

Top Management Challenges Facing the U.S. Department of Labor

The following are the areas the Office of Inspector General (OIG) considers to be the most serious management and performance challenges facing the Department of Labor (DOL).

- Unemployment Insurance: Overpayments, Identity Theft Fraud, and Funding
- Integrity of Foreign Labor Certification Programs
- Financial and Performance Accountability
- Information Technology and Electronic Government
- Security of Pension Assets
- Workforce Investment Act Reauthorization
- Grant Accountability, Performance, and Effectiveness
- Effectiveness of Mine Safety and Health Programs
- Addressing Issues that Require Joint Action with Other Federal Entities in the Areas of:
 - Unemployment Insurance Administrative Charges
 - Cash Balance Pension Plans
 - Black Lung Disability Trust Fund Indebtedness
 - Human Capital Management

Unemployment Insurance: Overpayments, Identity Theft Fraud, and Funding

Enhancing the integrity and solvency of the Unemployment Insurance (UI) system is a challenge to DOL given the program's scope and vulnerabilities. The UI program paid over \$41 billion in income maintenance benefits to workers during the first three quarters of FY 2003. These benefits were financed by employer taxes and paid out by states under a Federal framework. Among the OIG's continued concerns about the UI program are its financial stability and susceptibility to fraud schemes involving identity theft. We believe that reducing overpayments, whether inadvertent or the result of fraud, and ensuring the unemployment trust fund (UTF) has adequate reserves are key to safeguarding this program for American workers.

Overpayments and the BAM system. DOL's Benefit Accuracy Measurement (BAM) system, which uses sampling techniques to estimate total improper payments in the UI system, projected approximately \$4 billion in overpayments for calendar year 2002. A recent OIG audit of the BAM system found that the system accurately detected and reported overpayments. However, we found that the Employment and Training Administration (ETA) did not use BAM information to strengthen internal controls over benefit payments, costing the UI program millions of dollars every year. We concluded that changes must be made to policies and procedures that will make overpayment prevention a top priority by ETA. For example, based on our best practices analysis of state UI operations, we concluded that ETA working with states to expedite the implementation of new hire database con-

nectivity in 10 states, and increasing its usage in another eight states, could save the UTF an estimated \$428 million annually.

Identity Theft and Organized Crime Activity in Unemployment Insurance Fraud.

OIG investigations have identified several methods used to defraud the UI system that have resulted in substantial losses to the UTF. Of greatest concern are identity theft schemes, which involve the use of stolen identities to apply for UI benefits. Recent OIG investigations have demonstrated both the scope and potential monetary losses associated with identity theft fraud. In two California cases the OIG identified a total of over \$11 million in losses. One of those cases involved 3,000 stolen identities. In both investigations, non-traditional organized crime groups were involved. The OIG is seeing more of these “hybrid” cases, which involve extensive program fraud against DOL programs coupled with the involvement of non-traditional organized crime groups.

The OIG also continues to uncover UI check counterfeiting schemes and fictitious employer fraud, wherein an individual or group creates a fictitious company and obtains UI benefits for alleged former employees. We are extremely concerned that telephone and electronic claims, which eliminate the need for applicants to appear in person, will enhance the program’s vulnerability to these abuses. To better combat UI fraud, the OIG has recommended enhanced investigative training for state UI personnel, which focuses on fraud prevention and detection, sharing information about common fraud schemes, and best practices used by the states. The OIG and ETA continue to work together to provide state employees training of this type.

UI Trust Fund Solvency. The national unemployment rate has increased over the last three years from 4% in FY 2000 to a rate of 6.1% as of August 2003. As of September 30, 2002, the Department estimated that, should a severe recession occur, net UTF assets would decline by \$71.1 billion from FY 2003 to FY 2005, possibly requiring borrowing from the Treasury to meet projected needs. As of September 30, 2003, 32 states were reported by DOL as not minimally solvent. The OIG remains concerned that states may not have adequate reserves to meet the UI compensation demands on their trust funds.

Integrity of Foreign Labor Certification Programs

The Department is challenged with ensuring the integrity of its foreign labor certification programs. These programs enable U.S. employers to hire foreign workers when qualified American workers are not available or when admitting foreign workers does not adversely impact the job opportunities, wages, and working conditions of U.S. workers and legal residents. Before hiring foreign laborers, participating employers must apply to DOL for certification that the conditions of these programs are being met. Once the labor certification is granted, the foreign workers involved may obtain visas to live and work in this country.

The OIG is concerned about demonstrated fraud against DOL labor certification programs and the integrity of the foreign labor certification process itself. The abuse of labor certification programs may result in economic hardship for American workers or the abuse of foreign workers, and the admission of aliens by fraudulent means invites possible national security risks.

Problems with the Labor Certification Process. ETA is responsible for approving employers' applications that ultimately allow aliens to work in the United States. However, its role in the labor certification process continues to be perfunctory in the Permanent Alien Labor Certification (PLC) program, H-1B Specialty Workers program for highly qualified individuals in specialty occupations, and H-2A Temporary Seasonal Agricultural programs.

- **The Permanent Labor Certification:** Under a new ETA system called Program Electronic Review Management, employer applications would be electronically submitted and processed. A recent OIG assessment concluded that, while the system will significantly reduce the time required to process applications, it will eliminate most human screening of certification applications received. The OIG is concerned that this automated approval system may lead to an increase in program fraud due to fewer controls over application information.
- **H-1B Specialty Workers:** On labor condition applications for the H1-B program, employers declare they will pay foreign specialty workers appropriate wages and follow workplace guidelines. Under current law, DOL must approve the application if it is complete and free of obvious errors. Without the authority to validate information on the application, the DOL's role in this program does little to add value to the process of protecting American jobs and wages.
- **H-2B Temporary Nonagricultural Program:** Although DOL must certify or deny employers' applications for the H-2B program, its certification is only advisory to the Bureau of Citizenship and Immigration Service (BCIS). The BCIS may grant visas to foreign workers despite DOL's denial of the application. In our view, DOL resources expended on this program have little benefit to the U.S. worker.

Labor Certification Fraud. The OIG continues to identify fraud against DOL foreign labor certification programs. These cases involve fraudulent labor certification applications that are filed with DOL on behalf of fictitious companies or that use the names of legitimate companies without their knowledge or permission. ETA has worked with OIG by providing access to its databases and developing revised applications that would assist in automated fraud detection, among other things.

OIG work has shown that corrupt immigration attorneys and labor brokers collect hefty fees from foreign workers for the certifications. For example, the owner of Central Migration, Inc. pled guilty in April 2003 to visa fraud for conspiring with others to forge alien employment certifications. A joint investigation of this case led by the OIG revealed that the owner falsely claimed to be an attorney and filed over 900 fraudulent certification applications, charging foreign workers between \$4,500 and \$8,000 per certification.

Moreover, the OIG is concerned about the vulnerability of the DOL's Foreign Labor Certification programs to fraud by non-traditional, transnational organized crime groups, including Eastern Block and Asian groups. These groups engage not only in activities traditionally associated with organized crime such as extortion, but also in immigration fraud and fraud against DOL programs.

Financial and Performance Accountability

In order to manage DOL programs for results and fully integrate budget and performance as envisioned by the President's Management Agenda (PMA), the Department needs timely financial data, a managerial cost accounting system that matches cost information with program outcomes, and quality performance data. In addition, the Department is challenged to obtain quality information from audits conducted under the Single Audit Act, which cover over 90% of the Department's expenditures, and to strengthen internal controls on the Federal Employee Compensation Act (FECA) program. While DOL has received top marks for progress on the PMA scorecard for financial performance and budget and performance integration, the Department faces challenges in each of these areas.

Financial Accounting. The Department faces a major challenge as it develops a new core accounting system to replace the existing 14-year old Department of Labor Accounting and Related Systems (DOLARS). Like DOLARS, the new system will serve as the central repository for all DOL financial data. As such, it will be the foundation for all financial management activity, including production of DOL's Standard General Ledger, preparation of the Department's financial statements, and maintenance of various accounting subsystems. Among the challenges the Department will encounter are: fully testing the system before, during, and after launch; performing validation and verification of data transferring from the old to the replacement system; and ensuring that the system fully meets Federal financial system requirements and users' needs. The Department will need to take full advantage of lessons learned from recent system implementations as it seeks to meet the challenges of the new accounting system. The OIG stands ready to consult with the Department as appropriate, and will provide audit oversight as the system is implemented.

Managerial Cost Accounting. The OIG's report on the Department's FY 2002 financial statements included our opinion that DOL was not in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) because DOL had not complied with managerial cost accounting requirements in Federal accounting standards. While the Department subsequently determined that DOL was in substantial compliance with the FFMIA, as allowed by the Act, we maintained that DOL had not implemented managerial cost accounting in accordance with Federal standards. This was because costs were not reported at the required level, and there was no integrated system DOL could use to manage programs on a day-to-day basis. We recommended that the Chief Financial Officer ensure the development of a comprehensive Department-wide managerial cost accounting system.

In May 2003, the Department issued its Managerial Cost Accounting Plan of Action that called for a 14-month timeframe to implement initial managerial cost accounting capability across DOL. Among the Plan's objectives are to make progress toward demonstrating substantial compliance with Federal financial reporting requirements, to complete initial DOL-wide implementation by the July 2004, and to support the Department's FY 2006 budget process. We will continue to monitor and assess the Chief Financial Officer's implementation of DOL's managerial cost accounting plan to determine its effect on financial and performance reporting.

Quality Performance Data. Most program results data required by DOL to measure attainment of its strategic plan goals is generated by states and other sources below the Federal level. This presents challenges for ensuring data quality and evaluating program effectiveness. Past OIG audit work has disclosed high error rates in grantee-reported performance data, which hamper the Department's ability to gauge the success of programs. Obtaining statutory authority to access the National Directory of New Hires and the Social Security Administration wage record database would also enhance the Department's ability to evaluate programs particularly in the area of employment and training programs.

ETA initiated a data validation project to create more precise programming specifications and standards for use in validating that grantee-reported data on the Workforce Investment Act, Trade Adjustment Assistance Act, and other ETA programs are correctly reported. A timeline published by ETA anticipates that states/grantees will finish validating 2002 data for some programs and begin submitting validation output reports to ETA in April 2004. The OIG will continue to follow ETA's progress in implementing the data validation project to assure the reliability of program data.

Single Audit. The Department relies on the Single Audit Act to provide audits for over 90% of its expenditures, including grant costs and UI benefit costs. The OIG is concerned about the adequacy of information being provided to the Department in these audits, which are conducted by public accountants or state auditors and procured with DOL grant funds. Quality control reviews we conducted found serious deficiencies in single audits, including inadequate sampling, which would make the audits unreliable. As a result, the OIG continues to monitor and evaluate single audits, and will work with DOL's grantor agencies to improve their monitoring and evaluation activities. The OIG will continue our multi-year review of single audit reports to determine the adequacy of the audit coverage and whether DOL can continue relying on single audits for financial management purposes. Further, we are working with the National Single Audit Sampling Plan project to assess the quality of Single Audits government-wide. We believe this will improve the quality and usefulness of single audits, to the benefit of DOL and other Federal agencies. However, the Department through its monitoring should also ensure that grantees procure quality audits and that the results of these audits are fully utilized by the grantees and the Department to improve programs.

Internal Controls on the Federal Employee's Compensation Act Program.

Internal control weaknesses relative to medical evidence used to determine eligibility in the Federal Employees Compensation Act (FECA) program increase the risk of improper payments to FECA claimants across the Federal government. An FY 2003 OIG audit concluded that the primary control ensuring that claimants submit medical evidence to support continuing eligibility for compensation and medical benefits is not effective, increasing the susceptibility of this multi-billion dollar program to fraud and overpayments.

Claims Examiners (CE) are required to obtain and review medical evidence on a periodic basis in order to determine claimants' continuing eligibility for compensation payments. Our audit found that in 18 percent of sampled cases where current-year medical evidence was required, the case file did not have current medical evidence. In most of these cases, it

appeared the claimant did not seek medical treatment during the current fiscal year as no medical bills had been processed. Our audit found that the lack of current medical evidence appeared to be due to OWCP's failure to comply with its procedures, which require the CE to obtain and review medical reports and, if such reports are not received, to direct the claimant to undergo a medical examination. We determined that this was a procedural issue rather than a lack of responsiveness on the part of the claimant. Absent medical evidence, OWCP could not make a determination as to whether benefits should be suspended or terminated. Without adequate procedures for obtaining and reviewing current medical evidence, the risk of improper payments increases.

Information Technology and Electronic Government

Maintaining the security of DOL information technology (IT) systems and data is vital, because it relates to key economic indicators and the payment of billions of dollars to workers. The Department will be challenged to prevent unauthorized access to its systems and networks in an expanding electronic government environment. Likewise, DOL must take care to adequately plan and manage IT system initiatives that use new technologies as it strives to deliver high quality services to the public. Continued improvements to IT security policies and correction of security weaknesses identified through the audit process will be key to this effort.

Computer Systems Security. Threats to the Department's information systems from unauthorized access remain a concern for the DOL. This is especially true as web-based technologies and wireless networking proliferate. DOL's implementation of E-Government merited a "yellow" rating on the President's Management Agenda scorecard and a "green" score for progress. The open environment characterized by new technologies and increased public access through E-Government lends itself to increasingly sophisticated attacks on IT systems.

Information Systems Planning and Implementation. DOL continues to stress the importance of acquiring and developing the best computing power to deliver high quality services to the public, while at the same time lowering overall life cycle and program costs. Because of this, the Department must adequately plan and manage systems projects that implement new technologies. Two problems OIG identified in DOL systems development activities were a lack of effective planning for major system initiatives, and failure to ensure that experienced and qualified project management was hired. The Administration is now tasking all Federal organizations to ensure that qualified Project Managers are hired for IT systems related projects. We view this as a positive step toward DOL's continued development and improvement of sound, cost-effective, IT systems.

DOL Security Efforts. During FY 2003, the OIG performed audits of 23 of the DOL's 82 sensitive systems in accordance with the Federal Information Security Management Act (FISMA), and followed up on actions by DOL agencies to address security weaknesses. We concluded that, in FY 2003, the Department maintained consistent focus on improving its information security program through use of its Plans of Action and Milestones (POA&Ms) process. The Department made notable progress in the areas of security training and awareness, physical security, and system security integration. Our

system audits also identified weaknesses in system security control areas including Certification and Accreditation of systems, Contingency Plans, and Risk Assessment, which the Department plans to address with a new model for risk assessments.

Overall, we consider DOL's information systems to be reliable and adequately safeguarded. However, with advances in e-Government and technology, implementing and improving upon security policies and guidance to DOL programs will remain critical. The OIG continues to recommend that this could be best accomplished by a Chief Information Officer (CIO) who is organizationally independent within DOL and focuses solely on IT issues, much as the Chief Financial Officer is organizationally independent. The Department holds that its current organizational structure, in which the CIO is also the Assistant Secretary of Administration and Management, is working.

Security of Pension Assets

Protecting the pensions of American workers remains a significant challenge to the Department. DOL administers and enforces Title I of the Employee Retirement Income Security Act of 1974 (ERISA), which aims to protect the interests of participants in employee benefit plans. The Employee Benefits Security Administration (EBSA) administers the program, overseeing about 730,000 private pension plans and millions of health and welfare plans covered by ERISA. These pension plans hold over \$4 trillion in assets and cover more than 45 million workers. Enhancing their security will involve expanding existing safeguards and enforcing pension protections.

Safeguards to Protect Pension Assets. The OIG has long advocated that ERISA be amended in order to increase protections for pension plan participants. In particular, we have recommended that Section 103(a)(3)(C) of ERISA be repealed. This section contains a "limited-scope" provision that results in inadequate auditing of pension plan assets, because it exempts from audit all pension plan funds invested in banks, insurance companies and other entities regulated by Federal or state governments. Between 1991 and 1997, the Department submitted legislative proposals calling for the repeal of the limited-scope audit provision and calling for reforms to strengthen plan audits. DOL also proposed legislative changes to require direct reporting of certain criminal violations relating to employee benefit plans. These proposals were not enacted. While EBSA has taken steps to improve the audit process through ongoing program initiatives, the problem of limited scope audits remains. We urge the DOL to continue to push for legislative change in order to adequately protect pension assets.

Pension Plan Enforcement. Also of concern is the security of assets in pension plans, which are an attractive target to organized crime groups, corrupt pension plan officials, and those who influence the investment of plan assets. OIG labor racketeering investigations consistently show that assets in Taft-Hartley plans, which are jointly administered by labor union and management representatives, are at risk. In 1997, the OIG identified the risk posed by corrupt financial investment and service providers who employ complex financial schemes to conceal their crimes against employee benefit plans. Abuses by these providers are of particular concern because their activities may impact more than one plan. Our investigations continue to identify multi-million dollar losses due to this

type of crime. One such case recently led to the indictment of an attorney, a real estate agent, and a former pension plan trustee who received illegal payoffs in connection with a \$10 million land purchase by the pension fund of the Northwest District Council of Carpenters. This joint investigation with EBSA is one of 54 current joint OIG and EBSA pension investigations.

In addition, the OIG has renewed concern about the security of the assets in employer-sponsored 401(k) plans that are collectively bargained. Within our jurisdiction, the OIG is developing investigative casework on the growing number of these 401(k) plans.

Workforce Investment Act Reauthorization

Seeking revisions to the Workforce Investment Act (WIA) during the reauthorization process so that it can better achieve its goals poses challenges for the Department. In particular, WIA needs improvement in areas such as the eligible training provider system, sequence of services, financial reporting, and youth and dislocated worker activities. While legislation has been proposed that addresses some of the concerns we have identified in our work on the WIA program, such as burdensome performance reporting and eligibility requirements imposed on training providers that make some providers unwilling to serve WIA participants, OIG audits offer further lessons and insights that should be considered during reauthorization.

Increase Training Provider Participation. An assessment of training activities for adults and dislocated workers in six states found that the number of WIA participants trained has declined when compared to the proportion trained under Job Training Partnership Act (JTPA). We also found that some of WIA's training provisions were burdensome and therefore discouraged eligible training provider participation. ETA should endorse changes to reduce the burden associated with reporting data on non-WIA students, and encourage states to periodically review training courses to ensure that fee and time restrictions do not lower program quality.

Improve Dislocated Worker Program Services and Outcomes. An audit of WIA's Dislocated Worker program found that the services provided had positive effects. However, we also determined ETA should place additional focus on ensuring the program serves only eligible individuals, that participants return to the workforce as quickly as possible, and that reported performance outcomes are complete and meaningful.

Youth Program Improvements. WIA shifted the youth program's focus from short-term training and job placement to long-term, comprehensive youth services that provide the education, skills, work and experience needed for youth to obtain jobs. An evaluation of WIA's youth programs operated by Local Workforce Investment Boards found that recorded performance measures and reported activities of youth participants were often inadequately documented, making it difficult to accurately evaluate program outcomes. ETA should ensure that the services provided and their outcomes are better documented to ensure that programs are accurately evaluated, as well as encouraging revisions to WIA that improve the youth program, such as allowing summer employment as a stand-alone activity for particular participants.

State and Local Reporting of WIA Obligations. The amount of WIA funding available at the state level has been an issue of contention between the states and the Department. A 2003 OIG report addressed the way WIA obligations and expenditures are reported and the question of which is the better basis for determining how much money is available for expenditure and how much new money is needed. We found reported obligations were generally overstated and reported expenditures were generally understated. We concluded, that if obligations accurately reflect legal commitments and are consistently reported, obligations are the more useful measure for assessing states' current WIA funding availability. ETA issued revised instructions to clarify WIA financial reporting requirements in November 2002. WIA reauthorization is an opportunity to provide definitive reporting guidance to grantees on both obligations and expenditures and to mandate accurate, timely reporting.

Grant Accountability, Performance, and Effectiveness

The Department is challenged to provide accountability for the costs and results of \$10 billion in grants it awards each year, mostly for employment and training activities. ETA, DOL's largest grantor agency, is responsible for administering these grants, which provide job skills and enhanced opportunities for workers. Direct Federal oversight of grants of this type is difficult because a large share of the funding is passed down through the states to subgrantees and contractors.

OIG audits have identified, and continue to identify, concerns about accountability at all phases of the grant process. Weaknesses in the pre-award/award stage; grant execution problems including poor performance and charging unallowable costs, errors in grant reporting, and weaknesses in ETA oversight are among those concerns. The OIG has worked with ETA both to resolve our recommendations involving individual grants as well as to improve its overall approach to grant accountability.

ETA took a significant step in April 2003 when it issued an Order implementing its Grant/Contract Administration Plan. Employment and Training Order No. 1-03, which updates ETA's grant administration policy, is designed to improve grantee accountability, compliance, and performance. The Order identifies goals and ETA policies for each of four major phases of grant administration: pre-award, grant award, post-award grant management, and closeout/audit resolution. It also identifies roles and responsibilities for program, administrative and financial, and Regional staff for each phase of the grant process. In carrying out the order, ETA has issued a Regional Accounting Policies and Procedures Manual and is making improvements to post-award grant monitoring, among other things.

The OIG is encouraged by these early efforts and will work with the Department to improve accountability over DOL grants so that funds are properly managed. In the meantime, OIG audits continue to highlight those areas of concern that must be addressed in order to achieve grant accountability, performance, and effectiveness.

Effectiveness of Mine Safety and Health Programs

The OIG still considers enhancing the effectiveness of MSHA programs as a management challenge because the protection of miners from injury or death is at stake. Prior evaluations by the OIG identified a number of mine safety and health issues needing the Department's attention, and MSHA has taken significant steps toward addressing our recommendations. Unresolved recommendations require rulemaking, which will be a challenge for MSHA to fully implement in the coming year.

In particular, based on our evaluation of inspection activities at the W.R. Grace & Company Mine in Libby, Montana, MSHA must address lowering the permissible exposure limits for asbestos, using a more effective method to analyze fiber samples that may contain asbestos, and addressing take-home contamination from asbestos. In response to our recommendations on asbestos rulemaking, MSHA said it expects to publish its proposed rule "Measuring and Controlling Asbestos Exposure" by May 2004.

Addressing Issues that Require Joint Action with Other Federal Entities

The Department is challenged to correct longstanding problems that require coordination with other government entities to fully resolve. Issues requiring intergovernmental action include: Internal Revenue Service (IRS) overcharges to the Unemployment Trust Fund (UTF); inadequate guidance concerning pension plans that underpay participants; the insufficiency of the Black Lung Disability Trust Fund; and strategic human capital management.

IRS Overcharges to the UI Trust Fund. The IRS charges the UTF for collecting employers' monthly UI payments and related activities. For the past 15 years, the OIG has reported problems with the costs that the IRS charges to administer the UTF. In 1999, we reported that the IRS did not have a cost accounting system to capture actual costs of its UTF-related work, and had overcharged the UTF \$48 million during a 3-year period, which they returned to the trust fund. A follow-up audit determined that the IRS charged almost \$300 million in administrative costs to the UTF for FYs 1999-2002 without adequate documentation. If the IRS had used a method based on the percent of revenue received, the agency would have charged the UTF approximately \$174 million less.

We suggested that ETA work with the IRS to adopt an alternative method to allocate administrative costs to the UTF, and request the IRS reimburse the fund for unsupported charges of \$118 million. Following our audit, the IRS reduced the amount of its FY 2002 administrative charges to the UTF. In addition, the IRS is scheduled to implement a new methodology for allocating program-related costs to their appropriate trust funds in FY 2004. The IRS agreed to provide ETA with additional information on this methodology as it evolves in order for ETA to assess whether the new methodology will be acceptable. ETA continues to consult with the OIG regarding its attempts to resolve this issue with the IRS.

Cash Balance Pension Plans. In 2002 we raised concerns about the methodology used to convert traditional defined benefit pension plans to cash balance plans, calling for more clarity and guidance on computing participant benefits. Our audit of a judgmental sample of cash balance conversions found that some sampled plans underpaid benefits after con-

version due to errors made by employers while projecting participant benefits and cost-of-living allowances. We found that while EBSA focused on disclosure and education, it did not review the manner in which plans calculated accrued benefits for employees who left work before normal retirement age. We recommended EBSA direct more resources to protecting the benefits of cash balance plan participants, and work with the IRS in developing improved guidance on calculating participant accrued benefits.

EBSA responded that its enforcement oversight responsibilities are statutorily restricted, and therefore disagreed with our recommendation to direct more enforcement resources toward protection efforts. Nonetheless, in February 2002, EBSA asked the IRS for advice concerning plans that underpaid participants. One month later, EBSA provided a legal opinion to the OIG stating that the Department did have some limited authority to take enforcement action in certain cases. That legal opinion also stated that the Department should wait until the IRS provided its comments to EBSA before EBSA would even consider taking any action. Eighteen months have now passed with no comments from the IRS. We remain concerned that plan participants who left the plans before retirement age may have been underpaid significant amounts because of the IRS' and EBSA's continued lack of action.

Black Lung Disability Trust Fund Indebtedness. The OIG first reported in March 1997 on the chronic insufficiency of Black Lung Disability Trust Fund revenue, which provides benefits for eligible coal miners. When coal excise tax revenues are insufficient to meet the trust fund's obligations, it receives advances from the U.S. Treasury. At the close of FY 2002, outstanding advances to the Black Lung Disability Trust Fund totaled \$7.7 billion. Since the trust fund remains unable to repay any principal on these advances, it must borrow to pay the interest. DOL's projections indicate that cumulative borrowing from the Treasury could total \$53.7 billion or more by 2040. DOL must therefore continue to work with the Congress on legislation to restructure the Fund's debt and provide additional funding to compensate for lost income to correct these problems.

Human Capital Management. Strategic human capital management is vital if the Department seeks to be a high-performing organization. Plans must be in place to recruit, hire, train, and retain the best talent available so that organizational goals can be met. Given projected retirement statistics within the next decade of employees throughout the Federal Government, some agencies are pursuing legislative reform in order to manage their people more effectively. The Department has taken significant steps to address this issue, but must continue to work with the Office of Personnel Management and, if necessary, the Congress to maximize its ability to attract and retain talented people.

Changes from Last Year

In identifying the most critical management challenges faced by the DOL each year, the OIG recognizes significant matters meriting the continued attention of the Department may be omitted from the list. For example, this year's challenge list highlights the UI program, but not the Energy Employees' Occupational Illness Compensation program, which will be challenged because of its newness and increasing worker benefits. The Bureau of International Labor Affairs has implemented additional management controls

and plans to address additional OIG recommended improvements. As a result, at this point, we do not consider this issue to be among DOL's most critical challenges. Finally, this year's top management challenges do not raise the issue of the authority of the Chief Financial Officer (CFO). Recent achievements in addressing longstanding OIG financial management recommendations, including progress toward implementing managerial cost accounting in the Department, are evidence of the leadership and authority the CFO is exercising over agency financial operations. The OIG will continue to monitor DOL's progress in these areas.