unemployment Tax Act (FUTA), a Federal tax is levied on covered employers, at a current rate of 6.0% of the first $7,000 in annual wages paid to each employee. This Federal tax rate is reduced by a credit of up to 5.4%, granted to employers paying state UI taxes under conforming state UI statutes. Accordingly, in conforming states, employers paid an effective Federal tax of 0.8% (0.6% starting July 1, 2011). Federal unemployment taxes are collected by the Internal Revenue Service.

State Unemployment Taxes

In addition to the Federal tax, individual states finance their UI programs through state tax contributions from subject employers based on the wages of covered employees. (Three states also collect contributions from employees.) Within Federal confines, state tax rates are assigned in accordance with an employer's experience with unemployment. Actual tax rates vary greatly among the states and among individual employers within a state. At a minimum, these rates must be applied to the Federal tax base of $7,000; however, states may adopt a higher wage base than the minimum established by FUTA. State UI agencies are responsible for the collection of state unemployment taxes.

Unemployment Trust Fund

Federal and state UI taxes are deposited into designated accounts within the Unemployment Trust Fund. The UTF was established under the authority of Title IX, Section 904 of the Social Security Act of 1935, as amended, to receive, hold, invest, loan and disburse Federal and state UI taxes. The U.S. Department of the Treasury acts as custodian over monies deposited into the UTF, investing amounts in excess of disbursing requirements in Treasury securities. The UTF is comprised of the following accounts:

Federal Accounts

The Employment Security Administration Account (ESAA) was established pursuant to Section 901 of the Act. All tax receipts collected under the Federal Unemployment Tax Act (FUTA) are appropriated to the ESAA and used to pay the costs of Federal and state administration of the unemployment insurance program and veterans' employment services, as well as 97% of the costs of the state employment services. Excess balances in ESAA, as defined under the Act, are transferred to other Federal accounts within the Fund, as described below.

The Federal Unemployment Account (FUA) was established pursuant to Section 904 of the Act. FUA is funded by any excesses from the ESAA as determined in accordance with Section 902 of the Act. Title XII, Section 1201 of the Act authorizes the FUA to loan Federal monies to state accounts that are unable to make benefit payments because the state UI account balance has been exhausted. Title XII loans must be repaid with interest. The American Recovery and Reinvestment Act of 2009 waived interest on advances to state accounts for the period February 17, 2009, through December 31, 2010. The FUA may borrow from the ESAA or EUCA, without interest, or may also receive repayable advances, with interest, from the general fund of the U.S. Treasury, when the FUA has a balance insufficient to make advances to the states.

The Extended Unemployment Compensation Account (EUCA) was established pursuant to Section 905 of the Act. EUCA provides for the payment of extended unemployment benefits authorized under the Federal-State Extended Unemployment Compensation Act of 1970, as amended. Under the extended benefits program, extended unemployment benefits are paid to individuals who have exhausted their regular unemployment benefits. These extended benefits are financed one-half by State unemployment taxes and one-half by FUTA taxes from the EUCA. The EUCA is funded by a percentage of the FUTA tax transferred from the ESAA in accordance with Section 905(b)(1) and (2) of the Act. The EUCA may borrow from the ESAA or the FUA, without interest, or may also receive repayable advances from the general fund of the Treasury when the EUCA has a balance insufficient to pay the Federal share of extended benefits. During periods of sustained high unemployment, the EUCA may also receive payments and non-repayable advances from the general fund of the Treasury to finance emergency unemployment compensation benefits. Emergency unemployment benefits require Congressional authorization.

The Federal Employees Compensation Account (FEC) was established pursuant to Section 909 of the Act. The FEC account provides funds to States for unemployment compensation benefits paid to eligible former Federal civilian personnel and ex-service members. Generally, benefits paid are reimbursed to the Federal Employees Compensation Account by the various Federal agencies. Any additional resources necessary to assure that the account can make the required payments to States, due to the timing of the benefit payments and subsequent reimbursements, will be provided by non-repayable advances from the general fund of the Treasury.

State Accounts

Separate state accounts were established for each state and territory depositing monies into the Fund, in accordance with Section 904 of the Act. State unemployment taxes are deposited into these individual accounts and may be used only to pay state unemployment benefits. States may receive repayable advances from the FUA when their balances in the Fund are insufficient to pay benefits.

Railroad Retirement Accounts

The Railroad UI Account and Railroad UI Administrative Account were established under Section 904 of the Act to provide for a separate unemployment insurance program for railroad employees. This separate unemployment insurance program is administered by the Railroad Retirement Board, an agency independent of DOL. DOL is not responsible for the administrative oversight or solvency of the railroad unemployment insurance system. Receipts from taxes on railroad payrolls are deposited in the Railroad UI Account and the Railroad UI Administrative Account to meet benefit payment and related administrative expenses.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

UI Program Benefits

The UI program provides regular and extended benefit payments to eligible unemployed workers. Regular UI program benefits are established under state law, payable for a period not to exceed a maximum duration. In 1970, Federal law began to require states to extend this maximum period of benefit duration by 50% during periods of high unemployment. These extended benefit payments are paid equally from Federal and state accounts.

Regular UI Benefits

The UI program is a cooperative Federal and state program with the federal government providing oversight. Eligibility requirements, as well as benefit amounts and benefit duration are determined under state law. Under state laws, worker eligibility for benefits depends on experience in covered employment during a past base period, which attempts to measure the workers' recent attachment to the labor force. Three factors are common to state eligibility requirements: (1) a minimum duration of recent employment and earnings during a base period prior to unemployment, (2) unemployment not the fault of the unemployed, and (3) availability of the unemployed for work.

Benefit payment amounts under all state laws vary with the worker's base period wage history. Generally, states compute the amount of weekly UI benefits as a percentage of an individual's average weekly base period earnings, within certain minimum and maximum limits. Most states set the duration of UI benefits by the amount of earnings an individual has received during the base period. Currently, almost all states have established the maximum duration for regular UI benefits at 26 weeks. Regular UI benefits are paid by the state UI agencies from monies drawn down from the state account within the Unemployment Trust Fund.

Extended UI Benefits

The Federal/State Extended Unemployment Compensation Act of 1970 provides for the extension of the duration of UI benefits during periods of high unemployment. When the insured unemployment level within a state, or in some cases total unemployment, reaches certain specified levels, the state must extend benefit duration by 50%, up to a combined maximum of 39 weeks; certain states voluntarily extended the benefit duration up to a combined maximum of 46 weeks. Fifty percent of the cost of extended unemployment benefits is paid from the Extended Unemployment Compensation Account within the UTF, and 50% by the state, from the state's UTF account. The American Recovery and Reinvestment Act of 2009 began temporary 100% Federal funding of extended benefits. P.L. 111-205, the Unemployment Compensation Extension Act of 2010, authorized 100% Federal funding of extended benefits to December 4, 2010 and P.L. 111-312, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, authorized continuing 100% Federal funding of extended unemployment benefits to January 4, 2012.

Emergency UI Benefits

During prolonged periods of high unemployment, Congress may authorize the payment of emergency unemployment benefits to supplement extended UI benefit payments. Emergency benefits began in July 2008, authorized under the Supplemental Appropriations Act, 2008. This emergency program was temporarily extended and additionally funded by the Recovery Act and has been modified several times, most recently by P.L. 111-312, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, which changed the expiration date of the emergency unemployment insurance program to January 3, 2012.

Federal UI Benefits

Unemployment benefits to unemployed Federal workers are paid from the Federal Employees Compensation Account within the Unemployment Trust Fund. These benefit costs are reimbursed by the responsible Federal agency and are not considered to be social insurance benefits. Federal unemployment compensation benefits are not included in this discussion of social insurance programs.

Program Finances and Sustainability

At September 30, 2011, total liabilities within the UTF exceeded total assets by $27.8 billion. Although at the present time there is a deficit, any future surplus of tax revenues and earnings on these revenues over benefit payment expenses is available to finance benefit payments in future periods when tax revenues may be insufficient. Treasury invests any accumulated surplus in Federal securities. The net value of these securities, including interest receivable, at September 30, 2011 was $16.2 billion. This interest is distributed to eligible state and Federal accounts within the UTF. Interest income from these investments during FY 2011 was $0.7 billion. Federal and state UI tax and reimbursable revenues of $56.1 billion and regular, extended and emergency benefit payment expense of $111.2 billion were recognized for the year ended September 30, 2011.

As discussed in Note 1.K.1 to the consolidated financial statements, DOL recognized a liability for regular, extended and emergency unemployment benefits to the extent of unpaid benefits applicable to the current period and for benefits paid by states that have not been reimbursed by the UTF. Accrued unemployment benefits payable at September 30, 2011 were $3.2 billion.

During FY 2011, both the FUA and EUCA borrowed from the general fund of the U.S. Treasury in the form of repayable advances. FUA had an outstanding repayable advances balance of $29.3 billion, of which $18.0 billion bear interest at 3.25%, $4.5 billion bear interest at 3.0%, and $6.8 billion bear interest at 2.875%, as of September 30, 2011. EUCA had an outstanding repayable advances balance of $13.5 billion, of which $3.1 billion bear interest at 3.25%, $5.3 billion bear interest at 3.0%, and $5.1 billion bear interest at 2.875%, as of September 30, 2011.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Subsequent Events

This required supplementary information does not reflect the effects of the subsequent events described below.

Subsequent to September 30, 2011, the Extended Unemployment Compensation Account (EUCA) of the Unemployment Trust Fund (UTF) borrowed, as Advances from U.S. Treasury, $1.3 billion at interest rates of 2.75% and 2.875%. During the same period, the Federal Unemployment Account (FUA) of the UTF borrowed, as Advances from U.S. Treasury, $600 million at an interest rate of 2.875%.

Effect of Projected Cash Inflows and Outflows on the Accumulated Net Assets of the UTF, in Constant Dollars

The ability of the UI program to meet a participant's future benefit payment needs depends on the availability of accumulated taxes and earnings within the UTF. The Department measures the effect of projected benefit payments on the accumulated net assets of the UTF, under an open group scenario, which includes current and future participants in the UI program. Future estimated cash inflows and outflows of the UTF are tracked by the Department for budgetary purposes. These projections allow the Department to monitor the sensitivity of the UI program to differing economic conditions, and to predict the program's sustainability under varying economic assumptions.

The significant assumptions used in the projections include total unemployment rates, civilian labor force levels, percent of unemployed receiving benefits, total wages, distribution of benefit payments by state, state tax rate structures, state taxable wage bases, interest rates on UTF investments, and the Consumer Price Index-Urban for goods and services (CPI-U). The use of CPI-U factors allows the projections to be presented in constant dollars with FY 2011 as the base year. The valuation date for the projections is September 30, 2011. Cash projections depend on the assumptions used and actual experience may differ from the projections.

Presented on the following pages is the effect of projected economic conditions on the net assets of the UTF, in constant dollars, excluding the Federal Employees Compensation Account.

Expected Economic Conditions

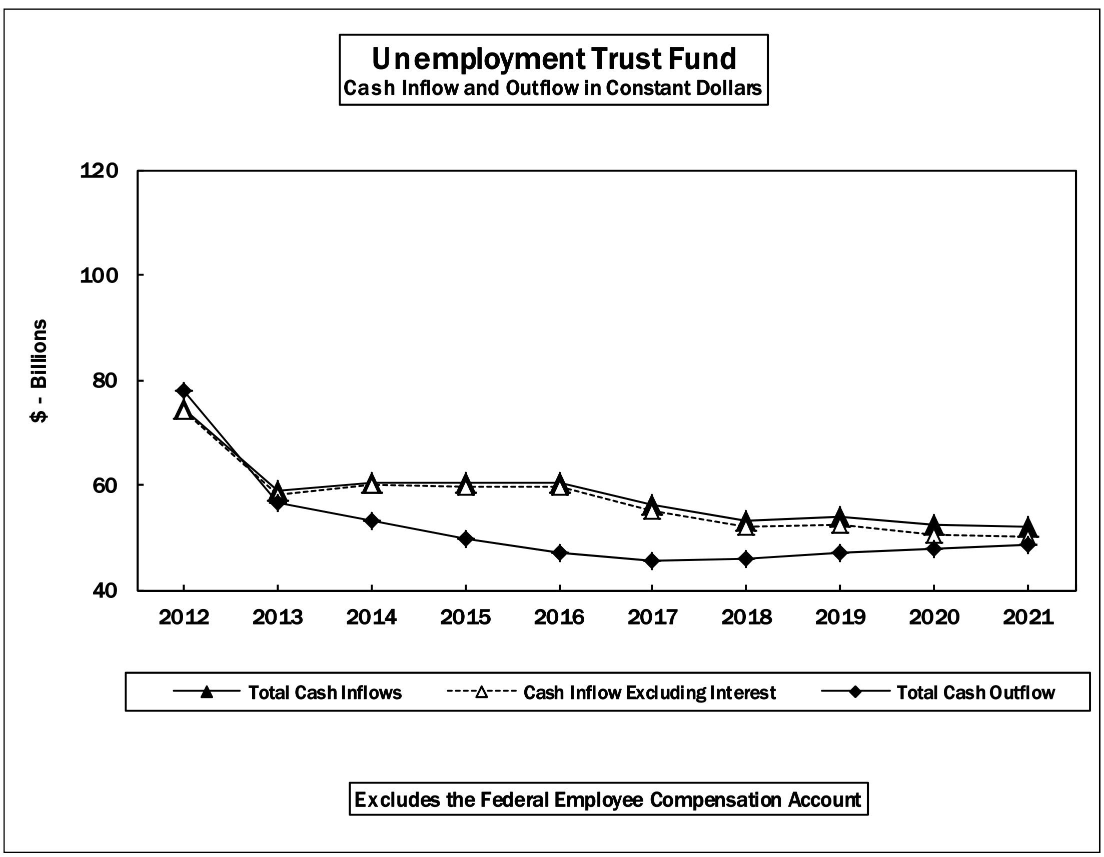
Charts I and II graphically depict the effect of expected economic conditions on the UTF, in constant dollars, over the next ten years.

Projected Cash Inflows and Outflows, in Constant Dollars, Under Expected Economic Conditions

Chart I depicts projected cash inflows and outflows of the UTF, in constant dollars, over the next ten years under expected economic conditions. Both cash inflows and cash inflows excluding interest earnings are displayed. Current estimates by the Department are based on an expected unemployment rate of 8.45% during FY 2012, decreasing steadily to below 6% in FY 2016 and thereafter. Total cash outflows exceed total cash inflows in FY 2012, whereas total cash inflows exceed total cash outflows beginning in FY 2013 and through the end of the projected period. The net outflow is $3.4 billion in FY 2012. The net inflow increases from $2.2 billion in FY 2013 to $13.3 billion in FY 2016, and ranges between $10.6 billion to $3.7 billion thereafter. The net outflow occurs due to state unemployment benefits. The net inflow is sustained by the excess of Federal tax collections over Federal expenditures.

These projections, excluding interest earnings, indicate net cash outflow in FY 2012, then net cash inflows at varied levels in FYs 2013 through 2020.

Chart I



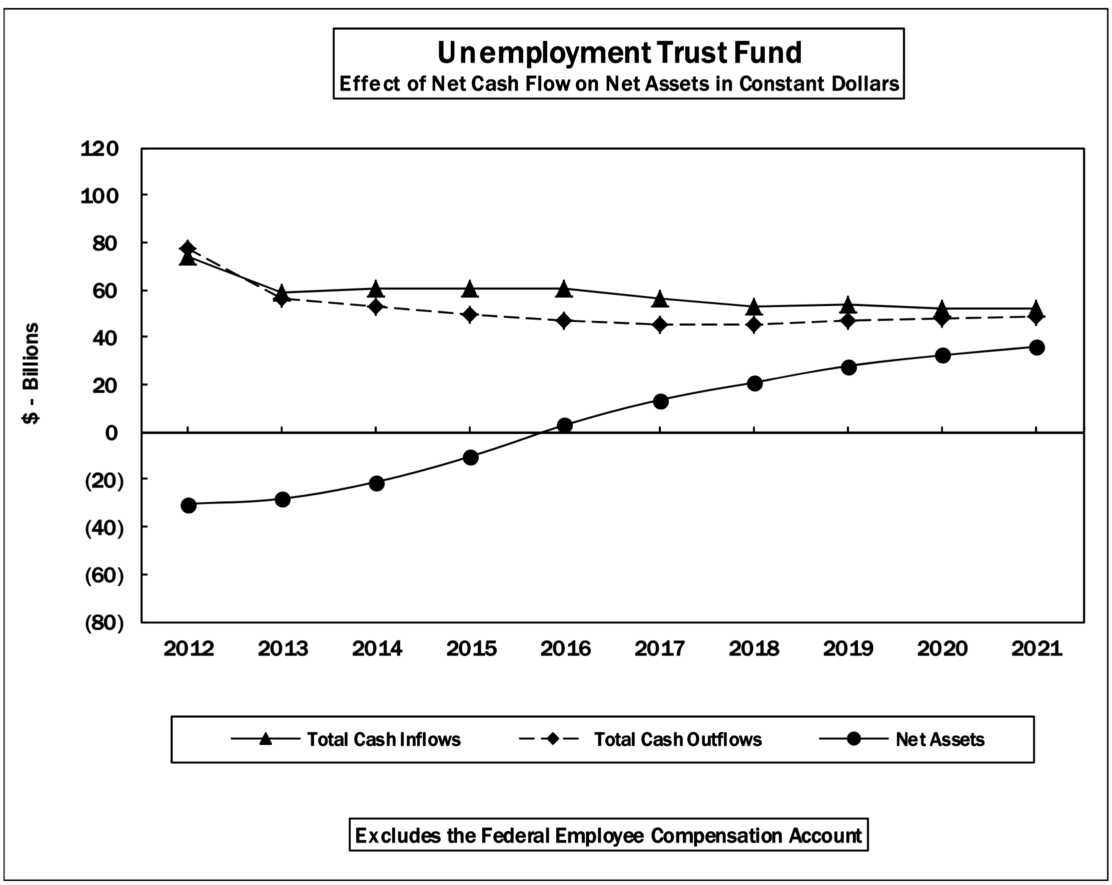
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Effect of Expected Cash Flows on UTF Assets in Constant Dollars

Chart II demonstrates the effect of these expected cash inflows and outflows on the net assets of the UTF, in constant dollars, over the ten year period ended September 30, 2021. Yearly projected total cash inflows, including interest earnings, and cash outflows, including interest payments, are depicted as well as the net effect of this cash flow on UTF assets.

Total cash outflows exceed cash inflows for FY 2012 and total cash inflows exceed total cash outflows beginning in FY 2013 and all other years in the projected period. The excess of total cash inflows over total cash outflows peaks in FY 2016. Starting at a nearly $27.0 billion fund balance deficit at the beginning of FY 2012, net UTF assets decrease by about $3.4 billion during FY 2012 to a nearly $30.4 billion fund balance deficit by the end of FY 2012 and then increase by about $66.3 billion over the next nine years to a nearly 36.0 billion fund net assets balance by the end of FY 2021. The fund is in a deficit situation from FY 2012 through FY 2015 and ends FY 2016 with a nearly $3.0 billion fund net assets balance.

Chart II



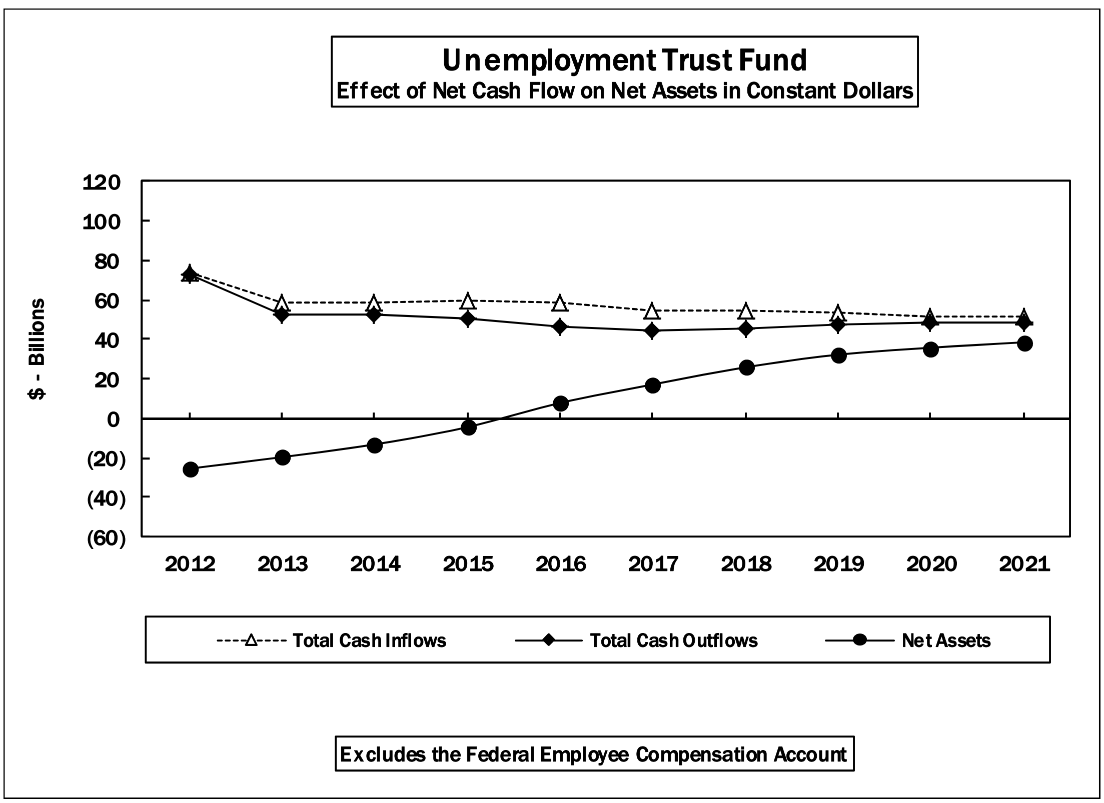
Sensitivity Analyses in Constant Dollars

Charts III and IV demonstrate the effect on accumulated UTF assets of projected total cash inflows and cash outflows of the UTF, in constant dollars, over the ten year period ending September 30, 2021, in two sensitivity analyses. Each sensitivity analysis uses an open group, which includes current and future participants in the UI program. Chart III assumes decreasing rates of unemployment beginning in FY 2012 and Chart IV assumes higher unemployment in FY 2012 and then decreasing rates of unemployment beginning in FY 2013.

Effect on UTF Assets, in Constant Dollars, in Sensitivity Analysis I

The Department projects the effect of decreasing unemployment rates beginning in FY 2012 on the cash inflows and outflows of the UTF, in constant dollars. In this sensitivity analysis, which utilizes a decreasing unemployment rate of 7.82% beginning in FY 2012, net cash inflows are reestablished in FY 2012 and peak in FY 2016 with a drop in the unemployment rate below 6.0% for FYs 2016 through 2021. Starting at a nearly $27.0 billion fund balance deficit at the beginning of FY 2012, net UTF assets increase by $65.5 billion over the next ten years to a $38.5 billion fund net assets balance by the end of FY 2021. The fund is in a deficit situation from FY 2012 to FY 2015.

Chart III

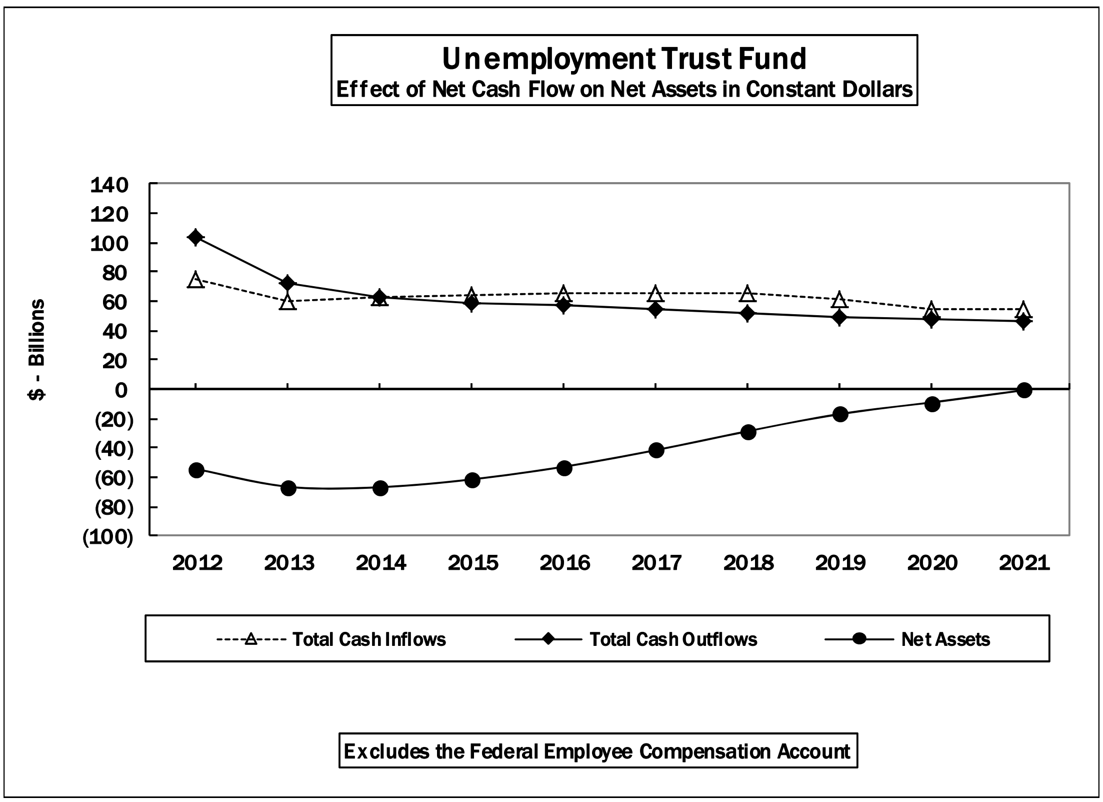


REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Effect on UTF Assets, in Constant Dollars, in Sensitivity Analysis II

The Department also estimates the effects of an increasing unemployment rate of 10.11% in FY 2012 and decreasing unemployment rates beginning in FY 2013 on the cash inflows and outflows of the UTF, in constant dollars. Net cash outflows including projected interest earnings and expenses from Federal sources are projected in FY 2012 through FY 2014, with the fund in a deficit situation from FY 2012 to FY 2021. The net assets of the UTF decreases $39.9 billion from a nearly $27.0 billion fund balance deficit at the beginning of FY 2012 to a $66.9 billion fund balance deficit in FY 2014. Net cash inflows are reestablished in FY 2015 and peak in FY 2018 with a drop in the unemployment rate to 6.42% and then lower rates for FYs 2019 through 2021. By the end of FY 2021, this positive cash flow has decreased the UTF fund balance deficit to under $1.0 billion. At the end of the projection period of sensitivity analysis II, net assets are $36.7 billion less than under expected economic conditions.

Chart IV



The three examples of expected economic conditions and two sensitivity analyses, in constant dollars, demonstrate the counter cyclical nature of the UI program, which experiences net cash outflows during periods of recession to be replenished through net cash inflows during periods of recovery. In the three examples, state accounts without sufficient reserve balances to absorb negative cash flows are forced to obtain advances from the FUA to meet benefit payment requirements. Advances to states also deplete the FUA, which borrows from the ESAA and the EUCA until they are depleted. The FUA then requires advances from the general fund of the U.S. Treasury to provide for state borrowings. (See following discussion of state solvency measures.)

U.S. DEPARTMENT OF LABOR
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION IN CONSTANT DOLLARS
CASH INFLOW AND OUTFLOW OF THE
UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT
FOR THE TEN YEAR PERIOD ENDING SEPTEMBER 30, 2021
(1) EXPECTED ECONOMIC CONDITIONS

(Dollars in thousands)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Balance, start of year	$ (26,952,765)	$ (30,350,496)	$ (28,191,626)	$ (21,052,537)	$ (10,375,285)	$ 2,901,553	$ 13,467,110	$ 20,783,557	$ 27,817,640	$ 32,303,882
Cash inflow										
State unemployment taxes	46,855,760	48,302,743	48,897,379	47,885,376	46,804,866	43,983,669	42,120,430	41,996,850	41,377,609	40,217,376
Federal unemployment taxes	6,805,120	8,643,234	9,844,920	10,906,896	11,835,984	10,368,143	9,065,408	9,864,792	8,655,703	9,525,168
General revenue appropriation	18,831,680	-	-	-	-	-	-	-	-	-
Interest on loans	1,200,500	1,169,537	1,037,300	937,860	791,844	625,335	514,448	422,096	365,687	294,576
CMIA receipts	294	288	283	277	272	266	261	255	250	245
Deposits by the Railroad Retirement Board	263,815	165,195	62,426	44,166	59,251	99,609	129,046	115,480	87,797	86,006
Total cash inflow excluding interest	73,957,169	58,280,997	59,842,308	59,774,575	59,492,217	55,077,022	51,829,593	52,399,473	50,487,046	50,123,371
Interest on Federal securities	391,551	387,944	405,195	529,777	748,918	990,127	1,205,324	1,510,178	1,769,116	1,969,688
Total cash inflow	74,348,720	58,668,941	60,247,503	60,304,352	60,241,135	56,067,149	53,034,917	53,909,651	52,256,162	52,093,059
Cash outflow										
State unemployment benefits	71,598,800	50,894,560	47,674,308	44,311,344	41,791,062	40,534,126	40,886,450	42,075,993	42,991,963	43,659,264
State administrative costs	4,465,860	4,041,005	4,004,921	4,012,932	4,025,358	4,033,189	4,048,671	4,060,972	4,074,203	4,090,608
Federal administrative costs	187,290	182,093	182,825	181,371	180,951	180,223	181,329	180,556	180,509	179,723
Interest on tax refunds	1,321	1,661	1,854	2,167	2,612	2,604	2,499	2,843	2,594	2,940
CMIA interest payment	-	-	-	-	-	-	-	-	-	-
Interest on advances	1,381,800	1,287,740	1,141,030	1,016,400	860,700	647,510	495,330	451,030	416,500	399,840
Railroad Retirement Board withdrawals	111,380	103,012	103,476	102,886	103,614	103,940	104,191	104,174	104,151	102,025
Total cash outflow	77,746,451	56,510,071	53,108,414	49,627,100	46,964,297	45,501,592	45,718,470	46,875,568	47,769,920	48,434,400
Excess of total cash inflow excluding interest over total cash outflow	(3,789,282)	1,770,926	6,733,894	10,147,475	12,527,920	9,575,430	6,111,123	5,523,905	2,717,126	1,688,971
Excess of total cash inflow over total cash outflow	(3,397,731)	2,158,870	7,139,089	10,677,252	13,276,838	10,565,557	7,316,447	7,034,083	4,486,242	3,658,659
Balance, end of year	$ (30,350,496)	$ (28,191,626)	$ (21,052,537)	$ (10,375,285)	$ 2,901,553	$ 13,467,110	$ 20,783,557	$ 27,817,640	$ 32,303,882	$ 35,962,541
Total unemployment rate	8.45%	7.90%	7.10%	6.42%	5.80%	5.37%	5.20%	5.20%	5.20%	5.20%

U.S. DEPARTMENT OF LABOR
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION IN CONSTANT DOLLARS
CASH INFLOW AND OUTFLOW OF THE
UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT
FOR THE TEN YEAR PERIOD ENDING SEPTEMBER 30, 2021
(2) SENSITIVITY ANALYSIS I UNEMPLOYMENT RATE

(Dollars in thousands)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Balance, start of year	$ (26,952,765)	$ (25,459,647)	$ (19,603,770)	$ (13,168,842)	$ (4,406,037)	$ 7,796,131	$ 17,189,120	$ 25,848,899	$ 32,273,316	$ 35,797,400
Cash inflow										
State unemployment taxes	46,983,160	47,929,875	47,928,918	47,316,192	45,676,896	43,473,644	41,971,831	41,670,917	40,503,792	40,711,056
Federal unemployment taxes	6,838,440	8,616,326	9,562,020	10,551,156	11,704,614	9,048,287	10,325,458	9,703,102	8,968,911	8,539,440
General revenue appropriation	18,664,100	-	-	-	-	-	-	-	-	-
Interest on loans	1,059,380	1,012,894	854,358	783,552	680,406	557,036	431,024	329,337	277,389	234,192
CMIA receipts	294	288	283	277	272	266	261	255	250	245
Deposits by the Railroad Retirement Board	263,815	165,195	62,426	44,166	59,251	99,609	129,046	115,480	87,797	86,006
Total cash inflow excluding interest	73,809,189	57,724,578	58,408,005	58,695,343	58,121,439	53,178,842	52,857,620	51,819,091	49,838,139	49,570,939
Interest on Federal securities	429,692	470,529	436,474	552,564	774,239	1,023,857	1,321,802	1,685,895	1,926,811	2,059,242
Total cash inflow	74,238,881	58,195,107	58,844,479	59,247,907	58,895,678	54,202,699	54,179,422	53,504,986	51,764,950	51,630,181
Cash outflow										
State unemployment benefits	66,708,600	46,918,903	47,205,637	45,335,136	41,667,846	39,952,254	40,737,851	42,290,445	43,450,946	44,090,928
State administrative costs	4,384,765	3,961,146	3,982,242	4,022,773	4,022,776	4,021,081	4,041,545	4,060,078	4,077,743	4,093,994
Federal administrative costs	187,290	182,093	182,825	181,371	180,951	180,223	181,329	180,556	180,509	179,723
Interest on tax refunds	1,328	1,656	1,801	2,096	2,583	2,272	2,847	2,796	2,687	2,635
CMIA interest payment	-	-	-	-	-	-	-	-	-	-
Interest on advances	1,352,400	1,172,420	933,570	840,840	715,740	549,940	451,880	442,520	424,830	408,000
Railroad Retirement Board withdrawals	111,380	103,012	103,476	102,886	103,614	103,940	104,191	104,174	104,151	102,025
Total cash outflow	72,745,763	52,339,230	52,409,551	50,485,102	46,693,510	44,809,710	45,519,643	47,080,569	48,240,866	48,877,305
Excess of total cash inflow excluding interest over total cash outflow	1,063,426	5,385,348	5,998,454	8,210,241	11,427,929	8,369,132	7,337,977	4,738,522	1,597,273	693,634
Excess of total cash inflow over total cash outflow	1,493,118	5,855,877	6,434,928	8,762,805	12,202,168	9,392,989	8,659,779	6,424,417	3,524,084	2,752,876
Balance, end of year	$ (25,459,647)	$ (19,603,770)	$ (13,168,842)	$ (4,406,037)	$ 7,796,131	$ 17,189,120	$ 25,848,899	$ 32,273,316	$ 35,797,400	$ 38,550,276
Total unemployment rate	7.82%	7.26%	7.05%	6.42%	5.63%	5.24%	5.20%	5.20%	5.20%	5.20%

U.S. DEPARTMENT OF LABOR
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION IN CONSTANT DOLLARS
CASH INFLOW AND OUTFLOW OF THE
UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT
FOR THE TEN YEAR PERIOD ENDING SEPTEMBER 30, 2021
(3) SENSITIVITY ANALYSIS II UNEMPLOYMENT RATE

(Dollars in thousands)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Balance, start of year	$ (26,952,765)	$ (54,593,030)	$ (66,626,023)	$ (66,925,462)	$ (61,517,060)	$ (52,945,358)	$ (41,624,957)	$ (28,759,366)	$ (16,996,051)	$ (9,129,841)
Cash inflow										
State unemployment taxes	46,967,480	49,625,079	50,766,405	50,272,068	49,532,832	48,512,691	47,328,347	44,447,730	42,219,772	41,897,520
Federal unemployment taxes	6,717,900	8,465,449	9,817,573	11,851,224	13,690,566	14,818,222	14,921,599	13,869,598	10,142,608	10,629,216
General revenue appropriation	19,729,360	-	3,772	-	-	-	-	-	-	-
Interest on loans	1,461,180	1,828,783	1,951,067	1,993,068	2,039,406	1,945,191	1,698,895	1,421,170	1,209,516	1,001,232
CMIA receipts	294	288	283	277	272	266	261	255	250	245
Deposits by the Railroad Retirement Board	263,815	165,195	62,426	44,166	59,251	99,609	129,046	115,480	87,797	86,006
Total cash inflow excluding interest	75,140,029	60,084,794	62,601,526	64,160,803	65,322,327	65,375,979	64,078,148	59,854,233	53,659,943	53,614,219
Interest on Federal securities	228,139	174,657	240,775	348,151	485,041	680,668	915,230	1,114,711	1,257,017	1,438,588
Total cash inflow	75,368,168	60,259,451	62,842,301	64,508,954	65,807,368	66,056,647	64,993,378	60,968,944	54,916,960	55,052,807
Cash outflow										
State unemployment benefits	96,233,060	65,690,116	56,447,037	52,303,944	50,299,308	47,876,712	45,507,792	42,960,182	41,113,548	40,946,064
State administrative costs	4,868,199	4,335,936	4,190,503	4,181,516	4,202,572	4,194,490	4,166,551	4,118,542	4,083,449	4,081,958
Federal administrative costs	187,290	182,093	182,825	181,371	180,951	180,223	181,329	180,556	180,509	179,723
Interest on tax refunds	1,304	1,627	1,849	2,355	3,021	3,721	4,114	4,015	3,053	3,295
CMIA interest payment	-	-	-	-	-	-	-	-	-	-
Interest on advances	1,607,200	1,979,660	2,216,050	2,328,480	2,446,200	2,377,160	2,163,810	1,838,160	1,566,040	1,354,560
Railroad Retirement Board withdrawals	111,380	103,012	103,476	102,886	103,614	103,940	104,191	104,174	104,151	102,025
Total cash outflow	103,008,433	72,292,444	63,141,740	59,100,552	57,235,666	54,736,246	52,127,787	49,205,629	47,050,750	46,667,625
Excess of total cash inflow excluding interest over total cash outflow	(27,868,404)	(12,207,650)	(540,214)	5,060,251	8,086,661	10,639,733	11,950,361	10,648,604	6,609,193	6,946,594
Excess of total cash inflow over total cash outflow	(27,640,265)	(12,032,993)	(299,439)	5,408,402	8,571,702	11,320,401	12,865,591	11,763,315	7,866,210	8,385,182
Balance, end of year	$ (54,593,030)	$ (66,626,023)	$ (66,925,462)	$ (61,517,060)	$ (52,945,358)	$ (41,624,957)	$ (28,759,366)	$ (16,996,051)	$ (9,129,841)	$ (744,659)
Total unemployment rate	10.11%	9.74%	9.06%	8.45%	7.90%	7.10%	6.42%	5.80%	5.37%	5.20%

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

States Minimally Solvent

Each state's accumulated UTF net assets or reserve balance should provide a defined level of benefit payments over a defined period. To be minimally solvent, a state's reserve balance should provide for one year's projected benefit payment needs based on the highest levels of benefit payments experienced by the state over the last twenty years. A ratio of 1.00 or greater indicates a state is minimally solvent. States below this level are vulnerable to exhausting their funds in a recession. States exhausting their reserve balance must borrow funds from the Federal Unemployment Account (FUA) to make benefit payments. During FY 2009, the balances in the FUA were depleted and the FUA borrowed from the Treasury general fund and continued to do so in FY 2010 and FY 2011, although in FY 2011 the FUA repaid some borrowings.

Chart V presents the state by state results of this analysis at September 30, 2011 in descending order by ratio. As the table below illustrates, 46 state funds were below the minimal solvency ratio of 1.00 at September 30, 2011.

Chart V

Minimally Solvent	
State	**Ratio**
Nebraska	1.45
Louisiana	1.40
Mississippi	1.27
Wyoming	1.19
Washington	1.15
District of Columbia	1.04
North Dakota	1.00

Not Minimally Solvent	
State	**Ratio**
Maine	0.94
Alaska	0.92
Oklahoma	0.88
Puerto Rico	0.88
Oregon	0.83
Utah	0.83
Iowa	0.73
Montana	0.71
South Dakota	0.67
New Mexico	0.50
Maryland	0.43
Tennessee	0.39
West Virginia	0.36
New Hampshire	0.34
Massachusetts	0.11
Hawaii	0.04
Kansas	0.00
Alabama	0.00
Virginia	0.00
Vermont	0.00
Idaho	0.00
Minnesota	0.00
Delaware	0.00

Not Minimally Solvent	
State	**Ratio**
Texas	0.00
Colorado	0.00
Georgia	0.00
Arizona	0.00
Connecticut	0.00
Arkansas	0.00
New Jersey	0.00
Rhode Island	0.00
Illinois	0.00
New York	0.00
Florida	0.00
Missouri	0.00
Pennsylvania	0.00
Wisconsin	0.00
Ohio	0.00
Nevada	0.00
California	0.00
Virgin Islands	0.00
Kentucky	0.00
Michigan	0.00
South Carolina	0.00
North Carolina	0.00
Indiana	0.00

Black Lung Disability Benefit Program

The Black Lung Disability Benefit Program provides for compensation, medical and survivor benefits for eligible coal miners who are totally disabled due to pneumoconiosis (black lung disease) arising out of their coal mine employment. The U.S. Department of Labor operates the Black Lung Disability Benefit Program. The Black Lung Disability Trust Fund (BLDTF) provides benefit payments to eligible coal miners totally disabled by pneumoconiosis when no responsible mine operator can be assigned the liability.

Program Administration and Funding

Black lung disability benefit payments are funded by excise taxes from coal mine operators based on the sale of coal, as are the program's administrative costs. These taxes are collected by the Internal Revenue Service and transferred to the BLDTF, which was established under the authority of the Black Lung Benefits Revenue Act, and administered by the U.S. Department of the Treasury. Prior to October 3, 2008, the Black Lung Benefits Revenue Act provided for repayable advances to the BLDTF from the general fund of the Treasury, in the event that BLDTF resources were not adequate to meet program obligations.

P.L. 110-343, Division B--Energy Improvement and Extension Act of 2008, enacted on October 3, 2008, in section 113, (1) allowed for the temporary increase in coal excise tax rates to continue an additional five years beyond the current statutory limit and (2) restructured the BLDTF debt by refinancing the outstanding repayable advances (which had higher interest rates) with the proceeds from issuing discounted debt instruments similar in form to zero-coupon bonds (which had lower interest rates), plus a one-time appropriation. This Act also allowed that any debt issued by the BLDTF subsequent to the refinancing may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing. All debt issued by the BLDTF was effected as borrowing from the Treasury's Bureau of Public Debt. (See Notes 1J and 8)

P.L. 111-148, Patient Protection and Affordable Care Act of 2010, enacted on March 23, 2010, in section 1556, amended the Black Lung Benefits Act and became effective immediately. Among other things, section 1556 affects claims for (1) total disability benefits filed by miners with long histories of employment in the coal industry and (2) survivors benefits filed by widows and other surviving dependents of totally disabled coal miners upon their death. The amendments apply to claims which were filed after 2004 and pending on this Act's effective date and thereafter. These amendments may make it easier for some coal miners and their surviving dependents to meet the eligibility requirements for total disability and survivors benefits.

The Division of Coal Mine Workers' Compensation (DCMWC) within the Office of Workers' Compensation Programs administers the Black Lung Program and the payment of benefits under the Black Lung Benefits Act. The Federal Coal Mine Health and Safety Act sets Black Lung benefits at 37.5% of the base salary of a Federal employee at level GS-2, Step 1. P.L. 111-322, the Continuing Appropriations and Surface Transportation Extensions Act of 2011, was enacted on December 22, 2010. This Act, among other things, provided that no Federal employee statutory pay adjustment would take effect during the period January 1, 2011 through December 31, 2012. As a result, because the Federal employee base salary will remain unchanged through 2012, the rates for Black Lung benefits will likewise remain unchanged through 2012.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Program Finances and Sustainability

At September 30, 2011, total liabilities of the BLDTF exceeded assets by $6.1 billion. This net position represents the accumulated shortfall of excise taxes necessary to meet benefit payments, administrative costs, and interest expense incurred prior to and subsequent to the debt refinancing pursuant to P.L. 110-343. Prior to enactment of P.L. 110-343, this shortfall was funded by repayable advances to the BLDTF, which are repayable with interest. Pursuant to P.L. 110-343, any shortfall will be financed with debt instruments similar in form to zero-coupon bonds, with a maturity date of one year and bear interest at the Treasury 1-year rate. Outstanding debt at September 30, 2011 was $6.2 billion, bearing interest rates ranging from 0.106% to 4.556%. Excise tax revenues of $622.9 million, benefit payment expense of $201.2 million and interest expense of $226.6 million were recognized for the year ended September 30, 2011. The interest expense is accrued and capitalized to the principal of the debt until the debt reaches its face value at the time of maturity. On September 30, 2011, the BLDTF issued debt in the amount of $107.7 million, bearing interest at 0.106% and maturing on September 30, 2012. At September 30, 2011, there were 30 debt instruments with staggered maturities of September 30 for years 2012 through 2040, with a total carrying value of $6.2 billion and a total face value at maturity of $10.4 billion. Of these 30 debt instruments, 29 are from the October 2008 refinancing and one debt instrument was issued on September 30, 2011.

Other information about the BLDTF and social insurance reporting is also presented in Note 1-W of the financial statements.

Projected Cash Inflows and Outflows, in Constant Dollars

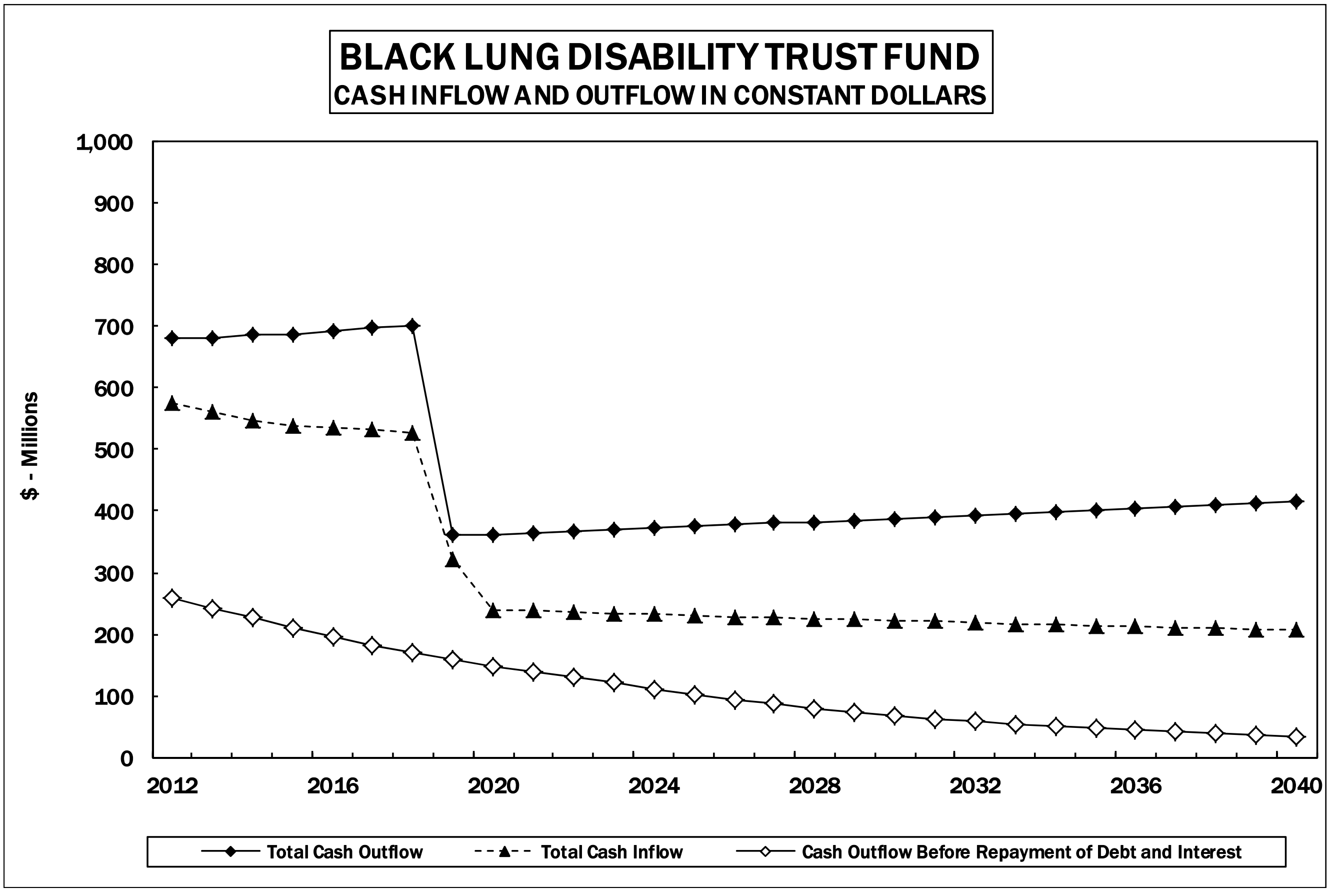
The beneficiary population is a nearly closed universe in which attrition by death exceeds new entrants by a ratio of more than ten to one. Projections for new participants are included in the overall projections and are considered immaterial. Therefore, the projections presented are for the open and closed group.

The significant assumptions used in the projections, in constant dollars, are coal excise tax revenue estimates, number of beneficiaries, life expectancy, medical cost inflation, Federal civilian pay raises, the interest rate on new debt issued by the BLDTF, and the Consumer Price Index-Urban for goods and services (CPI-U). The use of CPI-U factors allows the projections to be presented in constant dollars with FY 2011 as the base year. The valuation date for the projections is September 30, 2011. Cash projections depend on the assumptions used and actual experience may differ from the projections. These projections are sensitive to changes in the tax rate and changes in interest rates on debt issued by the BLDTF.

These projections, in constant dollars, made over the twenty-nine year period ending September 30, 2040, indicate that cash inflows from excise taxes will exceed cash outflows for benefit payments and administrative expenses for each period projected. Cumulative net cash inflows are projected to reach $8.8 billion by FY 2040. However, when payments from the BLDTF's maturing debt are applied against this surplus cash inflow, the BLDTF's cash flow turns negative in FY 2012 and each of the subsequent periods included in the projections. Net cash outflows after payments on maturing debt are projected to reach $13.3 billion by the end of FY 2040, resulting in a projected deficit of $6.2 billion at September 30, 2040. (See Chart I)

The net present value of future projected benefit payments and other cash inflow and outflow activities together with the fund's deficit positions as of September 30, 2011, 2010, 2009, 2008, and 2007 are presented in the Statement of Social Insurance. Yearly cash inflows and outflows are presented in Table I. Amount totals in tables may differ slightly due to rounding.

Chart I



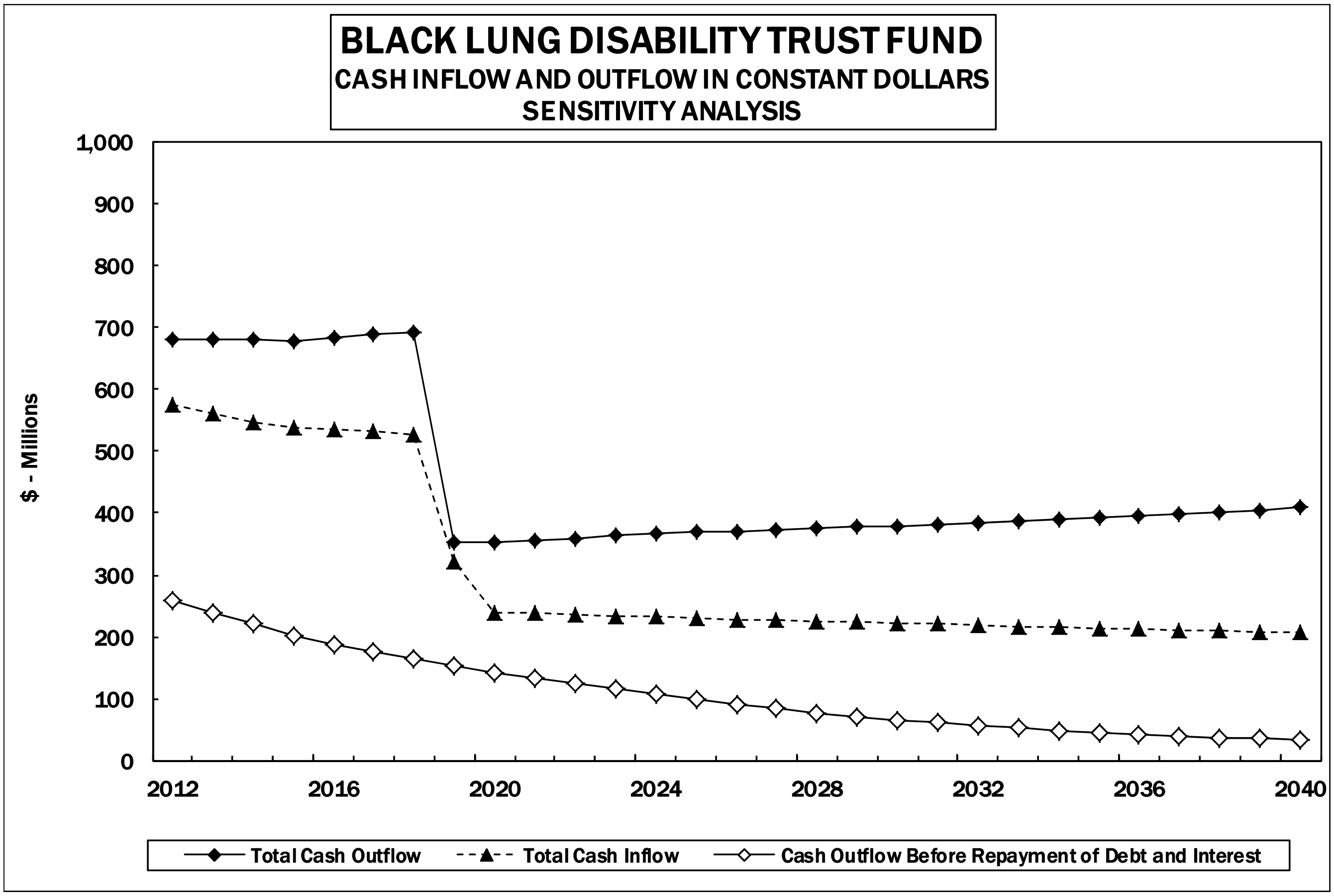
Projected Cash Inflows and Outflows with Sensitivity Analysis, in Constant Dollars

For the projected cash inflows and outflows with sensitivity analysis, in constant dollars, the significant assumptions for Federal civilian pay raises were modified, but the other significant assumptions were left unchanged. The Federal Coal Mine Health and Safety Act sets Black Lung benefits at 37.5% of the base salary of a Federal employee at level GS-2. The significant assumptions for Federal civilian pay raises were modified to reflect that no Federal employee statutory pay adjustment would take effect through December 31, 2015 (instead of 2012). As a result, because the Federal employee base salary would remain unchanged through 2015, the rates for Black Lung benefits would likewise remain unchanged through 2015. Even after statutory pay adjustments return in 2016, they would be applied to lower amounts of benefits and this would decrease the benefit amounts through FY 2040. Cash projections depend on the assumptions used and actual experience may differ from the projections. These projections are sensitive to changes in the tax rate and changes in interest rates on debt issued by the BLDTF.

These projections with sensitivity analysis, in constant dollars, made over the twenty-nine year period ending September 30, 2040, indicate that cash inflows from excise taxes would exceed cash outflows for benefit payments and administrative expenses for each period projected. Cumulative net cash inflows would be projected to reach $8.8 billion by the year 2040. However, when payments from the BLDTF's maturing debt are applied against this surplus cash inflow, the BLDTF's cash flow would turn negative in 2012 and each of the subsequent periods included in the projections. Net cash outflows after payments on maturing debt would be projected to reach $13.1 billion by the end of the year 2040, and would result in a projected deficit of $6.0 billion at September 30, 2040. (See Chart II) Yearly cash inflows and outflows are presented in Table II. Amount totals in tables may differ slightly due to rounding.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Chart II



Open and Closed Group Measure with Sensitivity Analysis

For the open and closed group measure with sensitivity analysis, the significant assumptions for Federal civilian pay raises were modified, but the other significant assumptions were left unchanged. The Federal Coal Mine Health and Safety Act sets Black Lung benefits at 37.5% of the base salary of a Federal employee at level GS-2. The significant assumptions for Federal civilian pay raises were modified to reflect that no Federal employee statutory pay adjustment would take effect through December 31, 2015 (instead of 2012). As a result, because the Federal employee base salary would remain unchanged through 2015, the rates for Black Lung benefits would likewise remain unchanged through 2015. Even after statutory pay adjustments return in 2016, they would be applied to lower amounts of benefits and this would decrease the benefit amounts through FY 2040.

As a result of changing the significant assumptions for Federal civilian pay raises as described above, for FY 2011 the actuarial present value of future benefit payments during the projection period to disabled coal miners and dependent survivors would decrease ($88,958) from $1,951,755 as reported on the Statement of Social Insurance (SOSI) to $1,862,797; the actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period would decrease ($88,958) from $2,887,199 as reported on the SOSI to $2,798,241; the excess of present value of estimated future excise tax income over actuarial present value of estimated administrative costs during the projection period for current and future participants (open and closed group measure) would increase $88,958 from $4,720,229 as reported on the SOSI to $4,809,187. The trust fund net position deficit at the start of the projection period would remain unchanged.

Cash projections depend on the assumptions used and actual experience may differ from the projections. These projections are sensitive to changes in the tax rate and changes in interest rates on debt issued by the BLDTF.

Table I

U.S. DEPARTMENT OF LABOR

SUPPLEMENTARY SOCIAL INSURANCE INFORMATION

CASH INFLOW AND OUTFLOW OF THE BLACK LUNG DISABILITY TRUST FUND IN CONSTANT DOLLARS

FOR THE TWENTY-NINE YEAR PERIOD ENDING SEPTEMBER 30, 2040

(Dollars in thousands)	2012	2013	2014	2015	2016	2017 - 2040	Total
Balance, start of year	$ (6,099,261)	$ (5,817,936)	$ (5,556,818)	$ (5,321,403)	$ (5,103,436)	$ (4,901,672)	$ (6,099,261)
Cash inflow							
Excise taxes	575,260	561,224	545,997	538,692	535,446	6,051,259	8,807,878
Total cash inflow	575,260	561,224	545,997	538,692	535,446	6,051,259	8,807,878
Cash outflow							
Disabled coal miners benefits	199,738	182,767	167,727	153,159	139,774	1,357,037	2,200,202
Administrative costs	57,630	58,368	59,191	57,999	56,869	785,913	1,075,970
Cash outflows before repayment of debt and interest	257,368	241,135	226,918	211,158	196,643	2,142,950	3,276,171
Cash inflow over cash outflow before repayment of debt and interest	317,892	320,089	319,079	327,534	338,803	3,908,309	5,531,707
Maturity of obligations refinanced October 2008	422,856	434,794	445,897	455,171	468,862	5,551,284	7,778,864
Interest on annual borrowings	113	5,120	12,499	20,087	27,146	2,208,234	2,273,199
Total cash outflow	680,337	681,049	685,314	686,416	692,651	9,902,468	13,328,234
Total cash outflow over total cash inflow	(105,077)	(119,825)	(139,317)	(147,724)	(157,205)	(3,851,209)	(4,520,356)
Reduction of debt refinanced October 2008	386,401	380,943	374,732	365,691	358,969	2,527,245	4,393,982
Balance, end of year	$ (5,817,936)	$ (5,556,818)	$ (5,321,403)	$ (5,103,436)	$ (4,901,672)	$ (6,225,635)	$ (6,225,635)

Table II

U.S. DEPARTMENT OF LABOR

SUPPLEMENTARY SOCIAL INSURANCE INFORMATION SENSITIVITY ANALYSIS

CASH INFLOW AND OUTFLOW OF THE BLACK LUNG DISABILITY TRUST FUND IN CONSTANT DOLLARS

FOR THE TWENTY-NINE YEAR PERIOD ENDING SEPTEMBER 30, 2040

(Dollars in thousands)	2012	2013	2014	2015	2016	2017 - 2040	Total
Balance, start of year	$ (6,099,261)	$ (5,817,936)	$ (5,555,081)	$ (5,314,399)	$ (5,087,724)	$ (4,876,785)	$ (6,099,261)
Cash inflow							
Excise taxes	575,260	561,224	545,997	538,692	535,446	6,051,259	8,807,878
Total cash inflow	575,260	561,224	545,997	538,692	535,446	6,051,259	8,807,878
Cash outflow							
Disabled coal miners benefits	199,738	181,030	162,521	144,740	131,278	1,278,279	2,097,587
Administrative costs	57,630	58,368	59,191	57,999	56,869	785,913	1,075,970
Cash outflows before repayment of debt and interest	257,368	239,399	221,713	202,739	188,147	2,064,192	3,173,556
Cash inflow over cash outflow before repayment of debt and interest	317,892	321,825	324,284	335,953	347,299	3,987,067	5,634,322
Maturity of obligations refinanced October 2008	422,856	434,794	445,897	455,171	468,862	5,551,284	7,778,864
Interest on annual borrowings	113	5,120	12,438	19,798	26,467	2,105,224	2,169,159
Total cash outflow	680,337	679,312	680,047	677,708	683,476	9,720,700	13,121,579
Total cash outflow over total cash inflow	(105,077)	(118,088)	(134,050)	(139,016)	(148,030)	(3,669,440)	(4,313,701)
Reduction of debt refinanced October 2008	386,401	380,943	374,732	365,691	358,969	2,527,245	4,393,982
Balance, end of year	$ (5,817,936)	$ (5,555,081)	$ (5,314,399)	$ (5,087,724)	$ (4,876,785)	$ (6,018,980)	$ (6,018,980)

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

STATEMENT OF BUDGETARY RESOURCES

The principal Combined Statement of Budgetary Resources combines the availability, status and outlay of DOL's budgetary resources during FY 2011 and 2010. Presented on the following pages is the disaggregation of this combined information for each of the Department's major budget agencies.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2011

(Dollars in thousands)	Employment and Training Administration	Employment Standards Administration	Office of Job Corps
BUDGETARY RESOURCES			
Unobligated balance, brought forward, October 1	$ 2,238,705	$ 1,007,921	$ 763,332
Recoveries of prior year unpaid obligations	266,222	21,569	36,043
Budget authority			
Appropriations received	172,123,139	3,342,877	1,701,585
Borrowing authority	26,640,000	107,749	-
Spending authority from offsetting collections			
Earned			
Collected	20,090	2,824,292	532
Change in receivables from Federal sources	(33,276)	(43,888)	-
Change in unfilled customer orders			
Advance received	-	-	-
Without advance from Federal sources	822	-	-
Expenditure transfers from trust funds	4,752,275	36,126	-
Total budget authority	203,503,050	6,267,156	1,702,117
Nonexpenditure transfers, net	(14,213)	4,902	14,068
Temporarily not available pursuant to Public Law	-	(16,004)	-
Permanently not available	-	-	-
Redemption of debt	(13,238,151)	(461,065)	-
All other	(8,986,637)	(721,350)	(86,345)
Total budgetary resources	$ 183,768,976	$ 6,103,129	$ 2,429,215
STATUS OF BUDGETARY RESOURCES			
Obligations incurred			
Direct	$ 181,815,840	$ 2,779,472	$ 1,787,302
Reimbursable	30,993	2,675,673	-
Total obligations incurred	181,846,833	5,455,145	1,787,302
Unobligated balances available			
Apportioned	694,547	241,803	191,087
Exempt from apportionment	-	62,478	-
Total unobligated balances available	694,547	304,281	191,087
Unobligated balances not available	1,227,596	343,703	450,826
Total status of budgetary resources	$ 183,768,976	$ 6,103,129	$ 2,429,215
CHANGE IN OBLIGATED BALANCE			
Obligated balance, net			
Unpaid obligations, brought forward, October 1	$ 16,964,600	$ 276,858	$ 454,841
Less uncollected customer payments from Federal sources, brought forward, October 1	(1,899,939)	23,577	-
Total unpaid obligated balance, net	15,064,661	300,435	454,841
Obligations incurred, net	181,846,833	5,455,145	1,787,302
Less gross outlays	(184,360,764)	(5,412,262)	(1,685,997)
Other	-	-	-
Less recoveries of prior year unpaid obligations, actual	(266,223)	(21,569)	(36,042)
Change in uncollected customer payments from Federal sources	(122,053)	43,888	-
Obligated balance, net, end of period			
Unpaid obligations	14,184,446	298,172	520,104
Less uncollected customer payments from Federal sources	(2,021,992)	67,465	-
Total unpaid obligated balance, net, end of period	$ 12,162,454	$ 365,637	$ 520,104
NET OUTLAYS			
Gross outlays	$ 184,360,764	$ 5,412,262	$ 1,685,997
Less offsetting collections	(4,617,861)	(2,860,418)	(532)
Less distributed offsetting receipts	(53,090,479)	(2,469)	-
Net outlays	$ 126,652,424	$ 2,549,375	$ 1,685,465

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Occupational Safety and Health Administration	Bureau of Labor Statistics	Mine Safety and Health Administration	Employee Benefits Security Administration	Veterans' Employment and Training	Other Departmental Programs	Total
$ 21,311	$ 7,825	$ 7,107	$ 4,488	$ 6,227	$ 134,627	$ 4,191,543
2,908	84,609	3,337	3,759	2,909	14,905	436,261
558,620	533,183	363,843	154,861	45,971	484,951	179,309,030
-	-	-	-	-	-	26,747,749
1,610	8,178	1,562	5,813	21	261,837	3,123,935
(7,204)	195	-	-	-	2,109	(82,064)
-	127	-	1	-	(22,530)	(22,402)
-	-	-	-	-	-	822
-	78,107	-	-	209,736	31,957	5,108,201
553,026	619,790	365,405	160,675	255,728	758,324	214,185,271
1,076	(769)	(1,352)	17,768	(325)	5,002	26,157
-	-	-	-	-	-	(16,004)
-	-	-	-	-	-	
-	-	-	-	-	-	(13,699,216)
(1,402)	(3,130)	(961)	(1,196)	(2,053)	(9,574)	(9,812,648)
$ 576,919	$ 708,325	$ 373,536	$ 185,494	$ 262,486	$ 903,284	$ 195,311,364
$ 557,478	$ 663,037	$ 367,108	$ 162,890	$ 255,466	$ 567,463	$ 188,956,056
1,320	8,035	1,594	5,817	-	255,615	2,979,047
558,798	671,072	368,702	168,707	255,466	823,078	191,935,103
13	480	1,998	11,749	2,070	45,376	1,189,123
-	-	-	-	-	-	62,478
13	480	1,998	11,749	2,070	45,376	1,251,601
18,108	36,773	2,836	5,038	4,950	34,830	2,124,660
$ 576,919	$ 708,325	$ 373,536	$ 185,494	$ 262,486	$ 903,284	$ 195,311,364
$ 111,859	$ 114,323	$ 37,810	$ 46,436	$ 90,040	$ 351,311	$ 18,448,078
(9,703)	(516)	-	-	(17,190)	(7,768)	(1,911,539)
102,156	113,807	37,810	46,436	72,850	343,543	16,536,539
558,798	671,072	368,702	168,707	255,466	823,078	191,935,103
(565,513)	(615,106)	(356,328)	(168,436)	(253,403)	(741,888)	(194,159,697)
-	-	-	-	-	-	-
(2,909)	(84,609)	(3,337)	(3,760)	(2,909)	(14,903)	(436,261)
7,204	(195)	-	-	16,307	(2,109)	(56,958)
102,235	85,680	46,847	42,947	89,194	417,598	15,787,223
(2,499)	(711)	-	-	(883)	(9,877)	(1,968,497)
$ 99,736	$ 84,969	$ 46,847	$ 42,947	$ 88,311	$ 407,721	$ 13,818,726
$ 565,513	$ 615,106	$ 356,328	$ 168,436	$ 253,403	$ 741,888	$ 194,159,697
(1,610)	(86,412)	(1,562)	(5,814)	(226,063)	(271,263)	(8,071,535)
-	-	-	-	-	(26,608)	(53,119,556)
$ 563,903	$ 528,694	$ 354,766	$ 162,622	$ 27,340	$ 444,017	$ 132,968,606

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2010

(Dollars in thousands)	Employment and Training Administration	Employment Standards Administration	Office of Job Corps
BUDGETARY RESOURCES			
Unobligated balance, brought forward, October 1	$ 2,310,218	$ 925,448	$ 766,909
Recoveries of prior year unpaid obligations	107,214	1,840	20,844
Budget authority			
Appropriations received	220,750,431	2,934,510	1,708,205
Borrowing authority	29,050,000	60,000	-
Spending authority from offsetting collections			
Earned			
Collected	41,572	2,687,605	7,901
Change in receivables from Federal sources	458	(23,759)	-
Change in unfilled customer orders			
Advance received	-	-	-
Without advance from Federal sources	(822)	-	-
Expenditure transfers from trust funds	4,715,245	34,844	-
Total budget authority	254,556,884	5,693,200	1,716,106
Nonexpenditure transfers, net	(3,340)	4,263	8,850
Temporarily not available pursuant to Public Law	-	(38,626)	-
Permanently not available			
Redemption of debt	(2,889,021)	(353,424)	-
All other	(1,644,184)	(54,531)	(10,341)
Total budgetary resources	$ 252,437,771	$ 6,178,170	$ 2,502,368
STATUS OF BUDGETARY RESOURCES			
Obligations incurred			
Direct	$ 250,171,209	$ 2,278,467	$ 1,738,399
Reimbursable	27,857	2,891,782	637
Total obligations incurred	250,199,066	5,170,249	1,739,036
Unobligated balances available			
Apportioned	1,653,268	599,242	738,910
Exempt from apportionment	1	386,905	-
Total unobligated balances available	1,653,269	986,147	738,910
Unobligated balances not available	585,436	21,774	24,422
Total status of budgetary resources	$ 252,437,771	$ 6,178,170	$ 2,502,368
CHANGE IN OBLIGATED BALANCE			
Obligated balance, net			
Unpaid obligations, brought forward, October 1	$ 16,643,118	$ 269,839	$ 582,354
Less uncollected customer payments from Federal sources, brought forward, October 1	(2,317,856)	(182)	-
Total unpaid obligated balance, net	14,325,262	269,657	582,354
Obligations incurred, net	250,199,066	5,170,249	1,739,036
Less gross outlays	(249,770,370)	(5,161,391)	(1,845,855)
Other	-	-	150
Less recoveries of prior year unpaid obligations, actual	(107,213)	(1,840)	(20,844)
Change in uncollected customer payments from Federal sources	417,918	23,759	-
Obligated balance, net, end of period			
Unpaid obligations	16,964,600	276,858	454,841
Less uncollected customer payments from Federal sources	(1,899,939)	23,577	-
Total unpaid obligated balance, net, end of period	$ 15,064,661	$ 300,435	$ 454,841
NET OUTLAYS			
Gross outlays	$ 249,770,370	$ 5,161,391	$ 1,845,855
Less offsetting collections	(5,174,371)	(2,722,449)	(7,901)
Less distributed offsetting receipts	(56,305,080)	(20,233,057)	(1,089)
Net outlays	$ 188,290,919	$ (17,794,115)	$ 1,836,865

Occupational Safety and Health Administration	Bureau of Labor Statistics	Mine Safety and Health Administration	Employee Benefits Security Administration	Veterans' Employment and Training	Other Departmental Programs	Total
$ 15,813	$ 8,617	$ 2,311	$ 5,892	$ 5,230	$ 84,197	$ 4,124,635
16,166	4,460	817	464	1,321	9,426	162,552
558,620	533,183	357,293	154,861	45,971	490,151	227,533,225
-	-	-	-	-	-	29,110,000
1,928	9,060	1,625	7,682	34	216,291	2,973,698
1,590	516	-	-	883	(661)	(20,973)
-	-	-	-	-	33,299	33,299
-	-	-	-	-	-	(822)
-	78,264	-	-	210,156	31,666	5,070,175
562,138	621,023	358,918	162,543	257,044	770,746	264,698,602
4,425	(3,486)	7,246	6,574	(65)	(30,849)	(6,382)
-	-	-	-	-	-	(38,626)
-	-	-	-	-	-	(3,242,445)
(6,402)	(3,287)	(196)	(514)	(3,334)	(7,523)	(1,730,312)
$ 592,140	$ 627,327	$ 369,096	$ 174,959	$ 260,196	$ 825,997	$ 263,968,024
$ 568,077	$ 610,071	$ 360,841	$ 163,027	$ 253,969	$ 443,362	$ 256,587,422
2,752	9,431	1,148	7,444	-	248,008	3,189,059
570,829	619,502	361,989	170,471	253,969	691,370	259,776,481
1,969	1,265	5,645	2,964	2,207	62,427	3,067,897
-	-	-	-	-	90	386,996
1,969	1,265	5,645	2,964	2,207	62,517	3,454,893
19,342	6,560	1,462	1,524	4,020	72,110	736,650
$ 592,140	$ 627,327	$ 369,096	$ 174,959	$ 260,196	$ 825,997	$ 263,968,024
$ 91,479	$ 102,301	$ 32,599	$ 46,273	$ 73,960	$ 375,012	$ 18,216,935
(8,113)	-	-	-	-	(5,624)	(2,331,775)
83,366	102,301	32,599	46,273	73,960	369,388	15,885,160
570,829	619,502	361,989	170,471	253,969	691,370	259,776,481
(534,283)	(603,020)	(355,961)	(169,844)	(236,568)	(705,644)	(259,382,936)
-	-	-	-	-	-	150
(16,166)	(4,460)	(817)	(464)	(1,321)	(9,427)	(162,552)
(1,590)	(516)	-	-	(17,190)	(2,145)	420,236
111,859	114,323	37,810	46,436	90,040	351,311	18,448,078
(9,703)	(516)	-	-	(17,190)	(7,768)	(1,911,539)
$ 102,156	$ 113,807	$ 37,810	$ 46,436	$ 72,850	$ 343,543	$ 16,536,539
$ 534,283	$ 603,020	$ 355,961	$ 169,844	$ 236,568	$ 705,644	$ 259,382,936
(1,928)	(87,324)	(1,625)	(7,682)	(193,883)	(278,450)	(8,475,613)
-	-	(227)	(77,899)	(3,550)	-	(76,620,902)
$ 532,355	$ 515,696	$ 354,109	$ 84,263	$ 39,135	$ 427,194	$ 174,286,421

OTHER ACCOMPANYING INFORMATION

Top Management Challenges

The Top Management Challenges identified by the Office of the Inspector General (OIG) for the Department of Labor (DOL) are discussed below.

2011 Top Management Challenges Facing the Department of Labor

For 2011, the OIG considers the following as the most serious management and performance challenges facing the Department:

- Protecting the Safety and Health of Workers
- Improving Performance Accountability of Workforce Investment Act Grants
- Ensuring the Effectiveness of the Job Corps Program
- Safeguarding Unemployment Insurance
- Improving the Management of Workers' Compensation Programs
- Maintaining the Integrity of Foreign Labor Certification Programs
- Ensuring the Security of Employee Benefit Plan Assets
- Securing Information Technology Systems and Protecting Related Information Assets
- Ensuring the Successful Development and Implementation of Major Information Management Systems
- Ensuring the Effectiveness of Veterans' Employment and Training Programs
- Improving Procurement Integrity

For each challenge, the OIG presents the challenge, the OIG's assessment of the Department's progress in addressing the challenge, and what remains to be done. These top management challenges are intended to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical services to the public.

CHALLENGE: Protecting the Safety and Health of Workers

OVERVIEW:

The two DOL agencies primarily responsible for protecting workers are the Occupational Safety and Health Administration (OSHA) and the Mine Safety and Health Administration (MSHA). The Department is responsible for ensuring safe and healthful working conditions for 130 million workers at more than seven million establishments, and more than 350,000 miners who work at more than 14,500 mines nationwide. DOL's effective enforcement of worker safety laws is critical towards this end. However, both OSHA and MSHA must constantly balance the mandate of their missions with competing interests of business, labor, and other special interests.

CHALLENGE FOR THE DEPARTMENT:

Occupational Safety and Health Administration – With more than seven million entities under its oversight and 4,547 fatal workplace injuries reported by the Bureau of Labor Statistics (BLS) in 2010, OSHA continues to be challenged on how to best target its resources, and measure the impact of its policies and programs and those of the 27 states authorized by OSHA to operate their own safety and health programs. OSHA carries out its enforcement responsibilities through a combination of self-initiated and complaint investigations, but can reach only a fraction of the entities it regulates. Consequently, OSHA must strive to target the most egregious and persistent violators while protecting the most vulnerable worker populations.

Determining the Effectiveness of Federally and State Operated Worker Safety and Health Programs–While OSHA is required to ensure that state-operated programs are at least as effective as the safety and health programs operated directly by Federal OSHA, a recent OIG audit found that OSHA lacks outcomes-based performance metrics to measure and demonstrate the causal effect of its own Federal programs on the safety and health of workers. Without such metrics, OSHA cannot determine the effectiveness of either Federally-operated or state-run worker safety and health programs.

Evaluating the Impact of Penalty Reductions – OSHA reduces penalties imposed on employers cited for safety and health violations as an incentive for employers to voluntarily correct safety and health violations. During the two-year period ending in June of 2009, OSHA inspections resulted in 142,187 citations, of which 98 percent received reductions with penalties of $523.5 million being reduced by $351.2 million (67percent). However, OSHA has not yet completed any evaluations as to whether penalty reductions actually result in enhanced compliance with safety and health rules.

Mine Safety and Health Administration – With more than 7,000 injuries and 71 fatalities reported in 2010, MSHA continues to be challenged to effectively manage its enforcement efforts and programs to ensure that every miner returns home safely at the end of each day.

Completing Mandatory Regular Safety and Health Inspections –Historically, MSHA has struggled to complete all of its mandated Regular Safety and Health mine inspections, as required by the Mine Act. In 2007, an OIG audit reported that MSHA was not completing all required inspections at the nation’s coal mines. In a report issued in 2011, the OIG found that MSHA should be more transparent in reporting inspections. Although MSHA reported it completed all statutorily required Regular Safety and Health inspections of Metal/NonMetal mines in FY 2010, it had recorded only “attempted inspections” at more than 5 percent of the mines because those mines were temporarily idle on the day(s) on which MSHA visited the mines.

Applying Available Enforcement Authorities– Although the Mine Act provides MSHA with an array of enforcement tools, only recently has MSHA begun exercising some of its strongest authorities. A 2010 OIG audit questioned MSHA’s ability to accurately identify repeat and egregious violators through its Pattern of Violations (POV) analysis and reported that, in 32 years it had never exercised its POV authority to place a mine on this enhanced enforcement despite concerns that recent mine fatalities might be linked to mines with patterns of violations. Timely identification of, and strong action against, the most serious violators is critical to protecting our nation’s miners.

Addressing Contested Citations – As a result of stepped-up enforcement and the revised penalty provisions implemented in 2007, there has been an increase in citations and monetary fines issued by MSHA. However, mine operators have contested a growing percentage of citations before the Federal Mine Safety and Health Review Commission (FMSHRC), limiting MSHA’s enforcement impact and straining its resources.

Maintaining an experienced and properly trained enforcement staff– MSHA must continue to recruit, train, and adequately supervise its enforcement workforce to meet its statutory obligations. This challenge will be exacerbated by retirements, with 41 percent of MSHA’s enforcement personnel eligible to retire by 2014. Moreover, a 2010 OIG audit raised concerns about the supervision of inspector trainees and the continuing education of journeyman inspectors.

Timely Setting and Updating of Regulations and Standards– As scientific knowledge and mining practices change, MSHA must assure that its standards and regulations keep pace. MSHA’s regulatory agenda, as of July 2011, contained seven separate proposed rulemakings. For example, MSHA has proposed lowering coal miners’ exposure to coal dust, which is a change aimed at addressing recent increases in Black Lung disease among coal miners. MSHA will be challenged to issue final regulations in a timely manner while effectively and efficiently incorporating input from various stakeholders during the rulemaking process.

Fostering the Development and Implementation of New Technologies– Mining accidents in recent years have placed renewed attention on improving mine safety through the development and use of new technologies such as wireless underground communication and miner tracking systems, a new generation of self-contained breathing apparatuses, and real-time monitoring devices such as a coal dust explosibility meter. While not directly responsible for developing such technology, MSHA's challenge is to encourage development of these new tools within the industry.

DEPARTMENT'S PROGRESS:

OSHA continues to review and enhance its Severe Violator Enforcement Program (SVEP), which is designed to concentrate resources on inspecting employers who repeatedly violate the OSH Act. OSHA revised its penalty policy which increased penalty amounts and decreased prior reductions in an effort to deter employer non-compliance with OSHA's standards.

Moreover, the Department introduced a new approach to measuring the performance of worker protection agencies. Central to this new approach is establishing regular processes for evaluating the success of enforcement strategies in helping to achieve desired outcomes. In this regard, the Department initiated a multi-year study of OSHA's Site-Specific Targeting program to assess the impact of the program interventions on future employer compliance.

MSHA continues to identify and hire mine inspector candidates within authorized personnel levels. MSHA has increased the use of videoconferencing and on-line courses to more quickly and conveniently deliver training. It has also made changes to more accurately and timely track training of new inspectors. MSHA has re-emphasized its policy requiring periodic retraining of all inspectors, including establishing a policy that prohibits personnel from conducting inspections if required retraining has not been completed and verified. During FY 2010 MSHA implemented new supervisory training programs for Metal/NonMetal and coal supervisors. MSHA reported that Metal/NonMetal supervisors have completed the training, and coal supervisors were expected to have completed it by the end of October 2011.

In November 2010, MSHA designed and implemented new criteria for identifying mines with a pattern of violations and established new criteria for potential POV mines to avoid receiving a POV notice. Since November 2010, MSHA has issued potential POV notices to 18 mines, including two mines that failed to maintain their improvements after initially meeting MSHA's criteria. As a result, for the first time in its history, MSHA placed mines under the enhanced enforcement of the POV authority. It also developed an on-line database that allows mine operators, miners, or the general public to monitor any mine's status in relation to the POV criteria. In January 2011, MSHA published proposed regulations aimed at further strengthening the existing POV process.

Using a supplemental appropriation received in July 2010, MSHA continues to work with the FMSHRC and DOL's Office of the Solicitor (SOL) to reduce a specific backlog of 10,425 cases that existed at July 31, 2010. Through July 28, 2011, this initial backlog had been reduced to 3,501 cases. However, MSHA reported that the overall FMSHRC caseload remained at 12,177 cases in September 2011 (down from a high of 15,082 cases in January 2011) as a result of additional appeals filed by mine operators after July 2010.

During FY 2011, MSHA published Proposed Rules related to lowering miners' exposure to respirable coal dust, strengthening requirements for examinations of underground coal mines. In June 2011, MSHA published a Final Rule increasing the rock dust requirements in underground coal mines.

MSHA has recently approved the first wireless communication system for use in underground mines and continues to support the National Institute for Occupational Safety and Health's efforts to develop a hand-held rock dust monitor by conducting tests of developmental models. MSHA stated it has proposed or finalized requirements for proximity detection systems for continuous mining machines in underground coal mines, refuge alternatives in underground mines, and improved flame-resistant conveyor belts. MSHA also stated it has conducted outreach with stakeholders, miners' representatives and the mining community to promote adoption of new technology, such as the next generation self-contained self-rescue device.

WHAT REMAINS TO BE DONE:

OSHA should to continue its efforts to ensure SVEP is operating as intended. As part of the Department's new approach to measuring the success of enforcement strategies, OSHA needs to continue its efforts to evaluate the impact of penalty reductions on comprehensive improvements to workplace safety and health, and evaluate whether State Plan programs are as effective as Federal OSHA in protecting workers.

MSHA must take steps to: complete all required inspections; finalize proposed POV regulations implementing procedures to facilitate early resolution of enforcement issues; collaborate with the FMSHRC to reduce the time it takes to resolve contested cases before the FMSHRC; timely complete its rulemaking agenda; and encourage technological advances.

CHALLENGE: Improving Performance Accountability of Workforce Investment Act Grants

OVERVIEW:

In FY 2011, the Department's Employment and Training Administration (ETA) reported program costs totaling $4.1 billion for the Workforce Investment Act (WIA) Adult, Dislocated Worker, and Youth programs. WIA adult employment and training services are provided through financial assistance grants to states and territories to design and operate programs for disadvantaged persons, including public assistance recipients. ETA also awards grants to states to provide reemployment services and retraining assistance to individuals dislocated from their employment. Youth programs are funded through grant awards that support program activities and services to prepare low-income youth for academic and employment success, including summer jobs.

CHALLENGE FOR THE DEPARTMENT:

Successfully meeting the employment and training needs of citizens requires selecting the best service providers, making expectations clear to grantees, ensuring that success can be measured, providing active oversight, and disseminating and replicating proven strategies and programs. DOL is challenged to ensure the grants it awards accomplish program objectives and that the performance data reported by the grantees are accurate and reliable.

Ensuring Grant Objectives Are Accomplished – The Department is challenged to ensure the grants it awards accomplish program objectives. Most critically, the Department needs to know whether training provided by grantees leads to training-related employment. A recent OIG audit of the WIA Adult and Dislocated Worker programs found that training related employment data reported by grantees was incomplete and unreliable. For a sample of 362 Adult and Dislocated Worker program exiters, OIG found that 37 percent either did not obtain employment or their employment was unrelated to the training they received. Additionally, for another 10 percent, the states could not provide sufficient evidence to determine whether the reported placement was training-related. OIG projected that the amount of funds paid for training these types of exiters totaled approximately $124 million.

As reported by GAO in March 2011, the Department's research related to job training and employment generally addresses key employment and training issues. However, GAO found that some studies were limited in their usefulness and suggested that future research should include a focus on employment and training approaches that work and for whom. GAO also noted that WIA required the Department to conduct at least one multi-site control group evaluation of the services and programs under WIA by the end of FY 2005. ETA delayed executing such a study, soliciting proposals in November 2007 and awarding the $23 million contract in June 2008. Several design revisions have been made to the study, and ETA expects to receive the final report in 2015 – 10 years later than the WIA-mandated timeframe.

Federal project officers are assigned to monitor grants, but carry a heavy workload. Monitoring is also limited by the amount of travel funds available. Further, WIA formula funds are awarded to states, who then distribute the funds to local workforce investment areas within their states. As a result, ETA must rely on state monitoring efforts and reporting to assess grant performance. Reliable and timely performance data are needed to allow ETA to identify performance problems in time to correct them.

For example, a recent OIG audit of $500 million in American Recovery and Reinvestment Act (Recovery Act) grants intended to prepare workers for green jobs found that the program's slow pace in placing workers into green jobs raises concerns that the original placement goals may not be reached before the grant periods expire. Of the $490.1 million of grants awarded, $162.8 million or 33 percent had been spent with about 73 percent of the grant period having elapsed as of June 30, 2011. More than two years after the Recovery Act was signed and 18 months after the grants were awarded, grantees have reported placing 8,035 participants (10 percent) into employment out of the planned goal of 79,511 participants. Of the 96,658 participants who were to be trained, 26,142 or 27 percent had completed training. Grantees have also expressed concerns that the expected green jobs have not materialized and that job placements have been fewer than expected for this point in the grant program. While ETA stated it expects performance to significantly increase following an initial lag during the standard start-up phase of the grants, the OIG remains concerned that the low placement rate makes it unlikely the program will meet its goal of placing nearly 80,000 workers in green jobs by 2013.

Meeting Increased Demand for Services – The performance of the Department's employment and training programs is impacted by the nation's economic conditions. The downturn of the economy has placed additional pressures on the workforce system as more workers are in need of its services. Meeting this increase in demand, while continuing to provide intensive services, such as career counseling and case management, are critical to helping workers find new jobs quickly.

Coordinating with Other Service Providers –The Government Accountability Office (GAO) recently issued a report addressing fragmentation, overlap, and potential duplication in Federal employment and training programs. ETA is challenged to address the collocation issues that GAO presented, specifically the collocating of the U.S. Department of Health and Human Services' (HHS) Temporary Assistance for Needy Families (TANF) and DOL's Employment Service and WIA programs. These challenges include how to serve additional clients given the limited capacity of One-Stop Centers and potential lease restrictions, how to navigate philosophical differences among programs and address the multiple needs of TANF clients in the one-stop center setting, how to ensure that services are geographically accessible, whether the potential benefits of collocating TANF in One-Stop Centers outweigh the potential costs of no longer collocating these services with other services for low-income families, and whether, and to what extent, TANF will contribute to one-stop center operating costs.

DEPARTMENT'S PROGRESS:

In September 2010, ETA executed a contract for the services of 14 staff for 12 months to assist with grant management activities for Recovery Act grants. These staff performed duties such as monitoring, audit resolution, and reporting under Section 1512 of the Recovery Act.

ETA and the Department have taken steps to improve the way research is conducted, and ETA has reported that it has taken several actions to address GAO's recommendations. The Department recently established the Chief Evaluation Office to oversee department-wide research and evaluation efforts, and ETA stated it is formally incorporating the routine involvement of the Chief Evaluation Officer into its research process. ETA also reported it has begun involving outside experts in developing its research plan and it has made improvements to its Web-based database for disseminating research and evaluation findings, including development of strategies to support broader and more innovative marketing efforts for disseminating research and evaluation reports.

ETA has made design changes to the WIA Gold Standard Evaluation of the Adult and Dislocated Worker programs. ETA expects to receive the first evaluation report (on implementation) during the winter of 2012-2013 and the final

report in 2015. Through this evaluation, ETA intends to measure the net impact of specific interventions, such as the incremental effects of the intensive and training services provided to adults and dislocated workers. The multi-year WIA Gold Standard is funded on an annual basis and is contingent on the availability of appropriated funding.
ETA completed and began field testing a draft data validation supplement to the Core Monitoring Guide used by its Federal project officers. The supplement includes a detailed appendix, or "Resource and Tool Guide," for use by Federal project officers. The appendix provides a step-by-step reference guide that provides the basis of training specific to data validation overall. ETA also indicated that data validation has been included in staff performance standards as one of the field activities required of Federal project officers.

To meet the increased demand for services and improve coordination with other service providers, ETA indicated that states in one region were able to utilize Recovery Act TANF funds to expand services by providing subsidized employment activities. In two states, TANF has continued to contribute post-Recovery Act funds to support summer youth employment and/or work experience programs. In collaboration with HHS, ETA issued a joint letter to encourage partnerships between workforce and human services agencies and utilized waivers to expand summer employment opportunities.

ETA and the Department have identified the reauthorization of WIA as a legislative priority and have specified several goals that the Department believes should be a focus of the reauthorization process. Among these goals is improving accountability by updating the performance measures used by WIA programs.

WHAT REMAINS TO BE DONE:
ETA should closely monitor its WIA grants and address any disconnects between the training being provided and employment demands. Further, ETA needs to pursue legislative authority in the WIA reauthorization to develop performance measures for training outcomes, require SWAs to report training costs and funding sources at the participant level so stakeholders have adequate information to make return-on-investment decisions for WIA services, develop and provide guidance to SWAs and LWAs regarding the best methodology for collecting and reporting data for training-related employment, and exercise oversight over SWAs to ensure they develop and/or identify best practices to increase the percentage of exiters who find employment related to the training they receive.

ETA needs to continue its efforts to identify and prioritize workloads and funding levels to ensure Recovery Act funded green jobs grants are adequately monitored, grant funds are spent properly, and grants achieve their intended purpose. Over the next year, the OIG will focus its Recovery Act audit efforts on assessing how grantees and contractors performed and what was accomplished with Recovery Act funding.

ETA should complete the field testing of the data validation supplement, make any needed adjustments, and make the final supplement available to all ETA grantees. Once the final supplement is issued, ETA needs to determine user training needs and how best to meet those needs.

ETA should continue plans to: work with HHS to develop a joint strategy for addressing client needs in the One-Stop center setting; finalize strategies for out-stationing One-Stop staff in non-traditional facilities, such as libraries, community centers, faith-based organizations, veterans' centers and community colleges; and ensure that virtual services are increasingly utilized for accessing services.

CHALLENGE: Ensuring the Effectiveness of the Job Corps Program

OVERVIEW:
ETA operates the Job Corps program, which provides residential education, training, and support services to approximately 60,000 students at 125 Job Corps centers. Job Corps centers are operated for DOL by private

contractors, and by other Federal Agencies through interagency agreements. The program was appropriated about $1.7 billion in FY 2011.

CHALLENGE FOR THE DEPARTMENT:

Ensuring Eligibility– The Job Corps program is intended to serve at risk, low-income youth ages 16-24. A recent OIG audit found that Job Corps' policy allowing potential students to self-certify their family income levels was not effective. We estimated that 472 (10 percent) of the 4,718 active students enrolled in the program during March 2011 were ineligible; and that $13.8 million would be spent over time to train them. If Job Corp and outreach and recruitment contractors' controls are not strengthened and the ineligibility rate remains constant, then funds spent on ineligible students over a one-year period could total $164.6 million.

Ensuring Health and Safety– Ensuring the quality of life at centers, including healthy living conditions and a sense of safety, is a continuing challenge for Job Corps. Past OIG audits have identified unsafe or unhealthy conditions and the lack of required safety inspections at some centers. OIG audits also found that some centers did not hold required behavior review board meetings to evaluate student misconduct and initiate disciplinary action and underreported significant incidents occurring at the centers.

Improving Performance Accountability – Ensuring that the program achieves its intended results remains a challenge for Job Corps. Job Corps measures effectiveness through a complex performance management system of 58 metrics designed to meet WIA mandates, Government Performance and Results Act requirements, and DOL priorities. Since 2006, Job Corps has spent almost $1.5 million on consultants to improve its performance metrics and outcomes. However, a recent OIG audit found that Job Corps officials and other decision makers did not have reliable performance information to determine, for example, how effectively Job Corps placed students in jobs that matched the vocational training provided. Specifically, the OIG found that more than 3,000 reported placements either did not relate or poorly related to the vocational training provided. For example, some participants trained in office administration were placed in fast-food restaurants; others trained as nurses assistants were placed as sales persons, stock clerks or laborers in retail stores.

Improving the Integrity of Reported Performance Data–The integrity of performance data reported by center operators remains a challenge for Job Corps. Most centers are operated by contractors through performance-based contracts with incentive fees and bonuses that are tied directly to contractor performance. Under such contracts and without proper controls and strict oversight, there is a risk that contractors will overstate performance results. Past OIG audits have found that weak controls at centers have resulted in the overstatement of performance results.

Ensuring Financial Accountability–Job Corps has responsibility to ensure its center operators spend Federal funds wisely and appropriately. Job Corps center operators annually award contracts for millions of dollars of goods and services. Recent OIG audits have found that center operators were not always awarding contracts and claiming related costs in accordance with the Federal Acquisition Regulation. As a result, Job Corps cannot ensure it is getting the best value for the Federal dollars being spent.

DEPARTMENT'S PROGRESS:

Job Corps has eliminated self-certification of family income and now requires all potential students to provide income documentation, such as tax returns, paycheck stubs, or letters from employers. Also, Job Corps' automated system no longer allows outreach and admissions service providers to enroll applicants who do not meet the low-income definition. Job Corps conducted training for its Outreach and Admissions staff, center directors, and student records personnel to provide up-to-date guidance on admissions procedures, including new requirements for determining income eligibility.

Job Corps stated it has published: several Information Notices and Program Instructions on safety issues; sent quarterly memoranda to the Regional Directors regarding major hazards identified during centers' quarterly inspections; and provided technical assistance in response to inquiries about center abatement action plans. Job Corps also reported that centers continued to provide training and support to students on issues such as conflict resolution, abuse, and student leadership. Job Corps is in the process of clarifying its behavior management policies.

In FY 2011, Job Corps released a revised Job Training Match crosswalk that aligned the program's career training pathways with O*Net-Standard Occupational Classification codes maintained by ETA's Office of Workforce Investment. Job Corps stated it has also implemented a quality check that will require placement counselors to verify their selection of potentially inappropriate codes as a Job Training Match.

Job Corps has also instituted a data integrity assessment system. According to Job Corps, these assessments provide a mechanism for Regional Office staff to identify and report on specific instances of improperly reported data as well as management practices that could potentially affect data integrity. To date, Job Corps stated that it has contracted for 128 data integrity assessments for student leave, career technical training, and GED/high school diploma attainment.

WHAT REMAINS TO BE DONE:

Job Corps needs to provide proactive, consistent, and rigorous oversight of contractors at all centers. Job Corps should closely monitor outreach and admissions service providers' compliance with its new policy requiring documentation of income eligibility by all incoming students. In the area of performance accountability, Job Corps needs to improve the transparency and reliability of its performance metrics, especially the job training match, so internal and external stakeholders can make informed decisions regarding the program's performance and costs. Job Corps has indicated it plans to improve its monitoring of service providers and it will be publishing additional performance data on the program's website. In addition, Job Corps needs to take actions to ensure centers provide a safe and conducive learning environment while supporting student success and program retention. Finally, ETA's Office of Contract Management, which manages all procurement and contract activities for Job Corps, must ensure that center operators and other service providers comply with procurement and contracting regulations and requirements.

CHALLENGE: Safeguarding Unemployment Insurance

OVERVIEW:

ETA partners with the states to administer unemployment insurance (UI) programs. State UI provides benefits to workers who are unemployed and meet the eligibility requirements established by their respective states. UI benefits are largely financed through employer taxes imposed by the states and deposited in the Unemployment Trust Fund (UTF) from which the states pay the benefits. The states administer these programs under an agreement with DOL in accordance with their state laws and regulations. ETA funds State Workforce Agencies (SWAs) who administer the UI program through grant agreements. These grant agreements are intended to ensure that SWAs efficiently administer the UI program and comply with Federal laws and regulations.

CHALLENGE FOR THE DEPARTMENT:

Over the past three years, payments to UI recipients have grown to unprecedented levels, paying nearly $318 billion to unemployed workers. This rapid, large growth, especially in the Federally-funded portion, has increased the risk of improper payments. According to GAO, the rate of improper payments in the UI program was the third largest of any benefits program in FY 2010. DOL estimates that nearly $32 billion of improper payments occurred over the past three years. DOL estimates that $17.2 billion may be collectable, which includes more than $10.3 billion in state-funded benefits and $6.9 billion in Federally-funded programs.

Reducing Improper Payments – ETA is challenged to reduce the rate of improper payments in the UI program. Executive Order 13520 and the Improper Payments Elimination and Recovery Act of 2010 have placed even greater emphasis on taking steps to reduce these improper payments. However, the weak economy has continued to make controlling UI overpayments difficult, as the number of claims filed continues at elevated levels. According to ETA officials, states responded to the heavy workload by shifting resources from detecting improper payments to processing claims. For 2010, DOL reported improper payments totaling $17.5 billion, an increase from the $12.3 billion reported for 2009. The improper payment rate also increased from 10.3 percent in 2009 to 11.2 percent in 2010. Indeed, because reducing improper payments is so critical, the target rate of 9.9 percent in 2010 was reduced to 9.8 percent in 2011.

In addition, OIG investigations continue to uncover fraud committed by individual UI recipients who do not report or underreport earnings, as well as fictitious employer schemes. ETA estimates that about $3.7 billion of overpayments resulted from willful misrepresentation by claimants – a fraud overpayment rate of 2.37 percent of total UI benefits paid in FY 2010.

A recent OIG audit found that ETA lacks effective controls over the detection of improper payments for both the UI state and Federal programs, leaving both programs, but especially the Federally funded programs, vulnerable. Therefore, ETA's reporting on how well improper payments were detected significantly overstated performance results. This occurred because ETA lacked controls over the three key elements of the improper payment process: estimating improper payments; validating actual improper payment amounts; and monitoring how well states did in detecting improper payments. In monitoring only state-funded programs, ETA reported that the UI program met its program requirements (50 percent) by detecting more than 52 percent of recoverable improper payments. However, for the Federally-funded programs, the actual rate of detection was only about 19 percent, or about $1.3 billion detected versus about $6.9 billion estimated recoverable improper payments, leaving $5.6 billion undetected.

OIG investigations also continue to uncover fraud committed by individual UI recipients who do not report or underreport earnings, as well as fictitious employer schemes. In addition, recent investigations have confirmed criminal schemes involving employers who knowingly employ undocumented or improperly documented foreign workers for whom they intentionally fail to make the required unemployment insurance contributions.

DEPARTMENT'S PROGRESS:

In March 2010, the Department implemented the State Information Data Exchange System (SIDES), which enables communication and transmission of UI separation information requests from UI agencies to multi-state employers and third-party administrators (TPAs). To date, five states (Utah, Colorado, Georgia, Ohio, and New Jersey) have implemented SIDES. Fifteen other states have joined the consortium and are preparing to implement SIDES. The Department's supplemental funding opportunity for FY 2011 included incentives for the original states to implement SIDES faster, while providing funds for new states to implement SIDES. As a result, ETA believes that 21 states will be fully implemented by March 31, 2012, and 21 new states will be implemented by September 30, 2012, increasing the numbers of states using SIDES from 5 to 42.

In April 2011, the Department targeted 10 states with the highest improper payments due to a claimant's failure to register with the state's Employment Service or job bank in accordance with the state's UI law. Through the implementation of technology and/or other solutions, these states have seen a 23 percent reduction in improper payments due to claimants' failure to register with the Employment Service.

DOL pursued the passage of the Claims Resolution Act of 2010 which was signed into law in December 2010. The Act includes provisions to expand the Treasury Offset Program (TOP) to recover more UI overpayments. The Department has worked with the U.S. Department of the Treasury's Financial Management Service to facilitate state implementation of TOP for the recovery of UI debts. As of June 29, 2011, over $25 million had been recovered by NY, WI, and MI through the use of TOP. Through the Department's FY 2011 supplemental funding opportunity, an additional 25 states will receive funding to implement TOP.

The Department supported the convening of state cross-functional task forces that will focus on addressing the root causes of overpayments that have the highest impacts in the states, and developed a new web site that displays state-by-state performance and progress in addressing UI improper payments. The Department is also working to develop new performance measures for states which initially will target reducing improper payments when claimants continue to claim benefits after returning to work by 30 percent the first year, and a total of 50 percent after two years. The Department is pursuing the development of a claimant and employer messaging campaign to be implemented by the states to improve claimants' and employers' understanding of their responsibilities when collecting UI payments or responding to requests for information.

DOL also mandated that by December 31, 2011, all states must use the National Directory of New Hires (NDNH) for benefit payment control. California, which accounts for the largest amount of UI improper payments, is the only state still not using NDNH.

WHAT REMAINS TO BE DONE:
ETA can further improve its oversight of the states' detection and prevention of UI overpayments by fully implementing SIDES, and increasing the frequency of SWA on-site reviews. ETA must ensure California has implemented NDNH by December 31, 2011. ETA continues to pursue legislation to allow States to use up to 5 percent of recovered UI overpayments to detect and deter benefit overpayments. The legislation would also require employers to report former workers they rehire to the NDNH after a separation of at least 60 days; and continuing to promote States' use of a variety of other databases (e.g., Social Security, Department of Corrections) to prevent and detect improper UI benefit payments. ETA also needs to provide additional, detailed information on its efforts to reduce improper payments in its next Report on UI Improper Payments.

CHALLENGE: Improving the Management of Workers' Compensation Programs

OVERVIEW:
The Department's Office of Workers' Compensation Programs manages the Government's workers' compensation programs, including the Federal Employees' Compensation Act (FECA) Program and the Energy Employees Occupational Illness Compensation Act Program (Energy workers' program).

The FECA Program provides wage-loss compensation and pays medical expenses for covered Federal civilian and certain other employees who incur work-related occupational injuries or illnesses as well as survivors benefits for a covered employee's employment-related death. DOL reports that the cost of Federal workplace injuries, when measured by FECA compensation costs for wage-loss, is nearly $3 billion and two million lost production days annually.

The Energy workers' program was created to provide monetary compensation and medical benefits to civilian employees who incurred an occupational illness, such as cancer, as a result of their exposure to radiation or other toxic substances while employed in the nuclear weapons and testing programs of the U.S. Department of Energy and its predecessor agencies. In certain circumstances, these employees' survivors may be eligible for compensation. Since the program began in 2001, DOL reports it has paid more than $7 billion in compensation and medical benefits to more than 85,000 claimants nationwide.

CHALLENGE FOR THE DEPARTMENT:
Preventing FECA Fraud and Improper Payments – The FECA program must be responsive and timely to eligible claimants while ensuring it makes proper payments. The challenges facing the FECA program include moving

claimants off the periodic rolls when they can return to work or when their eligibility ceases, preventing ineligible recipients from receiving benefits, and preventing fraud by service providers and by individuals who receive FECA benefits while working. OIG's recent audit of FECA improper payments found that OWCP did not always take timely action to terminate benefits when notified of FECA claimants' deaths. Additionally, OWCP had not designed effective procedures to ensure that benefit payments were reduced for FECA claimants who were collecting SSA retirement benefits. OIG investigations continue to identify fraud committed by claimants and medical providers. In FY 2011, FECA claimant investigations alone resulted in $10,690,040 in OIG investigative monetary accomplishments. While it is difficult to identify and address improper payments and fraud in the FECA program, OWCP must measure its efforts and progress in improving payment accuracy and reducing fraud.

Timely Processing of Claims Filed by Energy Workers –Processing of energy workers' claims continues to take too long, particularly given the advanced age and serious illnesses of those typically filing for benefits. The Energy workers compensation program, though administered by OWCP, requires the pre-adjudication input, assistance, and determinations of three other major Federal agencies and a Federal advisory board. Complex requirements in the authorizing legislation and the difficulty of locating employment and other records, as well as the inability of sick, often aging, claimants to fully understand their rights and responsibilities, contribute to the lengthy decision process. Furthermore, the National Institute for Occupational Safety and Health (NIOSH), which is an agency within the U.S. Department of Health and Human Services, must prepare a complicated and time consuming dose reconstruction of the amount of radiation to which an employee was exposed. As indicated on OWCP's website, for cases decided in 2010, it took about 200 days for a final decision to be reached for cases not sent to NIOSH and more than 2½ years for cases sent to NIOSH. While processing times have come down since 2006, they remain at or above 2004 processing times. OWCP is hampered in its efforts to reduce processing times, as it has no authority over the completion time of the NIOSH process.

DEPARTMENT'S PROGRESS:

The Department reported that OWCP will run the death match with the Social Security Administration weekly and will improve procedures to ensure timely termination of benefits upon the death of a claimant. Additional training on improper payments will be provided to claims examiners by the end of calendar year 2011.

The Department reported that the average number of days for OWCP to process an initial energy workers claim decreased from 164 days in FY 2008 to 97 days in FY 2010 for Part B benefits (covering workers diagnosed with illnesses caused by exposure to radiation, beryllium, or silica), and from 283 days in FY 2008 to 125 days in FY 2010 for Part E benefits (covering employees of DOE contractors or subcontractors, or their survivors, who develop an illness due to exposure to toxic substances). While these reported processing time reductions do not include the time claims spent at NIOSH, OWCP is establishing a baseline in FY 2011 to set performance targets for the average days between the date a claim is filed and a final decision is issued. The new performance metrics will distinguish between cases that involve NIOSH review and those that do not.

WHAT REMAINS TO BE DONE:

As we have previously reported, OWCP does not have the legal authority to match FECA compensation recipients against Social Security wage records. OWCP must obtain written permission each time from each individual claimant in order to check SSA records to determine if a claimant has returned to work. Having direct authority to perform the match would enable OWCP to reduce improper payments by identifying individuals who are collecting FECA benefits while working and collecting wages or Federal retirement benefits. In addition to obtaining access to SSA wage records, OWCP needs to continue to seek legislative reforms to the FECA program to enhance incentives for recovered employees to return to work, address retirement equity issues, discourage unsubstantiated or otherwise unnecessary claims, and make other benefit and administrative improvements. Through the enactment of these proposals, OWCP estimates savings to the government over 10 years to be $550 million. OWCP also needs to improve its methodology for determining the amount of FECA improper payments, and establish a strategy and performance measures for preventing and detecting such payments.

While OWCP has reduced processing times in the Energy workers' program for initial case processing and for completing final decisions once a claim reaches final adjudication, overall claims processing times remain long. OWCP needs to continue to work with the other Federal agencies involved in the adjudication process to issue final decisions in a matter of months, rather than years.

CHALLENGE: Maintaining the Integrity of Foreign Labor Certification Programs

OVERVIEW:

The Department's Foreign Labor Certification (FLC) programs are administered by the ETA. These programs are intended to provide U.S. employers access to foreign labor to meet worker shortages as long as U.S. workers are not adversely affected. The H-1B visa specialty workers' program requires employers that intend to employ foreign specialty occupation workers on a temporary basis to file labor condition applications with ETA stating that appropriate wage rates will be paid and that workplace guidelines will be followed. The H-2B program establishes a means for U.S. nonagricultural employers to bring foreign workers into the United States to meet temporary worker shortages. The Permanent FLC program allows an employer to hire a foreign worker to work permanently in the United States. Employers are required to pay foreign workers a required wage, which in most cases, is the prevailing wage in that occupation so wages of similarly employed U.S. workers will not be adversely affected. Employers are also required to comply with all laws governing such employment.

CHALLENGE FOR THE DEPARTMENT:

ETA is challenged to ensure the integrity of the FLC programs it administers. OIG investigations continue to uncover schemes carried out by immigration attorneys, labor brokers, and transnational organized crime groups. OIG investigations have repeatedly revealed that fraudulent applications filed with DOL on behalf of fictitious companies, as well as schemes wherein fraudulent applications were filed using the names of legitimate companies without the companies' knowledge. Additionally, OIG investigations have uncovered complex schemes involving fraudulent DOL FLC documents filed in conjunction with or in support of similarly falsified identification documents required by other Federal and state organizations.

ETA faces challenges in maintaining the integrity of its H-1B and H-2B FLC programs. The H-1B challenges include statutory limits on its authority, making system improvements in its H-1B Labor Condition Application processing system to better identify incomplete and/or obviously inaccurate applications, and uncertainty regarding the process for including individuals or entities debarred under the Department's FLC programs on the government-wide excluded parties lists. The present H-2B worker protections are based on a model where employers merely assert, but do not demonstrate, that they have performed an adequate test of the U.S. labor market before hiring foreign workers in lieu of U.S. workers. An OIG report issued in October 2011 found that DOL regulations had hampered ETA's ability to provide adequate protections for U.S. workers in the H-2B applications filed by four Oregon forestry employers. Although 187 U.S. workers were contacted by the employers regarding possible employment, none were hired. Instead, 323 foreign workers were brought into the country for these jobs. The OIG also found that certain State Workforce Agencies (SWAs) did not fulfill their responsibilities for the H-2B applications we reviewed. Furthermore, the OIG found that ETA could improve its initial application reviews, post-adjudication processes, and monitoring activities to better protect the interests of U.S. workers under the regulations by which the program currently operates.

The OIG also found that the SWAs it reviewed were not transmitting posted job orders to other states or referring U.S. workers to employers, as they are required to do. Also, a September 2010 GAO report highlighted examples of H-2B employers and recruiters submitting fraudulent documentation to DOL. Specifically, GAO identified employers and recruiters who misclassified employee duties on labor certification applications to pay lower than prevailing wages, or preferentially hired H-2B employees over American workers in violation of Federal law.

DEPARTMENT'S PROGRESS:

ETA's Fraud Detection and Prevention Unit continues to work closely with the OIG to identify and reduce fraud in the FLC process by reviewing applications for inconsistencies, errors, and omissions. ETA has revised the rule for determining prevailing wage rates and proposed new rules governing the H-2B process. The major features of the new proposed rules include: creating a national electronic job registry for all H-2B job orders; increasing the amount of time for which U.S. workers must be recruited; requiring employers to engage in post-filing recruitment of U.S. workers; creating an H-2B registration process in which employers must demonstrate temporary need before applying for a labor certification; reinstating the critical role of the SWAs in assisting employers by using their expertise on local labor market conditions and recruitment patterns, and strengthening debarment authorities by providing Wage and Hour Division (WHD) with independent debarment authorities, and providing revocation authority to ETA.

To address the H-1B challenges, ETA has entered into a contract with a third-party vendor for employer verification services. Through this service, ETA indicates that it will have access to a more comprehensive employer identification database and verification system. This service will be applied to all FLC. In addition, ETA is working with the Department's Chief Acquisition Officer on ways to include foreign labor certification suspensions and debarments on the government-wide excluded parties list.

Finally, ETA is piloting a new risk management model in its Permanent Labor Certification Program (PERM). According to ETA, this new risk management model allows ETA to assign risk ratings to individuals applying to its PERM program and spend the appropriate amount of time reviewing the higher risk applications and reducing overall reviewing timeframes. ETA officials also stated that the new model will eventually be applied to the rest of the FLC programs.

WHAT REMAINS TO BE DONE:

The Department needs to evaluate the results of its certification processes, as well as reexamine existing processes, to assess their effectiveness. Furthermore, the Department needs to enhance its monitoring of the H-2B application process to ensure that SWAs and employers are fully complying with program requirements and intentions and make adjustments to enhance integrity of its employer verification services by fully implementing its electronic employer verification controls to the H-1B program and the remaining FLC programs. The Department should ensure that suspensions and debarments are considered and decisions documented for anyone convicted of FLC violations. It also needs to ensure the FLC debarments are reported to appropriate DOL personnel for inclusion in the government-wide exclusion system.

CHALLENGE: Ensuring the Security of Employee Benefit Plan Assets

OVERVIEW:

The mission of the Department's Employee Benefits Security Administration (EBSA) is to protect the security of retirement, health, and other private-sector employer-sponsored benefits for America's workers, retirees, and their families. Benefits under EBSA's jurisdiction consist of approximately $6.5 trillion in assets covering approximately 150 million participants and beneficiaries. 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).

EBSA oversees benefit security for an estimated 718,000 private retirement plans, 2.6 million health plans, and similar numbers of other welfare benefit plans, such as those providing life or disability insurance.

CHALLENGE FOR THE DEPARTMENT:

Multiple Challenges Stem from Implementing the Patient Protection and Affordable Care Act (PPACA)–The broad changes mandated by the PPACA require EBSA to issue new health plan regulations. A recent OIG audit found EBSA to be challenged to address the more than 1,900 public comments it has received on its rule making, and to incorporate these new regulations effectively into its enforcement program. These new and extensive health care requirements will pose major challenges for the Department through at least 2014, when all provisions of the PPACA are to be implemented.

Uncertainty About the Impact of EBSA Enforcement Programs–OIG audits have found that EBSA could not determine whether its civil enforcement projects, such as the Multiple Employer Welfare Arrangements project and the Rapid ERISA Action Team (REACT) project, were increasing compliance with ERISA, or whether the projects were decreasing the risk of workers losing benefits. While EBSA uses a variety of quantitative indicators to evaluate its individual civil enforcement projects, such as monetary results, staff days expended per case, and the number of civil cases converted to criminal cases (i.e., outputs), none of these indicators measure external events or conditions (i.e., outcomes). As a result, EBSA cannot ensure that it is effectively directing resources among its regional offices or to the enforcement areas where resources will do the most good.

Limited Authority to Oversee Plan Audits–Despite the importance of audits of employee benefit plans, EBSA does not have the authority to suspend, debar, or levy civil penalties against employee benefit plan auditors who perform substandard audits. In addition, ERISA allows plan administrators to exclude investments held by certain regulated institutions, such as banks and insurance companies, from the scope of a plan audit, resulting in the auditor's disclaimer of opinion on the financial statements, which seriously impairs the usefulness of the audit in protecting employee benefit plan assets.

DEPARTMENT'S PROGRESS:

EBSA has taken significant actions toward the implementation of the PPACA requirements through issuing regulations and sub-regulatory guidance, conducting research studies and surveys, and providing compliance assistance and outreach. To date, EBSA has issued interim-final regulations on: Coverage of Preventive Services, Preexisting Conditions Exclusions, Rescissions, Annual and Lifetime Limits, Patient Protections, Extension of Coverage for Adult Children, Grandfathered Health Plans, and Internal Claims and Appeals and External Review. For research studies and surveys, EBSA has reported on: Self-Insured Group Health Plans, Large Group Market, and Selected Benefits covered by employer and multiemployer plans. An additional study regarding the use of incentives in group health plan wellness programs is currently in progress. Additionally, EBSA has conducted numerous compliance assistance seminars, workshops and webcasts on the PPACA requirements. EBSA stated that starting in FY 2012, it added PPACA enforcement as a component part of its new national enforcement initiative, the Health Benefits Security Project. Through this project, EBSA plans to investigate a large number of health plans. EBSA has stated it plans to address public rulemaking comments when the interim final regulations are finalized.

As an initial step in developing performance metrics to measure the effectiveness of its enforcement program, EBSA implemented a broad Sample Investigation Program (SIP) in FY 2011, which reviewed randomly selected employee benefit plans for compliance with ERISA. Interim compliance data will be reported in FY 2012, and the first baseline compliance measure will be available in FY 2013.

The Department has previously sought legislative changes, such as expanding the authority of EBSA to address substandard benefit plan audits, and ensuring that auditors with poor records are not allowed to continue performing plan audits. These changes have not been enacted by Congress. In addition, the Department has unsuccessfully sought recommended legislative changes to either eliminate or modify the limited-scope audit exception to strengthen the protections afforded plan participants and beneficiaries.

WHAT REMAINS TO BE DONE:

In addition to issuing additional regulations under the PPACA, further action is needed to resolve potential challenges that may affect implementation and compliance with the statutory requirements. To ensure that affected parties can fully implement and comply with the PPACA requirements, EBSA should work with the Departments of Health and Human Services (HHS) and Treasury (who share joint jurisdiction over the Health Care

Reform Act market reform regulations), and the Office of Management and Budget (OMB) to establish specific timetables to respond to public comments and issue final regulations. EBSA needs to proceed with a rulemaking to implement Section 6604 of the PPACA. Section 6604 is designed to prevent fraudulent multiple employer welfare arrangements from escaping liability for their actions under state law by claiming that state law enforcement is preempted by Federal law. EBSA needs to incorporate PPACA requirements into its enforcement program to assist plans in complying with PPACA. EBSA also needs to provide HHS with the results of a survey of benefits typically covered by employers that is sufficiently broad to enable HHS to determine benefits provided under a typical employer plan.

EBSA should complete its evaluation of the results of SIP to determine what changes are needed to improve program effectiveness. EBSA should also continue working to obtain legislative change to address deficient benefit plan audits and to ensure that auditors with poor records do not perform any additional plan audits.

CHALLENGE: Securing Information Technology Systems and Protecting Related Information Assets

OVERVIEW:

DOL systems contain vital, sensitive information that is central to the Department's mission and to the effective administration of its programs. DOL systems are used to determine and house the nation's leading economic indicators, such as the unemployment rate and the Consumer Price Index. They also maintain critical data related to enforcement actions, worker safety, health, pension, and welfare benefits, job training services, and other worker benefits.

Providing assurances that IT systems will function reliably and safeguard information assets, especially in the face of new security threats, IT developments, and telework requirements, will challenge Federal agencies for many years. The Administration's goal of expanding the use of technology to create and maintain an open and transparent government has added to the challenge of keeping information secure.

CHALLENGE FOR THE DEPARTMENT:

Ongoing IT Security Concerns–Safeguarding information assets is a continuing challenge for Federal agencies, including DOL. The Administration's goal of expanding the use of technology to create and maintain an open and transparent government, while safeguarding systems and protecting sensitive information, has added to the challenge. OIG IT audits over the past several years have identified access controls and oversight of third-party (contractor) systems, as areas most challenging to the Department. Strong access controls are necessary to secure important, confidential, or sensitive information and equipment; however, during its FY 2010 audit testing OIG was able to gain unauthorized system administrative access to one of the Department's major information management systems. OIG also tested five contractor systems and discovered security problems in all five. In a report issued in March 2011, OIG found that approximately 50 percent of the IT assets recorded in the Department's property management system could not be physically located, and approximately 14 percent of IT assets observed during testing were not recorded in the system. Furthermore, Department security officials could not determine whether sensitive data such as personally identifiable information (PII) existed on 377 sensitive IT assets that had been reported lost, missing, or stolen. The Department could not determine whether these items—which included laptops, desktops, printers, and a server—represented a potential information security breach.

New Challenges Posed by Emerging Technologies– The security of sensitive information that can be accessed remotely (e.g., via telework), stored on mobile computers/device, or any form of data being accessed and used outside of DOL office settings is a continuing challenge to the Department and the Federal government overall. With employees' increased use of telework and reliance on new ways of communicating such as blogging, Facebook, and Twitter, the Department is challenged to evolve and adapt its information security controls to keep pace with the risks posed by these new technologies. Consolidating data centers and moving mission critical systems to the cloud increases the risk of exposing PII and unauthorized information exchanges, including sensitive pre-decisional budget and policy information.

DEPARTMENT'S PROGRESS:

The Department is developing an Identity Access Management system that will require users to access DOL IT systems by using Personal Identity Verification cards with a phased implementation approach that was set to begin in October 2011. The Department has restructured/recreated the Enterprise Implementation Committee (EIC) to replace its management review board. The EIC is composed of senior-level business executives from the Department's agencies and offices. The EIC's mission is to ensure that all initiatives affecting information technology (IT) infrastructure, common services and customer service programs that have cross-agency impacts are implemented to provide effective support for the Department's business mission and operations. Additionally, the Department established the IT Acquisition Review Board to oversee and manage IT acquisitions. The Department is also planning to consolidate its data centers and systems. Transition to the cloud computing environment has begun with systems such as Disability.gov and the New Core Financial Management System (NCFMS or New Core). The Department is in the process of implementing by the end of FY 2012 a continuous monitoring solution. The Department is also in the process of implementing the Trusted Internet Connection program to protect external communications to and from the Internet. The Department is continuing to participate on several Federal Councils, Committees and Forums to assist in the development and implementation of policies, procedures, and standards that will address these challenges.

WHAT REMAINS TO BE DONE:

In light of these challenges, the OIG continues to recommend the creation of an independent Chief Information Officer (CIO) to provide exclusive oversight of all issues affecting the IT capabilities of the Department. DOL currently manage its IT systems with a CIO who must balance IT with other competing responsibilities; the CIO presently also serves as the Chief Acquisition Officer, Chief Human Capital Officer, Privacy Officer, and Assistant Secretary of Administration and Management.

The Department must also improve upon its security controls testing and evaluation process by performing agency-specific customized testing to focus on program agencies' high-risk vulnerabilities and control weaknesses. The Department should ensure that it has a consolidated, viable inventory management system that is properly updated. As the telework program expands, the Department needs to implement additional security controls that will protect data being accessed and used outside of DOL office settings.

CHALLENGE: Ensuring the Successful Development and Implementation of Major Information Management Systems

OVERVIEW:

The Congress and the Office of Management and Budget (OMB) have raised concerns that Federal information technology (IT) investments, especially high-risk, major system developments, have experienced schedule delays and cost overruns costing billions of dollars. The Administration has called upon Federal agencies to strengthen oversight of major IT investments through greater IT investment portfolio and project management. The Clinger-Cohen Act requires agency heads to designate Chief Information Officers to lead reforms to help control system development risks, better manage technology spending, and achieve real, measurable improvements in agency performance through better management of IT resources.

DOL reported IT development, modernization and enhancement efforts totaling about $35 million in FY 2011. These efforts include the Foreign Labor Certification Automated Systems, MSHA Standardized Information System, and BLS Industrial Prices Systems. For FY 2012, DOL has planned IT development, modernization and enhancement efforts totaling almost $53 million, such as the Human Resources Shared Service Center investment, IT Infrastructure Modernization, and MSHA Mine Safety Information System.

CHALLENGE FOR THE DEPARTMENT:

DOL executives and project managers will face challenges in managing system developments and other related technology initiatives to accomplish them on time and within budget, and to ensure these initiatives function as designed. The areas most likely to cause delays or budget overruns include: project vision/goals poorly defined; lack of accountability/ownership; unrealistic deadlines; poor communication of expectations; resource deprivation/competition; scope changes; uncertain dependencies; not understanding/defining project risk; and lack of stakeholder/user engagement throughout the project life cycle. These challenges are made more difficult by the inherent nature of major IT system developments, which typically occur over multiple years and are subject to changes in policy, priorities and funding.

Problems in any one of the above areas can negatively impact a project. For example, the Department reported it spent $35 million between 2003 and 2008 in a failed effort to replace its legacy financial system. The Department then awarded a $15 million contract for the development and implementation of New Core, which was scheduled to be fully operational by October 14, 2009. However, the Department had to postpone the deployment of the new system until January 14, 2010, to provide additional time to train users and continue data migration activities. Upon implementation, New Core experienced numerous problems, including: an underestimated user base; users' lack of understanding of the substantial changes to business processes; and data quality problems. Notably, the Department experienced significant turnover amongst its senior financial managers during most of the system's implementation and post-launch phases. To avoid similar problems in its future IT initiatives, the Department should: fully understand and develop system requirements before beginning the procurement process; ensure that interfaces with other key Departmental systems are built and tested prior to implementation; ensure that users are properly trained; and establish strict project management oversight responsibility.

DEPARTMENT'S PROGRESS:

The Department is in the process of assessing the New Core initiative for lessons learned to incorporate into future projects. DOL will note what worked well at key decision points, as well as what factors contributed to problems at other key decision points.

The Department has created the Enterprise Implementation Committee (EIC) composed of senior-level business executives from the DOL's agencies and offices. The EIC's mission is to ensure that all initiatives affecting IT infrastructure, including common services and customer service programs that have cross-agency impacts, are implemented to provide effective support for the Department's business mission and operations. The Department has implemented a new IT governance structure that it believes will strengthen the role and participation of core IT governance committees and ensure that the right people are engaged in the right conversations on an ongoing basis. Additionally, the Department established the IT Acquisition Review Board to oversee and manage IT acquisitions, and will be using new methods designed for more immediate feedback related to monitoring IT initiatives' progress and to bring about corrective actions, where necessary.

WHAT REMAINS TO BE DONE:

DOL IT initiatives in 2011 and beyond will need direct executive involvement and highly-skilled-project managers to be successful, on-time and within budget. As detailed in the top management challenge related to IT security, the Department needs to establish an independent CIO to provide exclusive oversight of all issues affecting DOL's IT capabilities.

Achieving anticipated success will require analyzing setbacks and failures in order to improve. Project managers should be highly trained, and executives should focus on past project's challenges to learn from them in order to develop a stronger IT investment and project management capability.

CHALLENGE: Ensuring the Effectiveness of Veterans' Employment and Training Programs

OVERVIEW:

The Department's Veterans' Employment and Training Service (VETS) programs are intended to provide veterans and transitioning service members the resources and services to succeed in the workforce by maximizing their employment opportunities, protecting their employment rights, and meeting labor market demands with qualified veterans.

CHALLENGE FOR THE DEPARTMENT:

Providing meaningful employment and training services to military members transitioning to civilian employment is a continuing challenge for the Department, particularly in light of rising unemployment rates among veterans. According to the Bureau of Labor Statistics, veterans' unemployment rate has risen from 11.5 percent in June 2010 to 13.3 percent in June 2011. In 2010, young male veterans, ages 18 to 24, who served during the Gulf War II era, including those who served at any time since September 2001, had an unemployment rate of 21.9 percent. According to the Department of Veterans Affairs (VA), with the scheduled troop draw-downs in Iraq and Afghanistan, more than one million active service members will be re-entering the civilian work force in the next five years.

The VETS' Transition Assistance Program (TAP) provides a two-and-a-half-day session in which participants learn job search techniques, career decision-making processes, current occupational and labor market conditions, resume-writing, and interviewing techniques. A recent OIG audit of TAP found VETS did not ensure that participants received the employment assistance needed to obtain meaningful employment. VETS also did not use measurable performance goals and outcomes to evaluate program effectiveness and lacked adequate contracting oversight for TAP workshop services. These deficiencies undermined VETS' ability to ensure it was providing a high-quality program that helps veterans successfully transition from military to civilian employment.

VETS issues grants to SWAs to assist veterans to gain and retain employment, with a special emphasis on providing intensive services to meet the employment needs of disabled veterans. Our audit of these services in Texas found staff needed to do a better job of accurately assessing veterans' needs and documenting intensive service activities, particularly for homeless veterans and veterans with disabilities.

Reducing homelessness among veterans is another challenge for VETS. The Homeless Veterans' Reintegration Program (HVRP) was the first nationwide Federal program focused on placing homeless veterans into jobs. The program provided employment and training services to an estimated 23,500 homeless veterans in FY 2010. However, a recent OIG audit found that performance results fell short of the planned goal of placing 9,093 veterans into employment by 2,461 veterans, or 27 percent.

DEPARTMENT PROGRESS:

VETS is undertaking a redesign of the TAP workshop. This redesign involves providing a more customized workshop by assessing each individual's readiness for employment before they attend the workshop. Other elements of the redesign include updating the content of the workshop for the first time in 19 years, using contractors as workshop facilitators, developing an online TAP workshop that will be available in Spanish, providing follow-up services, and implementing performance metrics to evaluate program effectiveness. In conjunction with the Department's Office of Procurement Services, VETS reported it has implemented more stringent management controls for contract administration.

VETS issued guidance that HVRP grantees awarded grants in Program Years 2009 and 2010 are to meet 90 percent of planned cumulative quarterly goals for Federal expenditures, enrollments, and placements into employment and training by the end of the second quarter. Grantees that do not achieve at least 75 percent of their planned cumulative quarterly goals must submit a corrective action plan. VETS also issued guidance to regional staff directing that if an eligible grantee for a second or third year award has missed its performance and/or financial goals, a corrective action plan must be initiated before recommending a second or third year funding.

VETS is coordinating with the National Veterans Training Institute to improve intensive service training for Disabled Veterans Outreach specialists. VETS also provided additional funding to the State of Texas to establish an online case management system to document intensive services to veterans.

WHAT REMAINS TO BE DONE:

VETS needs to establish standard forms and policy for monitoring TAP Employment Workshops, establish outcome goals, establish a new TAP Memorandum of Understanding with partner agencies, and follow up to ensure staff are complying with the newly implemented management controls for contract administration.

For HVRP, VETS needs to ensure that grantees are making adequate progress towards achieving their goals, and VETS staff is closely monitoring grantees' reported accomplishments and taking appropriate corrective action when needed.

VETS also needs to ensure that funds given to Texas for the implementation of an on-line management system were used properly and system outcomes meet design expectations. Further, VETS needs to provide rigorous oversight over contractors, grantees and state agencies for all programs.

CHALLENGE: Improving Procurement Integrity

OVERVIEW:

The Department contracts for many goods and services to assist in carrying out its mission. In FY 2010, DOL awarded 3,804 contracts totaling $468 billion and issued 4,422 modifications to existing contracts totaling $1.6 billion.

CHALLENGE FOR THE DEPARTMENT:

Ensuring integrity in procurement activities is a continuing challenge for the Department. Until procurement and programmatic responsibilities are properly separated and effective controls are put in place, the Department will continue to be at risk for wasteful and abusive procurement practices. Our most recent audits and investigations of the Departments' procurement activities have identified the need for better control and monitoring of procurement activities delegated to program agencies.

The current control environment surrounding the Department's procurement activities has introduced both financial and operational risk to the Department. The lack of standard operating procedures and procurement-related training leaves the consistency and quality of DOL's procurement functions heavily dependent on the various program agencies with delegated procurement authority.

Recent OIG audits of the Departments' procurement activities have identified numerous deficiencies in procurement: MSHA could not support sole-source awards, did not promote full and open competition, or maximize small business opportunities; the Los Angeles Job Corps Center did not comply with the Federal Acquisition Regulation for subcontracts it awarded; the Office of the Assistant Secretary for Administration and Management (OASAM) awarded a Job Corps' contract using Recovery Act funds that was not based on merit and two modifications for projects not eligible for Recovery Act funding; VETS management did not ensure contract services were properly authorized by the contracting officer or that supporting documentation was maintained for contract payments; and VETS did not conduct appropriate cost comparisons when awarding funds under its TAP to ensure the best value to the Government.

A recent OIG investigation into allegations of improper procurement activities within VETS found a pattern of conduct which reflected a consistent disregard of Federal procurement rules and regulations, Federal ethics principles and proper stewardship of appropriated dollars. Specifically, the investigation revealed the circumvention of rules and regulations related to open competition and advisory and assistance contracts, as well as the acceptance of free services.

The issues described above, along with those in the Securing Information Technology Systems and Protecting Related Information Assets challenge, highlight the need for the Department to appoint a CAO whose primary duty is acquisition management. The Department continues to be out of compliance with the Service Acquisition Reform Act of 2003 requirement that executive agencies appoint a CAO whose primary duty is acquisition management. The Assistant Secretary for Administration and Management presently serves as the Department's CAO, while retaining other significant non-acquisition responsibilities.

DEPARTMENT'S PROGRESS:

OASAM reported that it has issued 34 certifications to contracting officers and 127 certifications to contracting officers' technical representatives that have completed Federal acquisition certification training. MSHA implemented OIG recommendations to ensure procurement officials comply with DOL policy and procedures, require supervisory review of contracts, provide refresher training to personnel, and develop and implement controls to assure the SOL completes pre-award reviews of selected contracts. OASAM has de-obligated Recovery Act funds inappropriately awarded for Job Corps. VETS has implemented improved contracting controls over the request for changes to the delivery schedule of TAP workshops to prevent contracting officer's technical representatives from making unauthorized changes to task orders.

OASAM is currently updating its internal policies and procedures to clarify provisions related to acquisition planning, conflict of interest, and the administration of the Department's Procurement Review Board. OASAM completed a Procurement Management Review of VETS and is scheduled to complete a review of ETA during the first quarter of FY 2012. The Department is pursuing Federal Acquisition Certification in Contracting (FAC-C) and Federal Acquisition Certification for Contracting Officer's Technical Representative (FAC-COTR) for the acquisition workforce.

In response to the Office of Inspector General's investigative report on VETS improper procurement activities, OASAM is instituting contractual provisions and certification requirements designed to prevent re-occurrence of such activities. In addition, OASAM and the Office of the Solicitor will conduct procurement integrity and ethics training for Department's Senior Executive and Acquisition Workforce Staffs. A key aspect of the training will be ensuring that program and contracting office procurement staff know how and when to elevate procurement violation concerns. Lastly, OASAM will be conducting procurement accountability reviews of program agencies to assess the adequacy of their staff to prepare acquisition materials for submission to their servicing contracting offices and to preclude potential ethical violations.

WHAT REMAINS TO BE DONE:

The Department needs to develop standard and consistent internal controls and compliance frameworks for component agencies with procurement authority to follow to ensure the consistency and quality of DOL's procurement functions. In addition, while the Department is taking positive actions to improve procurement integrity, it has yet to appoint a CAO whose primary duty is acquisition management.

Changes from Last Year

Changes to the Top Management Challenges from FY 2010 include the addition of a challenge on ensuring the effectiveness of Veterans' Employment and Training Programs. A previous challenge related to the implementation of the Departments NCFMS was expanded into a challenge on ensuring the successful development and implementation of major information management systems. In addition, a challenge regarding improving procurement integrity has been reintroduced, given our concerns over the consistency and quality of the Departments procurement functions.

Achieving the goals and protecting the investment provided by the American Recovery and Reinvestment Act was previously discussed in our FY 2010 Top Management Challenges. Our concerns focused on large amounts of funds that remained unspent and contract/grant awards that may not have been in the government's best interest. Through September 30, 2011, the Department reported that it had obligated $63.1 billion, or 99.5 percent, of the $63.4 billion in discretionary and mandatory funds made available through the Recovery Act, and all Recovery Act contract and grant competitions had been concluded. As a result, we have removed the Recovery Act as a separate issue in FY 2011 Top Management Challenges. However, we will continue to report on the Department's use of Recovery Act funds as part of its overall grant management responsibilities. We will also conduct appropriate follow up work to ensure unemployment benefit payments funded by the Recovery Act were proper, and adequate efforts were made to identify and recover overpayments.

Management's Response to the 2011 Top Management Challenges

Overview

The Department of Labor continues to streamline and modernize its programs and increase transparency. These efforts have been possible because of a dedicated team of professionals working every day in support of the Department's mission to promote the welfare of job seekers, wage earners, and retirees of the United States.

Management appreciates OIG's recognition of progress in addressing challenges related to the American Recovery and Reinvestment Act of 2009, leading to its removal from the list as a separate challenge. The Department has made significant improvements in worker safety and health and strengthened the management of benefit and compensation programs in difficult economic times. Information technology systems are more secure and core programs operate more effectively for the benefit of the American people. Overall, management of the Department's programs and resources is stronger today than at this time last year.

Nonetheless, the Department recognizes that the 11 challenges posed by OIG represent issues of major potential impact on the effectiveness and efficiency of DOL's programs and operations. Management understands that ongoing improvements in many of the areas identified by OIG are necessary for continued success of the Department's programs and services. To that end, management has reviewed OIG's presentation of the issue, current status, progress, and next steps for each identified challenge. In most cases, OIG has recognized the Department's progress in the last year in each of the identified areas. The Department will continue to work collaboratively with OIG to address and resolve these challenges. While some improvements are outside the Department's immediate control, management will continue to pursue legislative options and work with stakeholders where appropriate to pursue resolution of issues underlying many of these challenges. Nonetheless, management has elected to respond to several challenges presented by OIG, which are discussed below.

Moving forward in FY 2012, the Department will aggressively work to ensure full consideration is given to OIG's challenges in order to realize the Secretary's vision of good jobs for everyone.

Protecting the Safety and Health of Workers

The Mine Safety and Health Administration (MSHA) appreciates the work of OIG and its acknowledgement of progress that MSHA has made in the areas of inspector hiring, delivery of training and training requirements, pattern of violations, and other rulemaking efforts in Fiscal Year 2011. As the OIG noted in the section of the Department's progress, MSHA has worked consistently over the past year to improve all aspects of its regulatory program, including enforcement, enhanced enforcement, training, the backlog, and rulemaking.

However, MSHA questions the inclusion and characterization of some of OIG's challenges. Specifically, with respect to the challenge concerning completion of mandatory regular safety and health inspections, OIG raises the issue of transparency for reporting completed Metal/Nonmetal inspections. MSHA agreed that the Agency would report completed inspections in a more transparent manner and specifically note the mines where the Agency attempted inspections but the mines were not operating. The OIG challenge implies that MSHA is not completing all of its mandated inspections; on the contrary, MSHA completed all mandated inspections at mines that were operating on the date of the inspection.

MSHA questions the inclusion of *Timely Setting and Updating of Regulations and Standards* as a challenge. This item is not unique to MSHA, but instead a challenge for any regulatory agency in the U.S. Government. Over the past several years, MSHA has timely issued all of its regulations, including many that were statutorily mandated in the Mine Improvement and New Emergency Response Act. The proposed rule cited in the challenge provided by the OIG is lowering coal miners' exposure to coal dust, a centerpiece of MSHA's End Black Lung campaign, and a rule for which the agency held 7 public hearings across the country to solicit broad input from miners, operators, miners' representatives, manufacturers, public interest groups, and other stakeholders. Further, MSHA has generally successfully met the timetables for all other regulatory actions.

Fostering the Development and Implementation of New Technologies is another challenge with which MSHA disagrees. MSHA also questions the inclusion of this item, particularly since over the last several years MSHA has fostered the implementation of new technologies in the mining workplace. For example, MSHA has proposed or finalized requirements for: proximity detection systems for continuous mining machines in underground coal mines; continuous personal dust monitors to provide real-time information on miners' exposure to coal mine dust; refuge alternatives in underground coal mines; multi-gas detectors in underground coal mines; improved flame-resistant conveyor belts; communications and tracking systems (which OIG notes); and lifelines. MSHA recently submitted a proposed rule for proximity detection systems for other mobile equipment in underground coal mines to the Office of Management and Budget for review. MSHA remains in close contact with its partner research agency, NIOSH, to identify and collaborate on technology that can provide increased safety and health protection for miners. MSHA conducts intensive outreach with stakeholders, miners' representatives, and the mining community to promote adoption of new technology to reduce risk and save lives. One example in this area is the next generation self-contained self-rescue device. With all of these activities, MSHA is unclear as to why the OIG included this as a challenge.

Improving Performance Accountability of Workforce Investment Act Grants

OIG identified the Department's Recovery Act efforts regarding Green Jobs as a challenge. The total funding availability for this program represents a rather small portion, less than 1%, of the Department's total funding availability under the Recovery Act. Moreover, this grant area is identified in the Department's plan to accelerate remaining Recovery Act expenditures as required by OMB Director Jacob Lew's September 15, 2011 memorandum M-11-34.

ETA conducted seven grant competitions awarding $741 million for Green Jobs and Healthcare initiatives. Unlike the formula grants – the vast majority of ETA's Recovery Act grant activity which were issued within 30 days of the enactment of the Recovery Act -- these competitive grants were all awarded between March 2009 and June 2010. As part of its plan to accelerate spending in these areas, ETA is reviewing the progress of these grants on a monthly basis and has a robust technical assistance program in place to assist grantees in expediting these programs. In addition, the following actions are planned to assist in the acceleration of grant expenditures:

- All active ARRA grantees will receive a letter informing them of our expectation for the rapid completion of Recovery Act fund expenditures. This letter encourages the grantees to expedite their training programs if their expenditures are lagging;
- On a monthly basis beginning in November 2011, ETA will identify grantees with lagging expenditures. Additional technical assistance (TA) will be provided to the identified grantees that do not have adequate plans to address this issue. Based on an analysis of grantees with lagging expenditure rates, ETA has identified a number of technical assistance activities to aid grantees in accelerating expenditures. These include: aggressively targeting and recruiting participants, managing and monitoring sub-grantees, coordinating and managing multiple training providers, and expanding quality service delivery for participants at all stages of the program. Technical assistance will be provided on specific topics based on the specific challenges being faced by an individual grantee; and
- ETA regional staff will continue to perform quarterly desk reviews including analysis of financial reports. As appropriate, additional written communication to grantees with lagging expenditures will occur.

Ensuring the Security of Employee Benefit Plan Assets

The Patient Protection and Affordable Care Act (PPACA) assigned significant new regulatory, enforcement, and outreach responsibilities to the Department and more specifically, EBSA. The Department is required to develop and implement over 25 regulations in conjunction with the Departments of Health and Human Services (HHS) and Treasury; implement Multiple Employer Welfare Arrangements (MEWA) reporting and oversight requirements; and design and conduct several health benefit studies, as well as develop and implement education, outreach, and assistance programs and new enforcement strategies. EBSA will engage in discussions with HHS, Treasury, and OMB regarding timetables to respond to public comments and issue final regulations. These discussions typically take place through the semi-annual regulatory agenda decision-making process.

OIG states that EBSA needs to proceed with rulemaking to implement section 6604 of the PPACA. Section 6604 gives the Secretary authority to issue regulatory standards or orders to establish that a multiple employer welfare arrangement is subject to state insurance laws, even if the laws otherwise would be preempted by ERISA or the Risk Retention Act of 1986. EBSA will reevaluate its initial determination, made in consultation with the Solicitor's Office that it would hold off issuing regulations under PPACA section 6604 in light of other priorities. EBSA will set a reasonable timeline for such regulations, taking into account all PPACA priorities.

As OIG notes, starting in FY 2012, EBSA added PPACA enforcement as a component part of its new national enforcement initiative, the Health Benefits Security Project. Through this national enforcement project EBSA will investigate a large number of health plans. These investigations will provide meaningful feedback on PPACA compliance after plans and insurers have had the opportunity to process the implementing regulations and related guidance and benefit from EBSA's extensive outreach. Prior to the introduction of this new enforcement project, EBSA's focus on promulgating regulations, issuing sub-regulatory guidance and providing compliance assistance was consistent with the Administration and the Departments of Health and Human Services and Treasury's emphasis on assisting (rather than imposing penalties on) plans, issuers and others that were working diligently and in good faith to understand and comply with the new law.

OIG also indicates that EBSA needs to provide HHS with the results of a survey of benefits typically covered by employers that is sufficiently broad to enable HHS to determine benefits provided under a typical employer plan. On April 15, 2011, Secretary Solis transmitted to HHS Secretary Sebelius the report entitled, "Selected Medical Benefits: A Report from the Department of Labor to the Department of Health and Human Services." The methodology and scope of the survey was developed in consultation with and agreed upon by HHS, BLS and EBSA. The report was based on data from the National Compensation Survey (NCS), conducted by BLS. Using a large, nationally representative sample of employers, the NCS collects detailed information on whether particular benefits are included in employer health plans. The report presents data on the coverage of health benefits by employer-provided health plans in the private sector, and is organized in two parts. The first part summarizes published statistics on health benefit coverage from the 2008 and 2009 NCS. The second part presents new results from an analysis of additional benefits, not included in the previously published reports.

The results of this report are sufficiently broad to enable HHS to determine benefits provided under a typical employer plan. The information provided is sufficiently broad because it includes detailed data on different benefits frequency of incidences and does not restrict reporting on survey results to a specified threshold of incidence above which (and only above which) the benefit should be considered "typical" by HHS. By measuring the incidence of a broad range of different benefits, the Department's survey will allow the Secretary of HHS to determine which benefits are offered by a typical employer plan. Moreover, it provides the Secretary of HHS with useable and relevant data to consider in making her determination. It is the opinion of EBSA and the Office of the Solicitor that this report, together with its associated supporting material, fully satisfies the requirements of PPACA Section 1302(b)(2)(A).

As OIG notes, EBSA implemented a broad Sample Investigation Program (SIP) in FY 2011, an initial step in developing performance metrics to measure the effectiveness of its enforcement program. The SIP reviews randomly selected employee benefit plans for compliance with ERISA, and will continue in FY 2012. Interim compliance data will be reported in FY 2012, and the first baseline compliance measure will be available in FY 2013. Finally, EBSA continues to work on obtaining legislative change to address deficient benefit plan audits and to ensure that auditors with poor records do not perform any additional plan audits.

Securing Information Technology Systems and Protecting Related Information Assets

Management appreciates the OIG's recognition of the Department's progress developing an Identity Access Management system using Personal Identity Verification cards; establishing the Enterprise Implementation Committee (EIC) composed of senior-level business executives from the Department's agencies and offices to replace the Technical Review Board; establishing the IT Acquisition Review Board to oversee and manage IT acquisitions; developing plans to consolidate its data centers and systems; transitioning to the cloud computing environment; and implementing the Trusted Internet Connection program to protect external communications to and from the Internet.

In addition to managing information technology with an eye on the future, the Department gave ample attention to securing the current IT environment. The Department successfully implemented corrective actions to address approximately 98% of the weaknesses identified by the OIG in Fiscal Year 2011, many of which contributed to the identified management challenge.

Ensuring the Successful Development and Implementation of Major Information Management Systems

The Department recognizes and understands the challenge of implementing major information management systems and appreciates the OIG's acknowledgement of its progress to date. That progress includes ongoing efforts to strengthen and expand the base of knowledgeable and experienced Project Mangers (PMs). Through the Office of the Chief Information Officer, the Department offers training classes (i.e., Risk Management, Earned Value Management) for Federal PMs.

Summary of Financial Statement Audit and Management Assurances

The following tables provide a summary of the Department's FY 2011 financial statement audit and its management assurances.

Summary of Financial Statement Audit					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Lack of Sufficient Controls over Financial Reporting	1				1
Lack of Sufficient Controls over Budgetary Accounting	1				1
Improvements Needed in the Preparation of Journal Vouchers	1		1		0
Lack of Adequate Controls over Access to Key Financial and Support Systems	1				1
Total Material Weaknesses	4		1		3

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Weaknesses over Financial Reporting	1		1			0
Weaknesses over Preparation and Review of Journal Vouchers	1		1			0
Weaknesses over Budgetary Accounts Reconciliation	1		1			0
Total Material Weaknesses	3		3			0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Financial Management System Requirements, Internal Controls, Preparation of Financial Statements	1		1			0
Total non-conformances	1		1			0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	No
1. System Requirements	Yes	No
2. Accounting Standards	Yes	Yes
3. USSGL at Transaction Level	Yes	No

Improper Payments Reporting Details

The *Improper Payments Information Act of 200*2 (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), and as implemented by Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, requires Federal agencies to review their programs and activities annually to identify those that may be susceptible to significant improper payments. For programs and activities deemed risk susceptible, agencies are required to perform testing to estimate the rates and amounts of improper payments, develop and implement corrective action plans to reduce and recover improper payments, and report on results.

The Department of Labor's (DOL) review for Fiscal Year (FY) 2011 identified one program, the Unemployment Insurance (UI) benefit program, to be at risk of significant improper payments in accordance with OMB criteria (programs with annual improper payments exceeding both $10 million and 2.5% of annual program payments, or $100 million). One additional program, the Workforce Investment Act (WIA) grant program, is classified as at-risk in OMB's Circular A-123, Appendix C, due to its annual level of expenditures, although the Department's risk assessment does not support such a high-risk designation.

In FY 2011, the Department performed detailed testing for the UI and WIA programs to estimate the level of improper payments and their major causes. The Department has taken corrective actions to address the causes and reduce improper payments in these programs and has established improper payment reduction targets in accordance with OMB guidance.

The FY 2011 error rate target for UI's improper payments was 9.8% as compared to the actual error rate of 12.0% (11.35% overpayment rate plus 0.65% underpayment rate) for the period July 2010 to June 2011, the most recent period for which data was available. This difference is primarily the result of increases in overpayments to claimants who continued to claim benefits after they returned to work, claimants who failed to meet active work search requirements, and claimants ineligible for benefits because they voluntarily quit their jobs or were discharged for disqualifying reasons. These three causes accounted for 70% of overpayments in the 2011 reporting period and represent nearly all of the increase in the overpayment rate from 2010. Corrective actions to address these causes are described in Section III. The higher actual error rate for WIA in FY 2011 compared to the program's annual target is primarily due to including the results of DOL Office of Inspector General audits and other monitoring activities in the measurement methodology and higher incidence of error.

Table 1 shows the FY 2010 – FY 2014 targets and projected rates for Department's "At-Risk" programs.

Table 1: Target and Actual Improper Payments Rates for the Department's At-Risk Programs

DOL Program	FY 2010		FY 2011		FY 2012	FY 2013	FY 2014
	Target	Actual	Target	Actual	Target	Target	Target
Unemployment Insurance	9.9%	11.2%	9.8%	12.0%	9.7%	9.6%	9.6%*
Workforce Investment Act	0.07%	0.2%	0.07%	0.3%	0.07%	0.07%	0.07%

*Targets for FY 2014 have not been established. Targets from FY 2013 have been carried forward.

I. Risk Assessment

In FY 2011, the Department conducted a risk assessment of its major programs and activities. Tasks included:

- Reviewing the prior three year's results of IPIA risk assessments and detailed tests. In addition to testing the two programs (UI and WIA) designated as at-risk, DOL performed risk assessments and/or detailed testing on all its other significant programs during FY 2011. These programs included Federal Employees' Compensation Act, Black Lung Disability Trust Fund, Energy Employees Occupational Illness Compensation Program, Longshore and Harbor Workers' Compensation Act, District of Columbia Compensation Act, and

State Unemployment Insurance and Employment Service Operations. The results of the risk assessments and detailed testing showed that these programs were low risk.

- Reviewing DOL Office of Inspector General (OIG) and Government Accountability Office (GAO) audit reports issued for DOL programs to determine whether the reports indicate control weaknesses or other issues that could potentially impact the amount of improper payments for DOL programs.
- Reviewing results of the Department's OMB Circular A-123 internal control assessment to determine whether control weaknesses were identified that could potentially impact the amount of improper payments for DOL programs.
- Reviewing DOL programs' funding levels for FY 2009 through FY 2011 for significant changes in program funding that may impact the amount of improper payments.

The outlays for the UI program (State UI, Unemployment Compensation for Federal Employees [UCFE], Unemployment Compensation for Ex-Service Members [UCX], Extended Benefits [EB], Emergency Unemployment Compensation 2008 [EUC08] and Federal Additional Compensation [FAC]) decreased in FY 2011 to an estimated $114 billion, compared with $156 billion in FY 2010, reflecting improved labor market conditions, a significant drop in insured unemployed, and the phase-out of the FAC program. FY 2011 UI outlays include $52.0 billion in EUC08, $11.7 billion in EB, and $1.4 billion in FAC.

For WIA, the American Recovery and Reinvestment Act (ARRA) provided additional resources primarily for formula grants to states and for other discretionary grants; the ARRA outlays in FY 2010 and FY 2011 include approximately $2.2 billion and $.8 billion, respectively.

The UI's estimated annual improper payments for 2011 are $13.70 billion, consisting of $12.96 billion in overpayments and $742 million in underpayments. The estimates are based on the results of the Benefit Accuracy Measurement (BAM) survey. The BAM survey methodology is described in Section II – Statistical Sampling.

Funds for both UI and WIA are disbursed and monitored through established systems and processes as utilized in the past. In addition, the Department has taken and will continue to take various actions to minimize and manage the risk associated with the ARRA funding, including the following:

- Issuing specific guidance on the use of the funds distributed through the ARRA programs.
- Conducting outreach to states and other eligible grant applicants to communicate policies and guidelines and utilizing the regional office Federal Project Officers to conduct and document quarterly desk reviews of financial obligations, expenditures, and program performance. Grantees identified as "high-risk grantees" through these reviews are given priority attention for on-site monitoring.
- Training grantees on Federal grant requirements, performance expectations, fiscal and program requirements, and allowable use of funds.
- Closely monitoring the draw-down of UI's ARRA funds from the specific accounts and ensuring systems are in place for reporting information required for monitoring and evaluating the operations of these programs.
- Conducting program reviews to ensure that the various activities included in the ARRA are properly implemented, including the use of these funds according to various operating instructions and guidance provided to the states.

II. Statistical Sampling

The following sampling was performed for the two programs designated as at-risk:

Unemployment Insurance

Sampling Process: Improper payment rates are estimated from the Benefit Accuracy Measurement (BAM) program. BAM includes the three largest permanently authorized unemployment compensation (UC) programs: State UI[1], UCFE, and UCX. The Department reports an improper payment rate, which is the combined Annual Report Overpayment Rate and the Underpayment Rate, required by the Improper Payments Information Act (IPIA). Executive Order 13520 required "high-priority" federal programs to develop supplemental measures. The Department, in consultation with the Office of Management and Budget, developed two supplemental measures -- the Operational Rate, which includes fraud and non-fraud recoverable overpayments that state agencies are expected to identify and establish for recovery, and the Employment Service (ES) Registration Rate, which measures the percentage of UI claimants who were required to register with the state ES, but who were not actively registered during the paid week selected for the BAM audit. The Department reports these two supplemental measures quarterly for publication on the Department of the Treasury Payment Accuracy Web site (www.paymentaccuracy.gov/). The Operational Rate is also reported annually as part of the IPIA reporting requirements.

BAM investigators in each state conduct comprehensive audits for randomly selected weekly samples of paid and denied claims. Effective January 2008, all paid claims sampled for BAM investigation must be matched with the National Directory of New Hires (NDNH) database to improve the ability to detect overpayments due to individuals who claim benefits after returning to work, the largest single cause of UI overpayments. The universe (population) includes paid and denied claims under the State UI, UCFE, and UCX programs. However, because the claims processes and eligibility requirements are very similar for the additional benefits paid to unemployed individuals under the EB, EUC08, and FAC programs, the estimated improper payment rates are assumed to generally reflect the accuracy of these benefit payments. Overpayment and Underpayment Rates for FY 2011 shown in the Improper Payment Reduction Outlook Table are for the period July 1, 2010 to June 30, 2011. Data are shown for this period rather than the fiscal year because a higher percentage of BAM investigations have been completed and will, therefore, produce more accurate estimates. For the period July 1, 2010 to June 30, 2011, state agencies completed audits for 24,456 paid claims cases, a completion rate of 99.9%. Additional information about the BAM methodology can be found at: www.oui.doleta.gov/unemploy/bam/2010/bam-cy2010.pdf.

Workforce Investment Act

Sampling Process: For FY 2011, the Department used a separate methodology (but similar to its previous measurements) to estimate the improper payment rate for the WIA grant program. Unlike the benefit programs, data is not readily available to allow the Department to directly sample grant payments to develop a statistically valid estimate of improper payments. The grant programs' funding stream makes it very difficult to assess the improper payment rate on payments to final recipients. The Department provides grants to states, cities, counties, private non-profits, and other organizations to operate programs, and relies significantly on Single Audit Act Reports (as required by the Single Audit Act of 1996[2]) to monitor funding to all grant recipients. Based on a review of the definition of questioned costs in OMB Circular A-133 and OMB's IPIA implementation guidance, the Department determined that questioned costs can be used as a proxy for improper payments. Therefore, the Single Audit Act Reports, along with other data in FY 2011, were utilized to determine the improper payment rate for the WIA grant program.

[1] Included in the UI program are the 50 states and Puerto Rico, US Virgin Islands and the District of Columbia (referred to as states/areas). The US Virgin Islands does not participate in BAM.

[2] 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. Non-Federal entities that expend $500,000 or more of Federal awards in a year are subject to a consolidated financial single audit; any non-Federal entities that do not meet this threshold are not required to have a single audit. All non-Federal entities are required to submit all single audit reports to a Federal Audit Clearinghouse (Clearinghouse) that is administered by the Census Bureau.

The Department reviewed FY 2009 (most recent available) Single Audit Act Reports with DOL-related findings from the Federal Audit Clearinghouse (which is the national repository of Single Audit Act Reports) and identified all WIA program questioned costs included in such reports. As additional evidence that no other audit reports included questioned costs for the DOL grant programs, the Department selected and reviewed random samples of audit reports classified in the Clearinghouse database as not having any questioned costs. In addition to using the Single Audit Act Reports, the Department performed additional analyses to assess the level of improper payments, including a review of the results of the monitoring work performed by the ETA regional staff responsible for managing the WIA program and the GAO and DOL OIG audit reports issued for the WIA program. To determine an approximate rate of improper payments for the grant programs, the Department divided the average annual amount of questioned costs from these sources by the direct program outlays. The resulting improper payment rate (assumed to be representative of the FY 2011 rate) was applied to the WIA program outlays for FY 2011 to determine the estimated improper payment amount for FY 2011.

III. Corrective Actions

<u>Unemployment Insurance</u>

OMB has established the following categories to classify the root causes of improper payments: (1) Documentation and Administrative Errors, (2) Verification Errors, and (3) Authentication and Medical Necessity Errors.

These categories do not align precisely with the way in which the UI program classifies root causes. The BAM survey collects data on state workforce agency actions associated with the processing of overpayments. **Table 2** displays the crosswalk between the OMB classification for Documentation and Administrative Errors and Verification Errors and the BAM data. No UI overpayments fit the definition of the Authentication and Medical Necessity Errors category.

Table 2: OMB-Specified Causes of Errors and BAM Data Crosswalk

Overpayment Causes (OMB Classification)	Percent of Overpayments
Documentation and Administrative Errors:	17.79%
Procedures Not Followed by Agency	8.80%
Agency Took Incorrect Action	7.87%
Other Agency Errors	0.93%
Agency Provided Incorrect Information	0.19%
Verification Errors:	82.21%
Issue Not Detectable By Agency Procedures	68.59%
Agency Had Documentation/Did Not Resolve Properly	9.99%
Agency In Process of Resolving	2.67%
New Hire Cross-Match	0.72%
Wage Record Cross-Match	0.24%

Table 3 reflects the root causes of UI overpayments. The Department classifies the root causes of UI overpayments according to the following categories:

Table 3: Root Causes of UI Overpayments

Annual Report Rate Overpayments	2011 IPIA Rate
Benefit Year Earnings	30.31%
Work Search	21.14%
Separation	20.04%
Employer Service Registration	9.10%
Base Period Wages	6.11%
Able and Available	4.83%
Other Eligibility Issues*	3.73%
All Other Issues**	4.74%
Total	100.00%

*Other Eligibility Issues include refusal of work, self-employment, failure to report for agency review or report requested information, citizenship status, and claiming benefits using a false identity.

**Other issues include adjustments to dependents' allowance, adjustments to benefits due to claimant receipt of income from severance pay, vacation pay, Social Security, or employer pension, back pay awards, payment during a period of disqualification, or agency redetermination of eligibility.

In response to the level of improper payments in the UI program, ETA has developed a Strategic Plan to address several root causes of improper payments.

<u>Benefit Year Earnings (BYE) Strategies</u>

The leading cause of overpayments is claimants who have returned to work and continue to claim UI benefits. Early detection of these overpayments -- which represented 30% of all overpayments in the period July 2010 to June 2011 -- allows agencies to stop payments sooner and to recover these overpayments more readily.

#1: Implement New State Performance Measure Focused on Overpayment Prevention.

- UI Program Letter No. 34-11 was issued on September 28, 2011, to announce and implement a new measure focused on reducing BYE errors.
- The first performance period will be calendar year (CY) 2012. A goal of a 30% reduction in the BYE rate from the CY 2008 – 2010 baseline has been set for the first year of implementation, and a 50% reduction is proposed for the second year of implementation.
- State performance will be addressed through the State Quality Service Plan process.

#2: Mandate State Use Of National Directory Of New Hires (NDNH) for Benefit Payment Control and Develop Recommended Operating Procedures.

- UI Program Letter No. 19-11, issued in June 2011, established the mandatory use of NDNH for state Benefit Payment Control no later than December 2011 and included recommended operating procedures for cross-matching activity for National and State Directories of New Hires.

#3: Claimant Messaging Campaign to Deter Continued Claims Filing After Return to Work.

- Implementation of a state-wide claimant messaging campaign designed to improve claimants' awareness of their responsibility to report any work and earnings if they are claiming benefits. The Department worked closely with its state partners and the Information Technology Support Center (ITSC) to develop messaging products that the states can integrate within their existing systems. These messaging products have been finalized and are being packaged for dissemination within the states. Pilot states include California, Connecticut, Florida, Louisiana, Oregon, and Texas.

#4: Work Collaboratively with the Partnership Fund for Integrity Innovation to Explore More Timely Data Sources Indicating Claimant's Return to Work.

- OMB's Partnership Fund for Program Integrity Innovation provided funding to the Department to pilot the use of financial institutions' payroll deposit and payroll information as a detection tool with states. The Department is working in collaboration with the National Association of State Workforce Agencies, the ITSC, and selected states for the pilot implementation.

Separation Issue Strategy

Claimants who were ineligible for UI benefits because they either voluntarily quit their jobs or were discharged for cause represented 20% of all overpayments in the July 2010 to June 2011 period.

#5: Significantly Increase State Take-Up of the State Information Data Exchange System (SIDES) Implementation to Improve Timeliness and Quality of Separation Information.

- SIDES is a web-based system that allows electronic transmission of UI information requests from UI agencies to multi-state employers and/or Third Party Administrators (TPAs), as well as transmission of replies containing the requested information back to the UI agencies. The current implementation of SIDES allows for the exchange of separation and earnings verification information.
- Currently five states – Colorado, Georgia, New Jersey, Ohio, and Utah – participate in SIDES, along with a TPA – Automated Data Processing, Inc. An additional seven states are targeted to fully implement SIDES by December 31, 2011. TALX, the largest TPA, began participation in SIDES in Utah.
- The Department is aggressively promoting the use of SIDES by its outreach efforts to recruit new states, employers, and TPAs. Several training sessions and webinars were facilitated to provide technical assistance and support for implementation. These webinars were attended by 300 state staff nationwide. In FY 2011, supplemental funding was provided to accelerate the implementation in 16 states that had previously agreed to implement, and support the implementation of, SIDES in 21 new states by September 30, 2012.

Employment Service (ES) Registration Issue Strategy

Claimants who were required to register with the state Employment Service (ES) but who were not actively registered accounted for 9% of total overpayments between July 2010 and June 2011.

#6: Aggressive and Targeted Technical Assistance and Monitoring of States with the Largest Overpayments Due to Employment Service Registration Issues.

- Provide technical assistance to states with high ES registration errors and implementing technology or other solutions designed to address improper payments due to a claimant's failure to register with the state's Employment Service or job bank in accordance with the state's UI law. In April 2011, seven states with high ES registration errors were targeted for intensive technical assistance and monitoring.

- Several of these states reported significant decreases in their ES registration error rates during FY 2011. Nationally, the ES Registration rate has decreased from 1.43% for the 2010 IPIA reporting period to 1.0% for the 2011 IPIA reporting period.
- ETA will continue to monitor state progress in addressing their ES registration issues.

State Focus/Technical Assistance/Resource Targeting

#7: Integrity Legislation to Provide Additional Resources for States to Perform Integrity Functions and Improve Tools for States to Address Improper Payments.

- The Trade Adjustment Assistance Extension included three key provisions which were enacted in October 2011. Other proposed provisions that are pending action include: (1) Permit states to use up to 5% of UC overpayments recovered to augment administrative funding to deter, detect, and recover benefit overpayments; and (2) Permit states to use up to 5% of contributions collected due to employer fraud or tax evasion, including misclassification of employees, to augment administrative funding for activities related to these purposes.

#8: Require Dedicated Percentage of State UI Administrative Grants for Integrity Activities.

- A Departmental team has been established and has begun the exploration of potential regulatory options with respect to requiring states to dedicate a percentage of UI Administrative Grant funding for State Integrity Activities.

#9: Federal/State Workgroup to Identify State Improper Payment Prevention Strategies.

- The workgroup is providing state feedback and input on all strategies in the Strategic Plan.
- Contractor support has been secured, and work is proceeding with support from the Integrity Workgroup to solicit and document state integrity best practices.
- Best practices will be featured on the UI Communities of Practice (CoP) website: uiworks.workforce3one.org as well as disseminated through webinars and conferences scheduled during the next fiscal year. The workgroup will continue to convene during the next fiscal year to support new integrity strategies.

#10: Support Targeted States to Convene Cross-Agency Task Forces on UI Improper Payments.

- The Virtual Institute convened over a two-week period in June 2011 with initial webinars on improper payment root causes and SIDES. State task forces were formed to support strategic planning for reducing each state's improper payment rate based on their root causes. All 11 states considered to be "High Impact" states (California, Florida, Illinois, Michigan, North Carolina, New Jersey, New York, Ohio, Pennsylvania, Texas, and Wisconsin) now have strategic plans for reducing improper payments.
- The Department issued UI Program Letter No. 28-11 on September 1, 2011, to announce Department support for states to convene cross-functional UI integrity task forces and to develop state-specific strategic plans to reduce improper payments. The Department conducted a webinar on September 16, 2011 to launch the UI Integrity Institute, the successor to the Virtual Institute. The webinar was targeted to the states that did not participate in the initial Virtual Institute. These states will also be expected to form cross-functional teams and develop strategic plans to reduce improper payments. ETA will continue to

monitor state progress and will provide on-going technical assistance to help states implement their improper payment reduction strategies.

#11: Provide Technical Assistance to Support Targeted High Priority States to Develop Strategic Plans to Reduce UI Improper Payments.

- Beginning in 2011 and annually thereafter, ETA will identify the states with persistently high improper UI payment rates as “High Priority” and provide targeted and customized technical assistance to improve their performance. The Department issued UI Program Letter No. 33-11 on September 21, 2011 to launch the “Improper Payment High Priority States” initiative to reduce the unacceptably high levels of improper UI payments in those states. For FY 2011, six states were identified to participate in this initiative – Arizona, Colorado, Indiana, Louisiana, Virginia, and Washington. The Department will work with these states and provide enhanced monitoring and technical assistance to facilitate the development of state strategic plans to reduce improper payments.

#12: Enhanced State Quality Service Planning (SQSP) Process to Incorporate New Elements Related to Prevention of Improper Payments.

- UI Program Letter No. 21-11 was issued in June 2011, which provided planning guidance for the FY 2012 SQSP and included the Integrity Action Plan template and instructions for states' use to identify strategies and actions to address improper payment rates. All states have submitted their FY 2012 SQSPs with the Integrity Action Plan to address their strategies for the prevention, detection, and recovery of UI overpayments.
- ETA will continue monitoring of the progress of states’ strategic plans during the next fiscal year.

#13: Assist Targeted States in Taking Advantage of Supplemental Budget Requests (SBRs) to Enable Reductions in the States’ Improper Payment Rates.

- UI Program Letter No. 26 -11 was issued on July 18, 2011, to solicit state agency proposals for UI supplemental funding for program integrity and performance and system improvements. This initiative is discussed in detail in section VII - Information Systems and Infrastructure.

#14: Assist States in Participating in the *Treasury Offset Program (TOP)*

- The “SSI Extension for Elderly and Disabled Refugees Act” (P.L. 110-328) included provisions to permit states to recover certain Unemployment Compensation debts due to fraud from Federal income tax refunds under TOP. The Claims Resolution Act of 2010 (P.L. 111-29) includes provisions that expand the use of TOP to recover non-fraud overpayments if the UC debt is due to failure to report earnings. ETA issued UI Program Letter No. 11-11 in March 2011, to notify states of these changes.
- On January 28, 2011, the U.S. Department of the Treasury published the interim rule concerning the use of TOP to collect covered UC debt in the *Federal Register* at 76 Fed. Reg. 5070. The Department issued Change 2 to UIPL No. 02-09 in May 2011, which informs states of amendments to the procedures to implement TOP to recover UC debt as well as provide the most current and accurate information on those procedures. Michigan, New York, and Wisconsin have begun accessing TOP. Additional states are expected to begin participation in TOP during FY 2012.

Workforce Investment Act

The WIA estimated improper payment rate for FY 2011 of 0.3% applies to two of OMB's three categories of error, "Documentation and Administration Errors" at 0.28% and "Verification Errors" at 0.02% as shown in **Table 4**. No errors fit the definition of "Authentication and Medical Necessity Errors".

Table 4: FY 2011 Improper Payments Rates for the Workforce Investment Act Program By OMB-Specified Category of Error

OMB-Specified Category of Error	DOL Program
	Workforce Investment Act
Documentation and Administrative	0.28%
Verification	0.02%
Authentication and Medical Necessity	0%
Total Improper Payment Rate	0.3%

The improper payment rate estimate work indicated that the major types of errors found in the WIA program are primarily administrative in nature, including cash management, sub-recipient monitoring, unallowable costs and insufficient documentation for participant payments. The grant management and monitoring processes focus on these items to reduce and prevent improper payments. ETA currently uses a multi-step approach to ensure proper administration and effective program performance of WIA grants. First, ETA starts its review/oversight process by conducting a structured initial risk assessment of all new grants and grantees at the time of the award. Second, ETA Federal Project Officers (FPOs) conduct quarterly desk reviews of the financial and program performance of each grant. The results of these activities are recorded in the Grants e-Management System (GEMS), an electronic tracking and grant management system. This serves as an early warning system to detect potential financial management and/or programmatic performance issues and allows ETA to target technical assistance more effectively. Finally, ETA staff (FPOs, financial management and others) conduct periodic onsite reviews of grantees. ETA attempts to conduct an onsite review of each grantee at least once every three years, but actual review schedules are based on the results of the risk assessments and desk reviews. Onsite reviews are conducted using ETA's Core Monitoring Guide as well as program specific and technical guide supplements designed to provide a more detailed review of program requirements and financial activities. Results of the onsite monitoring activities are also cataloged in the GEMS system. For grantees with large numbers of sub-recipients (e.g., WIA formula grantees), the onsite review conducted using the formula program supplement to the Core Guide includes an assessment of the grantee's sub-recipient monitoring activities. In addition, ETA conducts onsite review of local areas as part of its review of the state grantee. The results of the onsite monitoring are also catalogued in the GEMS system. ETA now has the capability to review trends or issues that arise in a more comprehensive and consistent manner. Whenever deficiencies or problems are identified as a result of a desk review, onsite review, or an independent audit, ETA immediately begins working with the grantee to obtain appropriate corrective actions. Corrective actions undertaken by the grantee are tracked by ETA and follow-up technical assistance and reviews are scheduled as needed.

The ETA Division of Policy Review and Resolution processes each grant at closeout, reviewing final grantee reports, the grant closeout package, FPO recommendations, and other documents available to them to determine whether the objectives of the grant were accomplished and that all funds were expended as authorized. Expenditures which are questioned are resolved through the normal determination process and disallowed costs are forwarded for collection. The Audit Resolution staff receives grantee A-133 audit reports (Single Audit Act reports) which report questioned costs and/or administrative weaknesses in need of correction. These items are followed up using the same determination process noted above, disallowed costs are forwarded for collection, and resolutions reported back to the OIG. In addition, these units participate in special grantee reviews and provide fiscal policy training for grantee and Federal staff.

IV. Improper Payment Reduction Outlook

Table 5 shows the Improper Payment Reduction outlook, for the "At-Risk" programs, for FY 2010 – FY 2014

Table 5: Improper Payment Reduction Outlook FY 2010– FY 2014
($ in millions)

Program	FY 2010			FY 2011			FY 2012			FY 2013			FY 2014		
	Outlays	IP %	IP $	Outlays	IP%	IP$	Est Outlays	IP %	IP $	Est Outlays	IP %	IP $	Est Outlays	IP %	IP $
Unemployment Insurance	$156,000			$114,140			$74,110			$53,900			$51,450		
Annual Report Rate Overpayments		10.6%	$16,536		11.35%	$12,955		8.95%	$6,633		8.85%	$4,770		8.85%	$4,553
Underpayments		0.6%	$936		0.65%	$742		0.71%	$526		0.71%	$383		0.71%	$365
Operational Rate		5.7%	$8,892		6.22%	$7,100		5.1%	$3,780		5.1%	$2,749		5.1%	$2,624
Employment Service Registration		1.4%	$2,231		1.03%	$1,176		1.15%	$852		1.15%	$620		1.15%	$592
Workforce Investment Act	$5,875	0.2%	$11.8	$4,123	0.3%*	$12.4	$3,723	0.07%	$2.6	$3,700	0.07%	$2.6	$3,550	0.07%	$2.4

*The WIA IP rate is comprised of overpayments of 0.29% and underpayments of 0.01%.

Notes: Actual UI outlays in FY 2010 include approximately $32.7 billion of American Recovery and Reinvestment Act of 2009 (ARRA) benefit payments under the EB, FAC and EUC08 programs. Program extensions beyond December 2009 were not considered to be funded by ARRA. Recovery Act UI modernization incentive and administrative cost payments to states are not included. For WIA, the FY 2010 and 2011 outlays include $2.2 and $0.8 billion, respectively, of Recovery Act grants.

The rates were determined as described in Section II – Statistical Sampling and applied to the outlays for the fiscal year. UI rates are estimates based on a statistical survey of State UI, UCFE, and UCX payments. Because the claims processes and eligibility requirements are very similar for the EB, EUC08, and FAC programs, the estimated improper payment rates are assumed to generally reflect the accuracy of these benefit payments. These rates, which include full and partial overpayments, overestimate the improper payments relating to FAC outlays (about 6.6 % of total outlays in FY 2010 and 1.2% of total outlays in FY 2011), as the FAC payments are payable in full to claimants entitled to at least $1 in unemployment compensation. FY 2010 rates exclude Georgia BAM data, which could not be included in the national estimates due to BAM coding and methodology issues, which were subsequently resolved. Georgia data are included in the FY 2011 estimates.

Only an estimated 2.37% and 2.94% of UI benefits were overpaid due to fraud in FY 2010 and FY 2011, respectively. Overpayments due to fraud are included as part of both the Annual Report and Operational overpayment rates.

Recovery of Improper Payments

State Benefit Payment Control (BPC) operations identify UI overpayments for recovery through such methods as cross-matching claimant SSNs with State and National Directories of New Hires, wage record files submitted each quarter by employers, matches with other databases, such as Workers Compensation and State Corrections, and other sources such as appeals, reversals and tips and leads. States collect overpaid claims through offsets of UI benefits, state income tax offsets, and direct cash reimbursement from the claimant. As discussed in Section III, states now have statutory authority to participate in the U.S. Department of the Treasury's TOP program, to seek the recovery of fraud and certain non-fraud overpayments from the claimant's federal income tax returns. The identification of overpayments for recovery for the WIA program is primarily done through ETA's onsite monitoring activities, the Single Audit Act reports, and OIG program audits. From FY 2004 through FY 2011, approximately $6.1 billion has been recovered for the UI program (including the State UI, UCFE, UCX, EB, and EUC programs) and $7 million for the WIA programs.

V. Recapture of Improper Payments Reporting

The Improper Payments Elimination and Recovery Act (IPERA), Section 2(h), requires agencies to conduct payment recapture audits for each program and activity that expends $1 million or more annually if conducting such audits would be cost-effective. A payment recapture audit program is an agency's overall plan for risk analysis and the performance of payment recapture audits and recovery activities. A cost-effective payment recapture audit program is one in which the benefits (i.e., recaptured amounts) exceed the costs (e.g., staff time and resources, or payments for the payment recapture audit contractor) associated with implementing and overseeing the program. A payment recapture audit is a review and analysis of an agency's or program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments – it is a detective and corrective control activity specifically designed to identify and recapture overpayments.

During FY 2011, all major DOL programs and activities were reviewed to establish the cost-effectiveness of payment recapture audits. The UI program, which accounts for the majority of funds administered by DOL and over $114 billion for FY 2011, was deemed cost effective. The UI strategic action plan calls for investment to enhance the existing payment recapture audit program. All other assessed programs and activities, which represented approximately $14 billion in funding, were determined to be not cost effective.

Methodology for Determining Cost-Effectiveness of Payment Recapture Audits

Steps taken to determine the cost-effectiveness of performing a payment recapture audit for all non-UI programs and activities included determining: (1) the basis for establishing dollar thresholds of programs and activities of $1 million or more in annual expenditures, (2) the criteria for evaluating the cost-effectiveness of a payment recapture program, and (3) the procedures to be used to collect the data to support the cost-effectiveness analysis. OMB's two overall assessment areas were used as the principal criteria for determining the cost-effectiveness of a payment recapture program, as reflected in the revised Appendix C, Part I.B, Section 5:

a) The likelihood that identified overpayments will be recaptured. For example:

- Whether laws or regulations allow recovery;
- Whether the recipient of the overpayment is likely to have resources to repay overpayments from non-Federal funds;
- Whether the evidence of overpayment is clear and convincing (e.g., the same exact invoice was paid twice) as opposed to whether the recipient of an apparent overpayment has grounds to contest; and
- Whether the overpayment is truly an improper payment which can be recovered rather than a failure to properly document compliance.

b) The likelihood that the expected recoveries will be greater than the costs incurred to identify the overpayments. For example:

- Can efficient techniques such as sophisticated software and matches be used to identify significant overpayments at a low cost per overpayment or will labor intensive manual reviews of paper documentation be required?
- Are tools available to efficiently perform the payment recapture audit and minimize payment recapture audit costs? Payment recapture audits are generally most efficient and effective where there is a central electronic database (e.g., a database that contains information on transactions and eligibility information) where sophisticated software can be used to perform matches and analysis to identify recoverable overpayments (e.g., duplicate payments).

From this guidance, questionnaires for analyzing all programs and activities were developed and completed by the responsible agencies.

Results of Analysis

Of the 51 programs and activities analyzed, representing over $170 billion in annual Federal expenditures, 39 were determined to have expenditures over the $1 million cost-effectiveness threshold. These included:

- 6 Benefit Programs,
- 32 Grant Programs, and
- 1 DOL-wide activity - Non-Payroll Administrative and Other Costs (primarily contract payment activities managed by 17 DOL agencies/offices)

These 39 programs and activities were subjected to a detailed analysis to determine the cost-effectiveness of performing payment recapture audits. The results of the analysis are summarized in **Table 6**.

Table 6: Programs Determined Not Cost Effective for Payment Recapture Audits

DOL Program	Likelihood That Identified Overpayments Will be Recaptured	Likelihood That the Expected Recoveries Will Be Greater Than Costs Incurred	Determined To Be Cost Effective
Benefit Programs:			
Federal Employees' Compensation Act	Medium	Low	No
Black Lung Disability Trust Fund	Low	Low	No
Energy Employees Occupational Illness Compensation	Low	Low	No
Longshore and Harbor Workers' Compensation	Low	Low	No
District of Columbia Compensation Act	Low	Low	No
Grant Programs:			
Workforce Investment Act (12 programs)	Medium	Low	No
State Unemployment Insurance and Employment Service Operations (5 grant programs)	High	Low	No
Other DOL Grant Programs (15 programs)	Medium	Low	No
Non-Payroll Administrative and Other Costs:			
Contract Payments	High	Low	No

In assessing the likelihood that recaptured overpayments will be greater than costs incurred, most programs evaluated were ranked "Low" because the process for discovering an overpayment was found to be very manually intensive and there was no basis for automating the discovery process. From this assessment, even if the likelihood of overpayment recapture was "High", the DOL did not conclude that it would be cost-effective to conduct payment recapture audits using traditional contracting practices.

As further evidence of the cost-effectiveness of performing payment recapture audits, the services of a contingency contractor have recently been secured to perform payment recapture audits in selected areas on a pilot basis. The contractor's fees will be based on overpayments identified and recaptured and will be paid out of recaptured funds. A pilot payment recapture audit is scheduled for the Contract Payments activity for FY 2012.

<u>Unemployment Insurance</u>

The single largest program at DOL is the UI program, which represents approximately $114 billion in expenditures in FY 2011. Of this, the amount of estimated overpayments is $12.96 billion, with an estimated overpayment rate of 11.4%. Because the improper payments for UI are above $750 million and are estimated to be over 10%, the UI program is classified as a high-priority program; the only program with this designation within DOL.

DOL's first priority has been to target resources to its at-risk programs. Since the UI program is the only DOL program deemed both high priority and at-risk and it receives the vast majority of DOL's funding, enhancing Federal and state efforts to reduce improper payments in the UI program is a top priority at DOL. Additionally, the UI program is continuing to emphasize the recovery of overpayments by performing payment recapture activities and providing states with tools to aid their recovery efforts.

Each state's UI program has a Benefit Payment Control (BPC) unit that is responsible for promoting and maintaining program integrity through prevention, detection, investigations, establishment, and recovery of improper payments. The BPC units also prepare cases for prosecution. This work is performed at the state level by state staff to meet the following requirements:

- Section 303(a)(l) of the Social Security Act (SSA) requires that a state's UI law includes a provision for: "Such methods of administration...as are found by the Secretary to be reasonably calculated to ensure full payment of unemployment compensation when due."
- Section 303(a)(5) of the SSA also requires that a state law includes provision for: "Expenditure of all money withdrawn from an unemployment fund of such state, in the payment of unemployment compensation...."

The Secretary of Labor has interpreted these Federal law provisions to create the Secretary's Standard for Fraud and Overpayment, which requires that states' laws include provisions for such methods of administration as are, within reason, calculated:

- To deter claimants from obtaining benefits through willful misrepresentation;
- To detect benefits paid through error by the agency, or through willful misrepresentation or error by the claimant or others; and
- To recover benefits overpaid under certain circumstances.

Overpayment Prevention and Detection

Every state conducts post award audits for the prevention and detection of UI improper payments on benefit payments to determine whether error or willful misrepresentation has occurred in the payment of UI benefits. All states audit all benefits payments by means of a cross-match against new hire directories (National and State), and state wage files. However, under certain circumstances, states may exclude payments from these matches if the wages are being reported, or if the payment was made to a claimant with a return-to-work date.

These activities are conducted through the use of automated tools and procedures that; confirm the identity and legal status of the claimants, search for unreported earnings, and detect other forms of fraud or errors contributing to improper payments in the UI program.

States agencies also maintain the integrity of unemployment insurance and reduce the amount of improper payments by ensuring that employers contribute their fair share of tax and facilitate the return to work of UI claimants.

Some of the most useful tools and practices include:

<u>Benefit Year Earnings Issues (claimants continuing to claim UI benefits after returning to work)</u>
National Directory of New Hires – This database is managed by the Department of Health and Human Services, Office of Child Support Enforcement. The NDNH has claims information as well as wage and new hire information from employers all over the country including the Federal government and military. States use this database to cross-match between the wage record data to detect unreported earnings and new hire data to identify individuals who continue to claim benefits after returning to work.

- State Directory of New Hires – This tool provides information similar to the NDNH, but only contains data reports from employers within the state.
- State Quarterly Wage Cross-Match – Paid claims are matched against the quarterly UI tax reporting to states by employers. (The lag in reporting requirements for UI tax can prevent identification of overpayments in a timely manner.)

Separation Issues (claimants ineligible to receive benefits due to voluntary quit or discharge for cause)

- State Information Data Exchange System – This automated data exchange promotes the receipt of timely information from employers regarding the claimants' separation from employment and verification of earnings upon returning to work. Timely and adequate information from employers provides the state agency with the necessary information to make a determination on the claimants' eligibility and thus prevent improper payments.

Verification of Claimant Identity and Other Fraud Prevention Activities

- State Department of Motor Vehicles – Helps verify the identity of the claimant.
- Social Security Administration (SSA) – Helps confirm identity and benefits from SSA.
- Systematic Alien Verification for Entitlement – Maintained by Department of Homeland Security; it confirms the legal status of non-citizens. The wages used to establish a claim must be earned legally, and after filing a UI claim, non-citizens must be legally authorized to seek and accept employment.
- State and Local Prison Records – Some states match claimant data against these records to prevent fraud in the program.
- Internal State Databases record multiple claimants using the same contact information (phone numbers, addresses, bank accounts, or IP addresses). These tools can prevent fraud schemes.

Tax Fraud Detection

- State Unemployment Tax Act (SUTA) Dumping Detection System (SDDS) – Use of SDDS software helps detect employers who manipulate their tax rates by, for example, shifting employees from accounts with higher tax rates to accounts with lower tax rates.
- Worker Misclassification Programs – Includes audits and investigations to prevent worker misclassification by employers. Worker misclassification occurs when an employee is erroneously classified by an employer as a non-employee, which reduces UI tax revenue, as well as the worker's ability to receive UI benefits, worker's compensation, Social Security benefits, health insurance coverage, retirement coverage, and protection under the Fair Labor Standards Act.

Reemployment and Continuing Eligibility

- Worker Profiling and Reemployment Services – A system designed to identify claimants who are likely to exhaust benefits and refer them to services designed to assist them in returning to work quickly.
- Reemployment and Eligibility Assessments – In-person claimant interviews conducted at the One-Stop Career Centers to review continuing UI eligibility and assess reemployment needs, including providing labor market information, assisting with the development of a work-search plan, and referral to reemployment services and/or training when appropriate.

Overpayment Recapture

The states must hold the claimants liable to repay benefits that were received improperly and take an active role to recover improper payments (payment recapture audits). States may waive repayments for non-fraud overpayments when it would be against equity and good conscience pursuant to their state's law.

Some of the recovery activities and tools include:

- Offsets from benefits
- Offsets from state and Federal income tax refunds
- Offsets from lottery winnings, homestead exemptions, and other benefits, including the Alaska Mineral Refund.
- Interstate recovery agreements
- Repayment plans
- Civil Actions, including wage garnishments and property liens
- Skip tracing, collection agencies, and credit bureaus
- Probate and Bankruptcy
- Referral to Office of Inspector General and other Law Enforcement Agencies
- State and Federal Prosecution
- Establishment of interest and penalties on overpayments, which adds an incentive to repay quickly

A five-year summary of overpayments established and recovered as a result of the activities described above is displayed in **Table 7**, which includes overpayments established minus recoveries. Separate rates are shown for State UI, Unemployment Compensation for Federal Employees (UCFE), Unemployment Compensation for Ex-Service Members (UCX), and Extended Benefits (EB) claims only and for State UI, UCFE, UCX, and EB plus Emergency Unemployment Compensation (EUC) claims. Recovered overpayments for State UI claims are returned to the UI account from which the benefits were originally paid. EUC and EB overpayments that are recovered by the states are returned to the EUCA account within the UI Trust Fund.

Table 7: UI Overpayments Established and Recovered By Fiscal Year (Excluding Waivers)

Fiscal Year	Overpayments Established UI/UCFE/UCX/EB	Overpayments Recovered UI/UCFE/UCX/EB	Recovered %	Overpayments Established UI/UCFE/UCX/EB + EUC	Overpayments Recovered UI/UCFE/UCX/EB + EUC	Recovered %
2006	$979,836,264	$511,524,977	52.21%			
2007	$952,889,616	$531,718,388	55.80%			
2008	$1,002,131,148	$571,160,044	56.99%	$1,010,170,720	$572,970,666	56.72%
2009	$1,456,383,810	$850,978,618	58.43%	$1,732,370,866	$913,418,622	52.73%
2010	$1,906,893,984	$966,820,770	50.70%	$2,804,109,432	$1,174,113,250	41.87%

The states are required to report quarterly on overpayment detection and recovery activities on the Employment and Training Administration (ETA) 227 report. The amounts established and recovered are based on reports submitted during the indicated fiscal year. However, the actual payment of benefits may have occurred in a prior fiscal year.

The information reported on the ETA 227 report is based on actual counts of UI overpayments identified and recovered by the state agencies. This is in contrast to the estimates of UI overpayment rates and amounts that are reported for the Improper Payments Information Act, which are based on the results of Benefit Accuracy Measurement (BAM). BAM is a statistical survey of paid and denied UI claims. The results of the BAM audits are projected to the population of benefit payments for all unemployment compensation programs: State UI, UCFE, UCX, EB, and EUC. These BAM estimates will be significantly higher than actual overpayments identified for recovery because 1) the BAM audits detect eligibility issues that usual BPC detection methods will not identify, because it is very workload intensive and/or not cost effective to detect (for example, verification of all claimant work search activity or that all claimants were able and available for work); or 2) the overpayment is not recoverable because the responsibility for the improper payment is the agency's and/or the employer's, rather than the claimant's, or due to state finality rules.

"Overpayment Establishments" have been adjusted to subtract waivers, which are overpayments that the state agency has determined are not recoverable. The Unemployment Insurance Report Handbook (ET Handbook 401, 4th edition, Section IV, Chapter 3, p. 10) defines a waiver as:

> "A non-fraud overpayment for which the state agency, in accordance with state law, officially relinquishes the obligation of the claimant to repay."

Usually, this is authorized when the overpayment was not the fault of the claimant and requiring repayment would be against equity and good conscience or would otherwise defeat the purpose of the UI law.

DOL believes that this definition is consistent with the criteria established by OMB for evaluating the cost-effectiveness of a payment recapture program in the revised Appendix C, Part I.B, Section 5.

The inclusion of EUC overpayments reduces the recovery rate. **Table 8** compares the overpayment establishment and recovery rates for UI/UCFE/UCX/EB claims versus EUC claims.

Table 8: Comparison of UI/UCFE/UCX/EB and EUC Overpayments Established and Recovered ($ in billions)

Fiscal Year	UI/UCFE/UCX/EB Outlays	Overpayments Established* UI/UCFE/UCX/EB	Established As a Percent of Outlays	Overpayments Recovered	Recovered As a Percent of Established
2008	$38.88	$1.002	2.58%	$0.571	56.99%
2009	$86.90	$1.456	1.68%	$0.851	58.45%
2010	$84.07	$1.907	2.27%	$0.967	50.71%
Fiscal Year	**EUC Outlays**	**Overpayments Established***	**Established As a Percent of Outlays**	**Overpayments Recovered**	**Recovered As a Percent of Established**
2008	$3.55	$0.008	0.23%	$0.002	22.50%
2009	$32.66	$0.276	0.85%	$0.062	22.46%
2010	$72.09	$0.897	1.24%	$0.207	23.08%

* Excluding waivers.

The recovery rate for EUC overpayments is significantly less than the recovery rate for state UI and EB overpayments due to several factors:

- Many of these claimants have exhausted benefits, and therefore, states are unable to offset overpayments against their unemployment compensation payments.
- The legislation establishing the EUC program limits offsets to 50% of the amount payable to the claimant for the compensated week.
- Claimants who have been unemployed for long durations have few resources available for the repayment of overpayments.
- The severe decline in the housing market removed the option that states have used to recover overpayments by attaching liens to an individual's property and recovering the overpayments when the property is sold.
- Many states reassigned BPC staff to process claims when workloads increased sharply during the recession, thereby leaving fewer staff to identify and recover overpayments.

The ETA 227 report captures data on the causes of overpayments, the method of detection, recovery and reconciliation, criminal and civil actions, and the aging of benefit accounts. After eight quarters, the overpayments are removed from the total outstanding balance on this report. This does not affect the state's accounting practices. When overpayments are recovered that have been removed from the reported outstanding balance, the amount will be added back to report the recovery in the quarterly report, regardless of when the overpayment originally occurred. States are now able to attempt recovery of these older unemployment compensation debts through the U.S. Department of Treasury's Tax Offset Program by offsetting the claimant's Federal income tax returns. When improper payments are recovered, they are returned to the states' UI trust fund account from which they were paid.

A cost-benefit analysis conducted in 2001 indicated that increasing BPC activity has a high payoff -- about $5 recovered for every $1 invested in BPC without adjustments, and at least $4 for every $1 invested after allowing for diminishing returns in states with higher established rates. The study found that the most cost-effective approach would add resources in states with low penetration of the established overpayment rates into the BAM estimate of overpayments. DOL plans to conduct a cost-benefit study in the near future based on more recent data, including the lower establishment and recovery rates of EUC claims. A copy of the 2001 cost-benefit study is available at www.ows.doleta.gov/unemploy/integrity/cb_ada.asp .

Grant Programs

As noted above, OMB continues to classify the WIA program as at-risk due to its high-level of annual outlays. DOL has established processes that help to prevent, detect and/or recapture overpayments for WIA and for all DOL-funded grants.

Overpayment Prevention and Detection

DOL agencies perform grant monitoring activities on direct grants on a periodic basis[3]. Similarly, for most formula grants, the States monitor their sub-recipients (pass-through grantees), which in turn monitor their sub-recipient grantees. DOL regional monitoring teams also make on-site visits to select direct grantees and sub-recipients each year. This cascading monitoring structure results in all grantees and sub-grantees being monitored on a regular basis.

DOL agencies also manage grant closeouts, reviewing final grantee reports, the grant closeout package, related recommendations, and other documents, to determine whether the objectives of the grants were accomplished and that all funds were expended as authorized. Questioned costs are resolved through the normal determination process, as described in the next phase.

In addition to these monitoring activities, DOL grant programs and their grantees and sub-grantees are subjected to numerous GAO audits, DOL OIG audits, and annual audits by CPA firms who perform Single Audit Act audits of Federal grantees. These audits address a wide range of issues, including program effectiveness, management and operational issues, financial statements, internal controls, and identification of unallowable costs (questioned costs/improper payments). Grants are also covered in the annual DOL internal control assessment, per OMB Circular A-123, Appendix A, which evaluates controls that could impact improper payments. All these monitoring activities and related audits and assessments serve as a basis for identifying and correcting issues that could potentially lead to improper payments.

All non-Federal entities that are subject to a Single Audit Act audit are required to submit summary level results from their audits and a copy of the audit report (A-133 report) to the Federal Audit Clearinghouse (FAC), which is

[3] Depending on the grant agreement, grant expenditures may be monitored either on a monthly or quarterly basis, in addition to annual reviews.

administered by the Census Bureau and operates on the behalf of the OMB. The Clearinghouse is a central repository of information on all Single Audits conducted each fiscal year. For findings noted in A-133 reports, OMB guidelines require a corrective action plan to be included in the report, and, in subsequent reports, the status of prior year findings is to be reported.

Table 9 shows the amount of DOL funds expended during FY 2009 by grant group and in total.

Table 9: DOL Grant Program Expenditures for FY 2009

Grant Program Groups	Grantees Reporting Expenditures in This Group	Direct Expenditures (Direct Grantees)	Pass-Through Expenditures (Sub-Recipients)	Total Expenditures
WIA	3,153	$3,635,721,220	$4,276,191,065	$7,911,912,285
SUIESO + UI*	526	$100,355,031,204	$146,225,819	$100,501,257,023
Other	1,062	$1,372,414,981	$392,899,516	$1,765,314,497
Total DOL		$105,363,167,405	$4,815,316,400	$110,178,483,805

*The amount audited under the Single Audit Act for the State Unemployment Insurance and Employment Service Operations (SUIESO) program covered both SUIESO expenditures and expenditures for the Unemployment Insurance (UI) program (benefit payments). Total outlays for SUIESO are only $4.4 billion of the total $100.5 billion for FY 2009.

Within DOL, there is an established periodic review cycle to leverage the work done by auditors performing work under the Single Audit Act. By using the Clearinghouse's data, reviewers are able to quickly identify any A-133 report that contains data for a DOL program, as well as identifying whether these funds were received directly from the DOL or were passed-through from a DOL direct grantee. Reviewers obtain copies of all reports that show grant expenditures for direct grantees. Reviewers then identify whether any of these reports contain any questioned costs for any DOL grant funds.

Overpayment Recapture

For grantees with A-133 Reports identifying funding received directly from DOL and that also identify material weaknesses or significant deficiencies, DOL OIG forwards the reports and finding details to the appropriate DOL agency for issue resolution. The responsible agency(s) then determines how to most appropriately resolve the questioned costs noted in the report. All findings for direct grantees are considered important to resolve, especially those deficiencies that are related to sub-recipient monitoring, and all findings are tracked through to resolution.

- The report itself may describe corrective actions that have already been taken, and the A-133 auditor has accepted the actions taken as appropriate to resolve the finding. In this case, the agency simply verifies that the actions described in the report were taken.
- With some questioned costs, a review must be conducted to determine the exact amount of questioned costs that are actually improper overpayments and therefore subject to recapture. These reviews may involve on-site visits to, or email exchanges and discussions with, the grantee to establish the facts related to the questioned costs. At the conclusion of this review, the grantee will be informed of the agency's final determination decision, and be required to take whatever corrective actions that may be required to resolve the questioned costs. The agency then verifies that the required actions were performed.
- With most questioned costs, the amount of improper overpayments is clearly identified in the report, and the grantee is already engaged in the process of either reimbursing DOL for the overpayment or adjusting their drawdown for a subsequent period to reflect the fact that they have already received the funds to reimburse their subsequent grant expenditures. When refunds are collected, they are returned to the original year and appropriation from which the obligation was established. For cancelled appropriations, the refunds are returned to the Treasury.

Table 10 reflects grant expenditures with questioned costs discovered through A-133 audits, and the results from the Issue Resolution Process for questioned costs, for FY 2009 (most recent year data is available).

Table 10: Analysis of Direct Grantee Potential Overpayments

Grant Program Groups	Direct Grantees With Questioned Costs for FY 2009	Direct Grantee Questioned Costs From Potential Over-Payments for FY 2009*	Direct Grantee Questioned Costs Resolved as Not an Over-Payment	Direct Grantee Over-Payments Repaid or Draws Adjusted	Direct Grantee Over-Payments with Repayment in Process	Direct Grantee Unresolved Questioned Costs Still Under Review	Over-Payments Resolved, Recovered or in Recovery Process %
WIA	17	$2,091,332	$391,735	$43,839	$152,028	$1,503,730**	28%
SUIESO (only)	9	$1,393,110	$664,137	$644,458	$84,514	$ -	100%
Other	6	$51,075	$10,631	$1,045	$39,399	$ -	100%
Total DOL	-	$3,535,516	$1,066,503	$689,342	$275,941	$1,502,730	57%

*Underpayments and administrative questioned costs, which are used in calculating the rate of improper payments, were removed from Initial Questioned Costs to arrive at the totals in this column. Additionally, column 4 demonstrates that 30% of these "potential overpayments" are not overpayments at all.

**More than $1.3 million of the WIA Unresolved Questioned Costs relate to a single finding which is still in the resolution process. It is anticipated that this questioned cost will resolve as "not an overpayment", which would bring the "not an overpayment" total to $2.4 million, or approximately 70% of the potential overpayments.

For sub-grantees with A-133 Reports identifying funding received from direct grantees (e.g. States), monitoring of issue resolutions is the responsibility of the direct grantees that passed the funds through, although the appropriate DOL agency may also track resolution through their own grant monitoring and close-out processes. For example, within ETA, once determinations are final, they are referred to ETA's accounting office to establish the debt. The ETA accounting office will perform standard collection activities to collect the debt, and if unable to do so, will refer the debt to Treasury for further collection efforts.

Reducing Improper Payments in Unemployment Insurance

As described in Section III, Corrective Actions, several factors contribute to improper UI payments. Efforts to reduce costs of taking claims and improve customer service prompted the states to design remote claims processing. The transition from in-person claims to remote claims processing (phone and internet) has depersonalized the process, making it easier for claimants to make false statements, and has had the additional side effect of precluding valuable prevention activities (such as agency messaging to reinforce eligibility requirements with claimants and questioning claimants with respect to their active work search efforts and benefit year employment issues) and contributed to the rise of improper payments. Additionally, the states are required to meet benefit payment timeliness performance standards, which may result in some eligibility decisions that are based on incomplete or untimely information.

DOL is actively working with the states to reduce improper payments. All state administrators have been called to action to ensure that UI integrity is a top priority and to develop state specific strategies to bring down the overpayment rate. Specific attention and assistance has been given to those states with the largest impact on the improper payment rate. This work is continuing with all the states, particularly those with unacceptably high overpayment rates.

Additionally, DOL has provided states with supplemental funding to implement strategies and technology-based infrastructure investments that will help the states in preventing, detecting and recovering UI overpayments. These grants demonstrate DOL's commitment to the development of integrity-related systems focused on the proper payment of UI benefits. These systems can result in significant savings of staff costs for integrity-related activities, increased dollar amounts of overpayments recovered, and prevention of future overpayments.

Between FY 2005 and FY 2010, DOL has provided approximately $46.5 million to states in supplemental funding for integrity related projects. In FY 2011, over $191 million in supplemental funding was provided to states for activities to support the prevention, detection, and recovery of improper UI benefit payments, improve performance, and address outdated Information Technology (IT) system infrastructures, all of which are necessary to improve UI integrity.

The goal of the FY 2011 funding opportunity was to accelerate state actions to reduce the UI improper payment rate. The funding opportunity was structured to require, as a condition of receiving any funds, that states implement a range of priority integrity activities focused on key root causes that are designed to prevent improper payments and to quickly reduce the UI improper payment rate. This core supplemental funding also provides for state flexibility in designing state specific strategies with a focus on return on investment (ROI) and clear state targets for reducing the states' improper payment rates. States committing to implement the priority integrity activities were also awarded additional incentive funds in the amount of $1 million per state to enable implementation of other UI high-priority activities, including additional integrity projects designed to improve overall state program performance.

Reducing Improper Payments in Grants Programs

As noted in Table 10, over 98% of the potential overpayments from grant funds are in the grant programs administered by ETA. The FY 2011 improper payment rate estimate work indicated that the major types of errors found in grant programs are primarily administrative in nature, including cash management, sub-recipient monitoring, unallowable costs, and insufficient documentation for participant payments. The grant management and monitoring processes, as described in Section III, Corrective Actions, focus on these items to reduce and prevent improper payments.

Table 11 shows the payment recapture audit reporting for all Department programs.

Table 11: Payment Recapture Audit Reporting ($ in millions)

Status	Contracts	Grants	Benefits (UI)	Loans	Other
Amount Subject to Review for Current Year (CY) 2011 Reporting	N/A* (1)	N/A	$114,140	N/A	N/A
Actual 2011 Amount Reviewed and Reported	N/A	N/A	N/A	N/A	N/A
Amount Identified for Recovery in 2011	N/A	N/A	$3,093	N/A	N/A
Amount Recovered in 2011	N/A	N/A	$1,284	N/A	N/A
% of Amount Recovered Out of Amount Identified in 2011	N/A	N/A	$41.51%	N/A	N/A
Amount Outstanding in 2011	N/A	N/A	$1,744 (2)	N/A	N/A
% of Amount Outstanding Out of Amount Identified in 2011	N/A	N/A	56.39% (2)	N/A	N/A
Amount Determined Not to be Collectable in 2011	N/A	N/A	$691	N/A	N/A
% of Amount Determined Not to be Collectable Out of Amount Identified in 2011	N/A	N/A	22.34%	N/A	N/A
Amounts Identified for Recovery in Prior Years (PYs)	$5.9	N/A	$2,714	N/A	N/A
Amounts Recovered in PYs	$5.6	N/A	$1,107	N/A	N/A
Cumulative Amounts Identified for Recovery (CY + PYs)	$5.9	N/A	$5,807	N/A	N/A
Cumulative Amounts Recovered (CY + PYs)	$5.6	N/A	$2,391	N/A	N/A
Cumulative Amounts Outstanding (CY + PYs)	$.3	N/A	$3,864 (3)	N/A	N/A
Cumulative Amounts Determined Not to be Collectable (CY & PYs)	N/A	N/A	$1,284 (3)	N/A	N/A

Notes: Amounts include State UI, UCFE, UCX, EB, and EUC programs. Data are for the period July 1, 2010, through June 30, 2011, the most recent period for which data are available. (*Continued*)
*Not applicable
(1) A payment recapture audit was not performed for contracts during FY 2011 but will be performed during FY 2012. Payment recapture audits for contracts are scheduled to be performed every other year.
(2) Overpayments established 360 days old or less.
(3) Includes overpayments established more than 360 days old.

Table 12 shows the UI program's established annual targets which drive performance. The targets are based on the rate of recovery.

Table 12: Payment Recapture Audit Targets
($ in millions)

Type of Payment	Current Year 2011 Amount Identified	Current Year 2011 Amount Recovered	Current Year Recovery Rate (Amount Recovered / Amount Identified)	2012 Recovery Rate Target	2013 Recovery Rate Target	2014 Recovery Rate Target
UI Benefits	$2,954 (1)	$1,284	43.46%	64%	72%	(2)

Note: Amounts include State UI, UCFE, UCX, EB, and EUC programs.

(1) Excludes amounts waived for recovery. Data are for the period July 1, 2010 through June 30, 2011, the most recent period for which data are available.
(2) Recovery targets for 2014 have not yet been developed.

Table 13 is an aging schedule of the amount of overpayments identified through the UI program's payment recapture audit program that are outstanding (i.e., overpayments that have been identified but not recovered).

Table 13: Aging of Outstanding Overpayments
($ in millions)

Type of Payment	Current Year Amount Outstanding (0-6 months)	Current Year Amount Outstanding (6 months to 1 year)	Current Year Amount Outstanding (over 1 year)
UI Benefits	$675.0 (1)	$519.4 (2)	$1,452.8 (3)

Notes: Amounts include State UI, UCFE, UCX, and EB programs. Aging data are not available for EUC overpayments. Aging status is as of June 30, 2011.
(1) Amounts outstanding less than or equal to 180 days.
(2) Amounts outstanding more than 180 days and less than or equal to 360 days.
(3) Amounts outstanding more than 360 days.

Table 14 describes the purpose for which recaptured funds were used.

Table 14: Disposition of Recaptured Funds
($ in millions)

Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
UI Benefits				$1,284		

Note: Amounts include State UI, UCFE, UCX, EB, and EUC programs. Data are for the period July 1, 2010 through June 30, 2011, the most recent period for which data are available.
All recovered overpayments are returned to the state's UI Trust Fund or to the appropriate Federal account for the payment of future benefits.

In FY 2010 the Department performed a recovery audit of the contract payments made in FY 2008, FY 2009 and the first quarter of FY 2010, which covered a data base of $4.087 billion in payments. The work was performed by contractors and DOL staff. Procedures included analysis of the payment database and review of supporting documentation for various selected payments. The audit did not identify any significant improper payments, consistent with the results of the previous recovery audit completed in FY 2008. In FY 2010 based on other post payment review processes, improper payments of approximately $5.9 million were identified for recovery, of which $5.6 million was actually recovered. Underlying causes of the improper payments were:

- Insufficient system controls over automated payments to certain vendors. During the implementation of the new financial management system payments to certain vendors (such as FedEx and Citibank) were made without adequate prior invoice review, and the accounts payable system was not capable of detecting large and unusual payments in advance.
- Duplicate payments of certain invoices.
- Overcharges of late-payment interest on certain invoices.

DOL has addressed the weaknesses identified and the new system will enhance the Department's ability to refine system and internal controls and conduct frequent management reviews to identify and reduce the incidence of improper payments moving forward.

Table 15 displays overpayments recaptured outside of recapture audits.

Table 15: Overpayments Recaptured Outside of Payment Recapture Audits

Agency Source	Amount Identified (2011)	Amount Recovered (2011)	Amount Identified (2009-2010)	Amount Recovered (2009-2010)	Cumulative Amount Identified (2004-2011)	Cumulative Amount Recovered (2004-2011)
WIA Post-Payment Reviews	$7,191,271	$465,120	$12,854,296	$907,894	$20,045,567	$1,373,014

No UI benefit overpayments were recovered outside of payment recapture audits.

VI. Accountability

Unemployment Insurance

The ETA is responsible for Federal oversight of state unemployment insurance (UI) programs, including oversight of state activities to reduce and recover improper UI benefit payments. ETA has taken/continues to take the following steps to hold Federal managers accountable for reduction and recovery of improper UI payments by states. State workforce agencies administer the UI program and set operational priorities within the resources available. The Department has limited authority to link the performance of state workforce agency staff to improper payment reduction goals and targets. However, ETA has established a robust set of performance measures used to evaluate the states' overall operational performance. States not meeting the criteria set for these measures are expected to submit corrective action plans as part of their annual State Quality Service Plan submission.

In response to the level of improper payments in the UI program, ETA developed a Strategic Plan to address the several root causes of improper payments which are described in detail in section III – Corrective Actions. In FY 2011, ETA continues to focus on the following integrity related activities and ensure the annual performance standards for managers include the completion of significant milestones for the projects listed below.

- ETA requires states to measure and report the percent, dollar amount, and reasons for improper payments. This data is derived from investigations of a statistically valid sample of payments using Federally prescribed procedures. ETA reviews this data for validity, analyzes the data for each state, and makes the data available publicly on the ETA Web site – www.oui.doleta.gov/unemploy/bam/2010/bam-cy2010.pdf Data review, analysis and publication are included in the performance plan of the Administrator of ETA's Office of Unemployment Insurance (OUI) and in the elements and standards of numerous staff in that office.
- ETA has implemented a core performance measure for detection of overpayments by state UI programs. State performance data is available at the OUI Web site – oui.doleta.gov/unemploy/3yr_overpay.asp States that fail to meet the performance criterion submit corrective action plans. Analysis of state performance and monitoring of states' corrective actions continue to be evaluation factors in OUI managers' performance plans.
- ETA is developing additional performance measures that will require states to: 1) reduce by 30% after the first year of implementation and by 50% after the second year for those overpayments attributable to individuals who continue to claim UI benefits after they return to work; 2) meet the 10% improper payment rate criterion included in IPERA; and 3) meet a minimum UI overpayment recovery rate target.
- ETA has promoted and continues to promote cost effective methods for states to prevent, detect, and recover improper UI benefit payments. Development, delivery, and/or successful implementation of these initiatives by states have been and continue to be factors on which the OUI administrator and managers are evaluated. These initiatives are described in detail in section III – Corrective Actions.
- *National Integrity Conference:* In order to provide a forum for disseminating successful practices for preventing, detecting and recovering UI overpayments, ETA sponsors a biennial National Unemployment Insurance Integrity Professional Development Conference. The next conference is scheduled for Spring, 2012.

As part of its monitoring and oversight responsibilities of the State's UI operations, the Department takes an active role in facilitating and promoting strategies to reduce improper payments and meet the payment accuracy and recovery targets required by IPERA. However, it should be noted that these strategies require the cooperation and implementation by individual states, including in some cases changes to state laws and regulations. The Department has no explicit authority over how states establish priorities in administering their UI programs and, therefore, can only make recommendations and provide technical assistance in the use of these strategies.

Workforce Investment Act

ETA has revised and expanded its training for all grant managers. GEMS tracks the grant managers' grant review actions and provides the grant managers with financial and other information useful in managing the grants. The ETA Division of Policy Review and Resolution has requirements in its closeout grant officer performance standards relating to the requirement to follow up on Single Audit Act, OIG or GAO audit findings and questioned costs relating to WIA grants, and the Director of the Office of Grant and Contract Management has overall responsibility for ensuring that these procedures are followed.

VII. Agency Information Systems and Other Infrastructure

Unemployment Insurance

States have internal controls, processes, programs, and staff in place throughout all operations of the UI program dedicated to protection from internal threats and vulnerabilities. These threats and vulnerabilities include physical damage and harm to staff and property, misuse of administrative funds and assets by agency staff, and misuse of UI funds by agency staff. It is incumbent upon the state agencies to have a series of protections in place addressing a myriad of considerations such as the granting of systems access, developing and upholding security policies and procedures, the proper configuration of hardware and software, basic physical safeguards, backup tests and disaster recovery provisions, regular audits, ongoing employee training, etc.

While state Internal Security (IS) programs are intended to identify and eliminate system vulnerabilities, the risk remains of losses from the issuance of improper UI benefit payments and misuse of administrative funds due to fraud, waste, and abuse. States are expected to review these controls and update them regularly to eliminate new threats and vulnerabilities as technology and business practices in the administration of the UI program evolve.

Although integrity is the responsibility of all agency staff, the states have dedicated staff conducting Benefit Payment Control activities to prevent, detect, and recover improper payments. These staffs work closely with agency management to assure that sufficient controls are in place to prevent improper payments, conduct complex fraud investigations, and operate the activities required to recover improper payments if they have been made.

State UI benefit and tax systems vary in terms of their performance capacities, capabilities, and their adaptability to new UI programs and integrity strategies. In response, between FY 2005 and FY 2010, the Department provided approximately $46.5 million to states in supplemental funding for integrity-related projects. In FY 2011, UI Program Letter (UIPL) No. 26-11, issued in July 2011, provided funding opportunities for state consortia to submit proposals for UI technology funds to:

- Develop (or modify and develop) either of the core UI Benefits or Tax and Benefit system designs, which were developed by two previously established state consortia (or join one of these consortia);
- Design additional core UI Benefits or Tax and Benefits systems using open source components that is also exportable to other states; and
- Implement technology-based tools designed to prevent, detect or collect/recover improper UI payments.

This builds on the funding provided by the Department in FY 2009 to two consortia through two separate grants to conduct feasibility studies for jointly developing a core UI benefit and/or tax system.

UIPL No. 26-11 also provides Incentive Integrity Activity funds. States that have implemented or have committed to implement several core integrity activities requested funding for the following activities, most of which have an information technology component:

- Activities to address Worker Misclassification;
- Implementation of other integrity-related projects, including technology-based prevention, detection, and collection activities;

- Implementing the SIDES earnings/wage verification and monetary and potential employer charges data exchanges;
- Subscription fees for SIDES;
- Contract staff support for Benefit Payment Control (BPC) activities (activities that do not require use of state merit staff);
- Implementation of the Federal Treasury Offset Program (TOP); and
- Automation efforts that result in overall performance and system improvements.

In response to proposals submitted in response to UIPL No 26-11, the Department provided over $191 million in supplemental funding, which included $128 million awarded to three state consortia, and $63.5 million awarded to 40 state workforce agencies. These resources will fund activities to support the prevention, detection, and recovery of improper UI benefit payments, improve performance, and address outdated IT system infrastructures, all of which are necessary to improve UI integrity.

As a result of ETA monitoring, states modified computer matching procedures to improve the productivity of NDNH as a resource to detect improper payments. ETA is also working closely with the state agencies to develop the information systems and infrastructure to support SIDES and to access TOP for UI overpayment recovery. Both SIDES and TOP are discussed in Section III, Corrective Actions.

Workforce Investment Act

ETA currently has multiple technology projects underway in an effort to improve grants management. The WIA program utilizes these tools to execute the risk management process to assess and monitor grantees. They include the web-based Enterprise Business Support System (EBSS), with GEMS. EBSS is a web-based solution used to track and manage grants. A component of the EBSS is the automated grant cost reporting system that captures grant costs and obligations, which improves fiscal integrity. The combination of the two is part of the cradle-to-grave E-grants solution for the entire Department. The GEMS system, mentioned also in Section III of this appendix, is an online grants management tool meant to provide web accessible, role based context access to grant-related information from multiple sources. The utilization of the GEMS system by the Federal Project Officers and program management and financial staff allows ETA a more coordinated and comprehensive repository of grant-specific information. A GEMS 4.0 technology project has recently been undertaken to provide for a report writing module and Web links to the Core Monitoring Guide and supplements. Management reports are also available to check on the status of FPO actions for individual staff members' portfolios of grants.

VIII. Barriers

Unemployment Insurance

The UI program has several statutory barriers to reducing improper payments. States administer the UI program and set operational priorities. The Department has limited authority to ensure they pursue improper payment reduction activities.

The Department of Treasury requires states to use merit-based state government staff to access TOP data. However, several states use contract staff to perform program activities that require accessing TOP data. Some states have reported difficulties in implementing the TOP program due to Treasury's mandate to use merit staff. Treasury is working with the Department to provide customized technical assistance to resolve this issue.

ETA has developed Unemployment Compensation (UC) integrity legislation, which, if enacted by the Congress, will help states reduce improper benefit payments. This will ensure that benefits are available for eligible UI claimants, thus contributing to DOL strategic goal to "Ensure income support when work is impossible or unavailable."

In October 2011, three key integrity provisions were enacted as part of the Trade Adjustment Assistance Extension Act:

- Requires states to assess a penalty of not less than 15% of the amount overpaid on any claim for benefits that is determined to be due to the claimant's fraud.
- Prohibits states from relieving an employer of benefit charges if the employer's (or its agent's) fault has caused an inappropriate payment and if the employer (or agent) has established a pattern of failing to respond timely or adequately to requests for information.
- Requires employers to report employees re-hired within 60 days of their last employment to the NDNH. This change will significantly expand the number of employee records available for matching and can be expected to increase the number of detections, and potential prevention, of overpayments due to claimant who continue to claim benefits after they return to work.

- Other proposed provisions that are pending action are:
    - Permits states to use up to 5% of UC overpayments recovered to augment administrative funding to deter, detect, and recover benefit overpayments.
    - Permits states to use up to 5% of contributions collected due to employer fraud or tax evasion, including misclassifications of employees, to augment administrative funding for activities related to these purposes.

ETA will also pursue the following regulatory changes to facilitate the redirection of resources and activities towards improving UI program integrity.

- Require a percentage of state UI administrative grants be dedicated for integrity activities.
- Revise the regulation governing the BAM program (20 CFR 602.43) to remove the prohibition on the use of sanctions or incentives to achieve specific improper payment rates.

Workforce Investment Act

No statutory or regulatory barriers exist that limit WIA's ability to address and reduce improper payments. The WIA program has the legal authority to establish receivables and implement actions to collect those receivables.

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Mine Safety and Health Administration - http://www.msha.gov
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Veterans' Employment and Training Service - http://www.dol.gov/vets/
Wage and Hour Division - http://www.dol.gov/whd/
Women's Bureau - http://www.dol.gov/wb/

DOL Regulations and Enforcement

DOL Regulations Search - http://www.regulations.gov/#!searchResults;a=DOL;rpp=10;so=DESC;sb=agency;po=0
DOL Enforcement Data - http://ogesdw.dol.gov/

Acronyms

ACSI	American Customer Satisfaction Index
BLS	Bureau of Labor Statistics
CFO	Chief Financial Officer
DOL	U.S. Department of Labor
DVOP	Disabled Veterans' Outreach Program
EBSA	Employee Benefits Security Administration
ERISA	Employee Retirement Income Security Act
ESA	Employment Standards Administration
ETA	Employment and Training Administration
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees' Compensation Act
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FLSA	Fair Labor Standards Act
FTE	Full Time Equivalent
FUTA	Federal Unemployment Tax Act
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GPRA	Government Performance and Results Act
GSA	General Services Administration
HVRP	Homeless Veterans' Reintegration Program
ILAB	Bureau of International Labor Affairs
IPIA	Improper Payments Information Act
IRS	Internal Revenue Service
IT	Information Technology
LMRDA	Labor-Management Reporting and Disclosure Act
LPD	Lost Production Days
LVER	Local Veterans' Employment Representative
MSHA	Mine Safety and Health Administration
NCFMS	New Core Financial Management System
OASAM	Office of the Assistant Secretary for Administration and Management
OASP	Office of the Assistant Secretary for Policy
OCFO	Office of the Chief Financial Officer
OCIA	Office of Congressional and Intergovernmental Affairs
ODEP	Office of Disability Employment Policy
OFCCP	Office of Federal Contract Compliance Programs
OFLC	Office of Foreign Labor Certification
OIG	Office of Inspector General
OLMS	Office of Labor-Management Standards
OMB	Office of Management and Budget
OPA	Office of Public Affairs
OSHA	Occupational Safety and Health Administration
OWCP	Office of Workers' Compensation Programs
PBGC	Pension Benefit Guaranty Corporation
PPI	Producer Price Index
PY	Program Year
RAPIDS	Registered Apprenticeship Partners Information Data System
RECA	Radiation Exposure Compensation Act
SOL	Office of the Solicitor
SSA	Social Security Administration
SWA	State Workforce Agencies
TAA	Trade Adjustment Assistance
TAP	Transition Assistance Program
UI	Unemployment Insurance
USPS	U.S. Postal Service
UTF	Unemployment Trust Fund
VA	U.S. Department of Veterans Affairs
VETS	Veterans' Employment and Training Service
WB	Women's Bureau
WHD	Wage and Hour Division
WIA	Workforce Investment Act

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