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## 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. On quarterly and annual bases, certification of the effectiveness of internal controls over financial reporting is obtained from all DOL Agency Heads. These business processes help to ensure that reported financial performance information is relevant and reliable.

In FY 2009, 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 PAR that address Program Net Costs and the Statement of Net Costs. Total Net Costs of DOL activities for FY 2009 were \$139.1 billion.

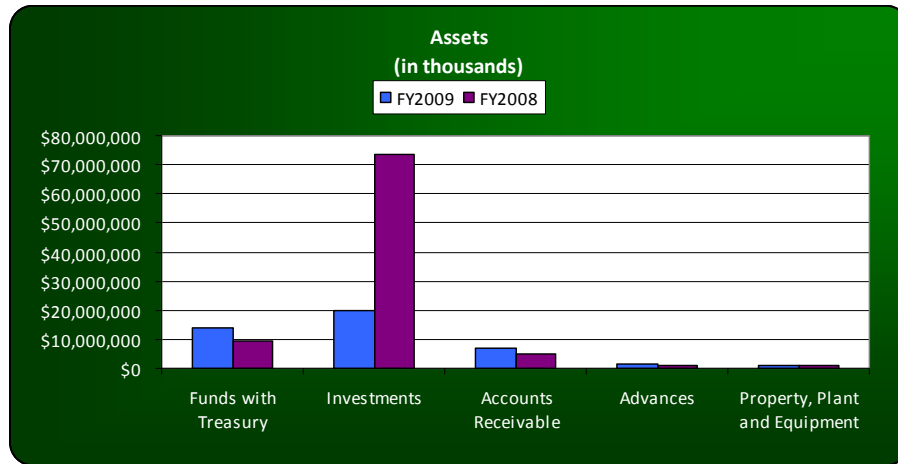
The Debt Collection Improvement Act (DCIA) of 1996 designated the U.S. Department of the Treasury as the central agency for collection of debts owed the Federal Government. Debt management accounts for a relatively small part of DOL's financial management activities; the majority of debts managed by DOL relate to the assessment of fines and penalties as a result of its enforcement programs. Through the third quarter of FY 2009, DOL referred debt in the amount of \$119,173,512 to the Treasury for collection. DOL continues to monitor and aggressively pursue delinquent debt and will continue to refer eligible debt to Treasury for collection.

The Department continues to make improvements in its efforts to meet requirements of the Prompt Payment Act (PPA). The PPA requires Executive agencies to pay commercial obligations within discrete time periods and to pay interest penalties when those time constraints are not met. During FY 2009, approximately \$1.4 billion in gross payments were made, including approximately \$258,000 in interest penalty fees. Also during FY 2009, there were over 112,000 payments made to vendors and travelers. Of this amount, 3,168 invoices were paid late, resulting in 3 percent of the total payments incurring interest penalties.

The Department also works with its agencies to increase the number of vendors receiving payments through electronic fund transfer (EFT). The total number of vendors receiving EFT payments in FY 2009 remained at 99 percent, the same as in FY 2008. Although the Employment Standards Administration is continuing to promote EFT payments for their benefit and medical programs, its percentage rate continues to remain below Treasury's goal of 98 percent.

## Analysis of Financial Statements

The principal financial statements summarize the Department's financial position, net cost of operations, and changes in net position, and provide information on budgetary resources and refinancing for FY 2009 and FY 2008. Highlights of the financial information presented in the principal financial statements are shown below.

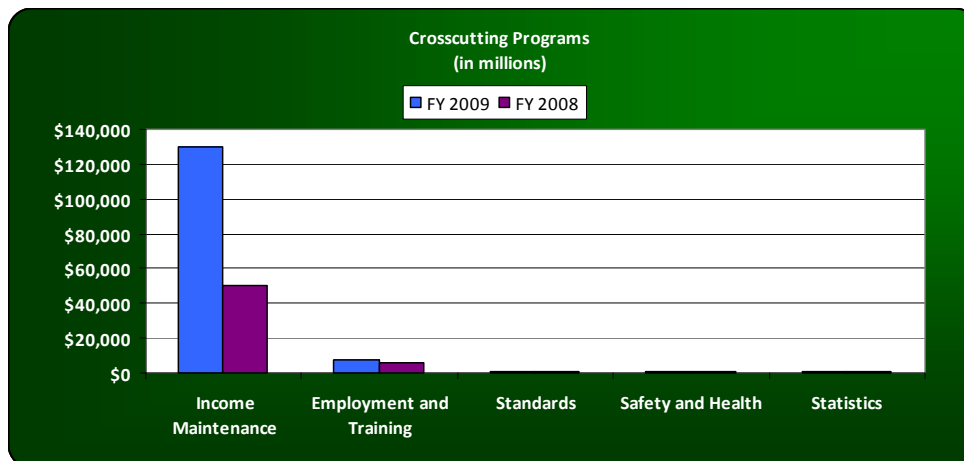


### Financial Position

The Department's Balance Sheet presents its financial position through the identification of agency assets, liabilities, and net position. The Department's total assets decreased from \$89.9 billion in FY 2008 to \$44.2 billion in FY 2009. The decrease in total assets primarily was accounted for in the Department's investments. Balances held in the Unemployment Trust Fund are invested in non-marketable, special issue Treasury securities. A portion of these investments was liquidated to pay unemployment benefits. Liabilities increased from \$22.6 billion at the end of FY 2008 to \$29.7 billion in FY 2009. This increase was due primarily to increases in liabilities for current and future benefits and intra-governmental debt. Liabilities for current benefits increased due to the increase in program expenses for unemployment benefits. Intra-governmental debt increased because the Unemployment Trust Fund borrowed from the General Fund of the Treasury to meet program requirements.

### Net Cost of Operations

The Department's total net cost of operations in FY 2009 was \$139.1 billion, an increase of \$80.8 billion from the prior year. This increase was attributable to the following crosscutting programs:



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*Income Maintenance* programs continue to comprise the major portion of costs. These programs include costs such as unemployment benefits paid to individuals who are laid off or out of work and seeking employment, as well as payments to individuals who qualify for disability benefits due to injury or illness suffered on the job. Income maintenance increased by \$79.3 billion from FY 2008 to FY 2009. The primary reasons for this increase were the increase in regular unemployment benefits paid and the additional weeks of emergency unemployment compensation (EUC) provided by the enactment of the EUC program in June 2008, its expansion in November 2008, and its extension by the Recovery Act in February 2009.

*Employment and Training* programs comprise the 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, or make long-term career plans.

**Statement of Budgetary Resources.** This statement reports the budgetary resources available to DOL during FY 2009 and FY 2008 to effectively carry out the activities of the Department as well as the status of these resources at the end of each fiscal year. The Department had direct obligations of \$174.7 billion in FY 2009, an increase of \$112.3 billion from FY 2008.

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

## Financial Management Systems and Strategy

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, provide useful information to management, and satisfy Federal laws, regulations, and guidance.

In FY 2009, DOL's financial management functions, processes, and activities were distributed across multiple information systems and financial applications, all centered on the Department of Labor Accounting and Related Systems (DOLAR\$) mainframe accounting system. DOLAR\$ was implemented in 1989, prior to all of the modern day laws and regulations that drive Federal accounting, financial management systems, financial management reporting, and security, such as the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Federal Financial Management Improvement Act of 1996, the Reports Consolidation Act of 2000, and the Federal Information Security Management Act (FISMA) of 2002. DOLAR\$ has been both enhanced and extended numerous times to meet Departmental and external requirements resulting from new laws and regulations; however, the system's antiquated technology does not allow DOL to efficiently and effectively meet its current and future needs.

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

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

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

After detailed evaluation of the responses received, DOL selected and issued an award to Global Computer Enterprises (GCE) on June 26, 2008. GCE is a small business located in Reston, Virginia that has partnered with several other firms, including Grant Thornton, Qwest, and several other firms to provide the complete FMLoB SSP services. GCE began work on July 1, 2008, to have the system fully implemented and operational in FY 2010.

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

The Department has 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 UI improper payments reduction target error rate for FY 2009 was 10.0 percent, whereas the estimated error rate is 10.3 percent. This difference is primarily due to an increase in overpayments to UI claimants who were not actively registered, as required, for job referral and reemployment services, as States struggled to keep pace with the large increase in workload due to the adverse labor market conditions. The higher rate for WIA in FY 2009 is primarily due to including the results of DOL Office of Inspector General audits and other monitoring activities in the measurement methodology. The table below shows the estimated improper payments error rates for the programs classified as at-risk:

DOL Program	FY 2008		FY 2009		FY 2010
	Target	Actual	Target	Actual	Target
Unemployment Insurance	11.5%	10.0%	10.0%	10.3%	9.9%
Workforce Investment Act	0.19%	0.07%	0.07%	0.2%	0.07%

The Department has implemented various corrective actions to address the causes and reduce improper payments in each of these programs. Like many other Federal agencies, the Department faces challenges in meeting its improper payment reduction and recovery targets, particularly with programs that are sensitive to 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 the “Other Accompanying Information” section of this report for additional information on improper payments.