

U.S. Department of Labor

Good jobs for everyone



Fiscal Year  
2010

*Agency Financial Report*

May 2011



# FY 2010 Agency Financial Report





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This report can be found on the Internet at <http://www.dol.gov/dol/aboutdol/>.

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## Message from the Secretary of Labor

May 20, 2011



I am pleased to submit the Department of Labor's (Department or DOL) revised ***Agency Financial Report for Fiscal Year 2010***. The report is one of three integrated reports the Department produces in place of the consolidated annual Performance and Accountability Report issued in prior years. The other two reports, the *Annual Performance Report for Fiscal Year 2010*, which was included in the Department's Congressional Budget Justification, and the *Summary of Performance and Financial Information for Fiscal Year 2010*, are available on the Department's website.

This *Agency Financial Report* presents a detailed assessment of the Department's financial results and stewardship over taxpayer resources, in support of DOL's mission to promote the welfare of job seekers, wage earners, and retirees of the United States, and my vision of *good jobs for everyone*.

Here are some of the important factors I believe are inherent in a *good job*:

- a *good job* increases workers' incomes, narrows wage and income inequality, and provides workplace flexibility;
- a *good job* ensures workplaces are safe and healthy; assures workers a voice in the workplace and fosters fair working conditions in the global marketplace;
- a *good job* is sustainable and innovative, for example a green job;
- a *good job* helps rebuild a strong middle class;
- a *good job* provides health benefits, retirement security and income security when work is impossible or unavailable.

### What We Have Done

We have accomplished a great deal since my arrival at the Department of Labor, and we could not have done so much, so quickly, without the continued professionalism and dedication of the DOL workforce. Since my Senate confirmation in February 2009, we have initiated an aggressive agenda to transform the Department's programs, through reforms that deploy research, evaluation and data to enhance effectiveness, streamline organizational structures and introduce 21st century technology and transparency to the Department's day to day operations.

We have also made possible the kind of training opportunities that will ensure our nation's workers can better meet the challenges of the 21st century workplace. We have restored the focus of the Department to protecting workers; and we have helped ease the burden of the recession on working families.

#### •***Provision of Training Opportunities to Meet New Workplace Challenges***

Through the American Recovery and Reinvestment Act of 2009 and the Workforce Investment Act, the Department has created Green Job and Health Care training initiatives to provide workers with the skills they need for good jobs in these sectors. DOL's competitive grant programs are providing workers with job training and certification in green industry sectors, while grants jointly administered by DOL and its Federal partners are preparing low income adults and dislocated workers for careers in the health care sector.

#### •***Strengthening of Worker Protections***

The Department continues to focus resources on its critical worker protection programs, and the agencies charged with enforcing workplace safety and health laws and minimum standards for fair compensation and working conditions in the United States. DOL's Wage and Hour Division has expanded public

awareness and outreach to workers through the *We Can Help* campaign, which I was proud to announce in Chicago in 2010. The campaign helps connect America's most vulnerable workers with the array of services offered by the Department. To support this and other worker protection initiatives, the Department has implemented a comprehensive hiring plan for its worker protection agencies.

•***Easing of Recessionary Burden on Working Families***

Through existing state programs, the Recovery Act and subsequent enabling legislation, the Department has moved aggressively to provide and maintain critical income support to unemployed workers through DOL's unemployment insurance programs. More than \$158 billion was made available to the states in FY 2010 to provide regular, extended and emergency benefits to workers who had lost their jobs during the recession.

**Where We Are Going**

We know that the Department will continue to face challenges as we work to serve and protect America's workers. We have tasked DOL's agencies to undertake strategies focused on innovation, evaluation, and improved implementation in an effort to reform how they operate. And we have developed a strategic plan to guide our future success.

•***DOL Strategic Plan for FY 2011 – 2016***

The Department published in September 2010 the first DOL strategic plan under this administration. The plan is organized around five strategic goals and fourteen outcome goals. Together they provide the foundation for our work going forward, and the necessary components to support *good jobs for everyone*.

*Strategic Goals for FY 2011 -2016*

- 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. Provide timely and accurate data on the economic conditions of workers and their families.*

**Management Assurances**

In January 2010, the Department retired a 25 year old legacy accounting system, and in its place deployed the New Core Financial Management System (NCFMS), a commercially available, state of the art, shared service provider system bringing necessary modernization to DOL's financial management process. The new system positively impacts over 15,000 people across the Department of Labor, enhancing transparency and accountability, while providing financial managers with timely, relevant information to enable more innovative decision making. DOL agencies are using NCFMS to provide high quality service, control or reduce costs, and improve efficiency and effectiveness by reducing duplicative processes and system response time.

An independent public accounting firm under contract with the Department's Office of Inspector General was engaged to audit the Department's FY 2010 financial statements, which originally were published on November 15, 2010. Difficulties with the implementation of NCFMS, including data migration from the legacy system, produced significant challenges during implementation which delayed financial reporting capabilities and audit readiness, and created certain material weaknesses in internal control over financial reporting.



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We continued our efforts to resolve the outstanding issues, and are pleased to be able to reissue the FY 2010 financial statements at this time. The auditors have evaluated these revised FY 2010 statements and we are extremely proud to report that DOL received an unqualified (clean) opinion on them on May 20, 2011.

The Department is committed to the timely resolution of all material weaknesses in internal controls over financial reporting. This ongoing process, as well as the results of management's assessment of internal controls pursuant to the Federal Managers' Financial Integrity Act (FMFIA) and compliance of financial management systems with the Federal Financial Management Improvement Act of 1996 (FFMIA) are discussed in the Management's Discussion and Analysis section of this report.

### **Conclusion**

We must continue to strive for the type of transparency that is at the heart of what the President and I call Open Government. DOL's revised ***Agency Financial Report for Fiscal Year 2010*** exemplifies this transparency and openness, and I am pleased to submit it to Congress and the American people, with the assurance that the reporting difficulties encountered in FY 2010 were temporary and are being quickly corrected.



Hilda L. Solis  
Secretary of Labor



# Management's Discussion and Analysis





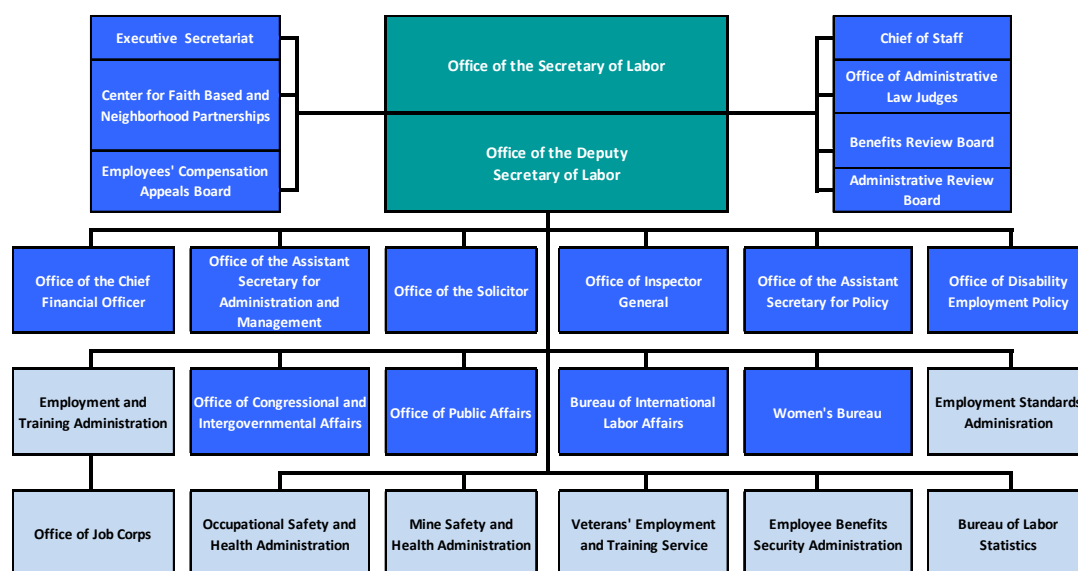
# Agency Financial Report

The Department of Labor (DOL or Department) has chosen to produce this *Agency Financial Report (AFR)* as an alternative to the Performance and Accountability Report (PAR) produced in prior years. Information on program performance will be now included in the Department's *Annual Performance Report (APR)*, submitted as part of DOL's Congressional Budget Justification. The APR was posted on DOL's web site at <http://www.dol.gov/sec/media/reports/>.

## Mission Statement and Organizational Structure<sup>1</sup>

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 the Employment and Training Administration (ETA), Office of Job Corps (OJC)<sup>2</sup>, Employment Standards Administration (ESA)<sup>3</sup>, Occupational Safety and Health Administration (OSHA), Mine Safety and Health Administration (MSHA), Veterans' Employment and Training Service (VETS), Employee Benefits Security Administration (EBSA) and Bureau of Labor Statistics (BLS).



<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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. In FY 2010, 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.

## Program Performance Overview

This is the Department's first AFR. From 1999-2009, DOL published a consolidated annual PAR with a Performance Section that included measures used for reporting under the Government Performance and Results Act (GPRA) and a summary of those performance results in the Management's Discussion and Analysis (MD&A) that was also referred to as the Program Performance Overview (PPO). This PPO is quite different from its predecessors because it is now part of the AFR and GPRA results are reported separately in the APR. The FY 2010 APR was published in February 2011 as part of the FY 2012 Congressional Budget Justification. A third report, the *Summary of Performance and Financial Information for Fiscal Year 2010*, was published on February 15, 2011.

Reporting outcome data a couple of months later improves data quality; prior GPRA reports included estimates because data were not available in time. Moreover, publication with the budget facilitates presentation of results, targets, and strategies in the highly relevant context of funding levels. It will be much easier to demonstrate how DOL uses performance information to make adjustments. Finally, this section of the AFR offers an opportunity to present another aspect of DOL program performance – one more easily related to spending as reported in the Financial Section. All DOL agencies measure *outputs* for activities intended to positively impact outcomes – for example, how many investigations a worker protection agency will conduct in a calendar quarter, or how many workers receive DOL-funded employment skills training – and use them to track progress in implementation of strategies. This report provides FY 2010 data for such measures from each agency listed in the table below.

In FY 2010, the Department updated its five-year Strategic Plan (<http://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*. The new goal framework signals the Secretary's commitment to leading a stronger, more effective Department of Labor. An important innovation of the new goal structure is the Department's commitment to measuring the effect of its agencies' activities on the day-to-day lives of working families – their wages, working hours, benefits, work-life balance, workplace safety and health, and equal employment opportunity, among other issues. This focus on workers and their families is reflected in the table below, which organizes DOL program agencies into five categories. The Department's mission is also supported by administrative, policy, legal, public affairs, and congressional liaison offices.

|   |
|---|
| <b>Employment and Training</b>  |
| Employment and Training Administration (ETA)<br>Veterans' Employment and Training Service (VETS)  |
| <b>Worker Protection</b>  |
| Office of Federal Contract Compliance Programs (OFCCP)<br>Occupational Safety and Health Administration (OSHA)<br>Wage and Hour Division (WHD)<br>Employee Benefits Security Administration (EBSA)<br>Mine Safety and Health Administration (MSHA)<br>Office of Labor-Management Standards (OLMS) |
| <b>Policy</b>   |
| Women's Bureau (WB)<br>Office of Disability Employment Policy (ODEP)<br>Bureau of International Labor Affairs (ILAB)  |
| <b>Benefits</b>   |
| Office of Workers' Compensation Programs (OWCP)<br>Federal-State Unemployment Insurance (UI) System (administered by ETA)   |
| <b>Statistics</b>   |
| 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 has over 100 such measures; these were selected as most representative of agencies' activities from resource allocation and strategic perspectives. Some measures are new and have little, if any, historical data; where there are several years' data available, charts are provided to illustrate trends.

## Employment and 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, dislocated workers, youth, and targeted populations; 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. Numerous measures help ETA track outputs for these programs; here are descriptions and available data for just a few:

- *Number of risk assessments conducted for Grant Programs (WIA, ES, and CSEOA)* – Federal Project Officers 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 the Grants e-Management System (GEMS). In FY 2010, ETA conducted 2,272 risk assessments for these programs. FY 2010 was the baseline year for this measure; historical data are not available.
- *Average petition processing time in days for TAA* – This measure represents the average number of days to process TAA petitions from initial filing to final determination during the applicable year. Processing time nearly tripled between 2009 and 2010 because of the impact of the huge influx of petitions filed after the 2009 Trade Act Amendments (2009 Amendments) took effect in May of 2009. During FY 2010, ETA increased staffing and focused on reducing backlogs. Those efforts led to a steady decline in average processing times in the second half of the year – from 177 days in April 2010 to 92 days in September 2010. This downward trend is expected to continue as the petition backlog declines. However, the 2009 Amendments expired after February 12, 2011, so the program could experience more significant changes in petition volume and hence, average processing times.

The recession led to an increase in petitions and a corresponding increase in processing times from FY 2008-2009. However, there are several factors that exaggerated its impact on FY 2010 results. First, backlogged cases for FY 2009 were not counted until FY 2010 because processing time is not known until determinations are made – in this case several months after petitions are submitted. In addition, the 2009 Amendments that expanded services and benefits for petitions filed *after* May 18, 2009 added to the workload that would normally have accompanied this recession. Finally, a significant number of petitions submitted prior to the new legislation were withdrawn and resubmitted. This had the effect of further reducing average processing time for FY 2009 due to the speedy disposition of those cases, while placing the new petitions in the backlogged queue of petitions that were not processed until FY 2010.

| Measure                                    | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|--|---------|---------|---------|---------|---------|---------|---------|
| Average petition processing time (in days) | 32      | 29      | 31      | 33      | 35      | 48      | 143     |

- *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 sent to the national office for review. This measure is new for FY 2010; historical data are not available. In FY 2010, Job Corps conducted 2,822 regional office desk audits and CPER updates.

**Veterans' Employment and Training Service (VETS)**

VETS helps veterans obtain positive employment outcomes through services provided at One-Stop Career Centers and other locations. 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 significantly improved case timeliness in FY 2009 and FY 2010, compared to prior years.

| Measure   | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|---|---------|---------|---------|---------|---------|---------|
| Percent of USERRA investigations completed within 90 days | 78%     | 81%     | 78%     | 78%     | 86%     | 84%     |

**Worker Protection**

**Office of Federal Contract 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. A key measure is Compliance Evaluations (see table). 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 show a significant increase of more than 26% in audit activity over FY 2009 as a result of aggressive enforcement strategy that focused on all three program areas.

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

**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. 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 and high-consequence 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 hazards, including falls, electrocutions, struck-by, caught in/between, amputations, powered industrial trucks, confined spaces, uncontrolled energy, chemical exposures, lead, asbestos, silica, combustible dust, cranes, and engulfment, as well as possible near misses and catastrophes in chemical and other facilities. Since FY 2005, safety inspections have been increasing and fatalities have been decreasing.

Health inspections are conducted by industrial hygienists and address hazards such as chemical hazards (e.g., lead, hexavalent chromium, silica, asbestos, formaldehyde, metals, and diacetyl), 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 was an increase in FY 2009 and OSHA has maintained the upward trend through FY 2010.

The construction industry includes construction, alteration, and/or repair, including residential construction, bridge erection, roadway paving, excavations, demolitions, and large scale painting jobs. OSHA tracks safety and health inspections of these 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. The industry's fatality rate is almost three times the rate for all workers.

| Measure  | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|--|---------|---------|---------|---------|---------|---------|
| Number of Safety Inspections Conducted                                     | 31,197  | 31,843  | 33,063  | 33,074  | 33,221  | 34,320  |
| Number of Health Inspections Conducted                                     | 7,638   | 6,736   | 6,316   | 5,517   | 5,783   | 6,649   |
| Number of Safety and Health Inspections Conducted in Construction Industry | 22,166  | 22,915  | 23,192  | 23,062  | 23,754  | 24,326  |

### 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 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.

The agency uses directed investigations to increase WHD presence in high risk industries – those industries with high minimum wage and overtime violations – and among vulnerable worker populations. Vulnerable workers are those who are at risk of exploitation at work, such as workers that are reluctant to complain when they are subject to violations for fear of retaliation. The measure is directed investigations as a percentage of all those conducted. As the backlog of complaints was reduced in FY 2010 by the addition of new investigators, WHD has positioned itself to shift resources to directed investigations in future years.

| Measure                            | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Percent of Directed Investigations | 23%     | 23%     | 23%     | 23%     | 24%     | 23%     | 17%     |

### 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) through 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 more than 150 million Americans covered by an estimated 708,000 private retirement plans, 2.8 million health plans, and similar numbers of other welfare benefit plans; as well as plan sponsors and members of the employee benefits community.

Historical data for a key performance measure, "Number of Civil Investigations Processed," are shown in the table below. EBSA's civil investigation program is designed to deter and correct violations of ERISA. The number of civil investigations processed has declined due to, among other things, the launch of a new criminal enforcement project. Each year, EBSA identifies certain national enforcement projects in which field offices are to place particular investigative emphasis.

| Measure                                  | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|--|---------|---------|---------|---------|---------|---------|
| Number of Civil Investigations Processed | 3,782   | 3,411   | 3,236   | 3,570   | 3,669   | 3,112   |

### 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, mandated inspections which 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 metal and nonmetal 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 |
|--|---------|---------|---------|---------|---------|
| Coal Safety and Health                       | 5,402   | 4,822   | 5,385   | 5,526   | 5,121   |
| Metal and Non-metal Safety and Health        | 16,867  | 15,945  | 18,235  | 17,168  | 16,127  |

### 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. 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 its compliance audit program. The number of criminal investigations conducted by OLMS declined in FY 2010 because OLMS had fewer investigators on staff; this trend will likely continue in FY 2011 given reduced funding. However, OLMS will enhance 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 investigations. The success of audit targeting strategies is measured by “percent of targeted audits that result in a criminal case,” results for which appear in the FY 2010 Annual Performance Report published with the Department’s FY 2012 Congressional Budget Justification in February 2011.

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 is attributed to efficiency gains.

| Measure   | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|---|---------|---------|---------|---------|---------|
| Criminal investigations conducted                           | 341     | 406     | 393     | 405     | 355     |
| Number of days to resolve union officer election complaints | 77      | 86      | 92      | 70      | 81      |

### Policy

#### Women’s Bureau (WB or Bureau)

The Bureau – the only Federal office dedicated to serving and promoting the interests of women in the workforce – develops policies and standards and conducts inquiries to safeguard the interests of working women; advocate for their equality and economic security for themselves and their families; and promote quality work environments. The Bureau’s vision is to empower all working women to achieve economic security by preparing them for high-paying jobs, ensuring fair compensation, promoting workplace flexibility, and helping homeless women veterans reintegrate into the workforce.

For the Bureau, a key measure is the number of collaborations that promote the adoption and implementation of policies/strategies to improve employment outcomes for wage-earning women. “Number of collaborations” is defined as a collaboration or partnership between the Bureau or its sponsored initiatives and another entity such as other DOL agencies, other Federal, state or local government agencies, and/or community-based organizations. They include formal agreements; inter/intra agency, public/private partnerships, and verbal agreements or discussions that convey a course of activity to generate policy or practice outcomes in support of improving the work environment and increasing opportunities for women. This is a new measure for FY 2010; through the end of the year, there were 95 WB collaborations.

#### 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. 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; improves employer organizational practices and make 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. For ODEP, a key measure is "Formal Agreements," which formally document partnerships between ODEP and federal, state, local and private employer entities and organizations that directly lead to the development and dissemination of ODEP policies and strategies and support increased employment for people with disabilities. As indicated by the table, agreements 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 Formal Agreements dropped in FY 2009 as ODEP worked to develop new alliances and partnerships – an investment that paid off in FY 2010, as indicated by the increased number of agreements.

| Measure           | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|-------------------|---------|---------|---------|---------|---------|
| Formal Agreements | 21      | 24      | 27      | 15      | 16      |

**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 and analysis and publishes reports on international labor issues.

ILAB tracks the number of countries engaged in policy dialogue or collaboration 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. Data in the table below may understate engagements because they do not include all forms of collaboration. ILAB has not systematically collected these data and will do so for the first time in FY 2011. Additionally, the decrease over the past few years is due to a shift from many small projects to fewer yet larger projects.

| Measure   | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|---|---------|---------|---------|---------|---------|---------|
| Number of foreign governments with which ILAB engages in policy dialogue, collaboration, or negotiation | 90      | 83      | 81      | 71      | 73      | 68      |

**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.

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 to this success by establishing government-wide goals for Federal employers to improve their compensation case handling and return to work activities.

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

### 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 is the average of the monthly unadjusted Bureau of Labor Statistics data.

| Measure                  | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| First payment timeliness | 88.9%   | 90.3%   | 89.3%   | 87.6%   | 88.4%   | 86.8%   | 83.8%   | 82.2%   |
| Total Unemployment Rate  | 6.0%    | 5.7%    | 5.2%    | 4.8%    | 4.5%    | 5.2%    | 8.3%    | 9.7%    |

## Statistics

### Bureau of Labor Statistics (BLS)

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. The BLS uses the American Customer Satisfaction Index (ACSI) to measure customer satisfaction with its website, since most users access BLS data through [bls.gov](http://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. The BLS uses these results to improve the website to better serve its stakeholders and as a measure of mission achievement. For FY 2009 – the first year this measure was used for the full website – the ACSI score was 75 out of 100. In FY 2010, the score remained at 75.

## 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 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](http://www.recovery.gov) and [www.dol.gov/recovery](http://www.dol.gov/recovery).

- **Unemployment Insurance – Extension of the Emergency Unemployment Compensation, 2008 (EUC08) and Federal Additional Compensation Program (FAC).** 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. Subsequent legislation further extended these benefits to January 3, 2012. The Recovery Act also created a new federally-funded program (FAC) which temporarily increases UI benefits by \$25 a week.
- **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 helps States make UI more accessible to workers by temporarily defraying the costs of certain eligibility liberalizations.
- **Workforce Investment Act Dislocated Worker Program.** An additional \$1.25 billion was made available to the program for expanding services, as authorized by WIA, using the same State and local allocation formula. States were expected to improve assessments and career counseling to place workers in high growth sectors with long term opportunities.
- **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.

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## Financial Performance Overview

### 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 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, 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, that drive Federal accounting, financial management systems, financial management reporting, and security. Through business process assessment leading to the implementation of NCFMS, DOL has taken great strides to standardize systems, business processes and data elements.

NCFMS will allow DOL to control or reduce costs and improve efficiency and effectiveness by:

- Reducing duplicative processes.
- Reducing system response time.
- Providing workflow for approvals, including invoice processing.
- Leveraging evolving technologies through the use of shared services and the utilization of Commercial-Off-the-Shelf (COTS) solutions.
- Better aligning of Information Technology (IT) activities with business management goals.

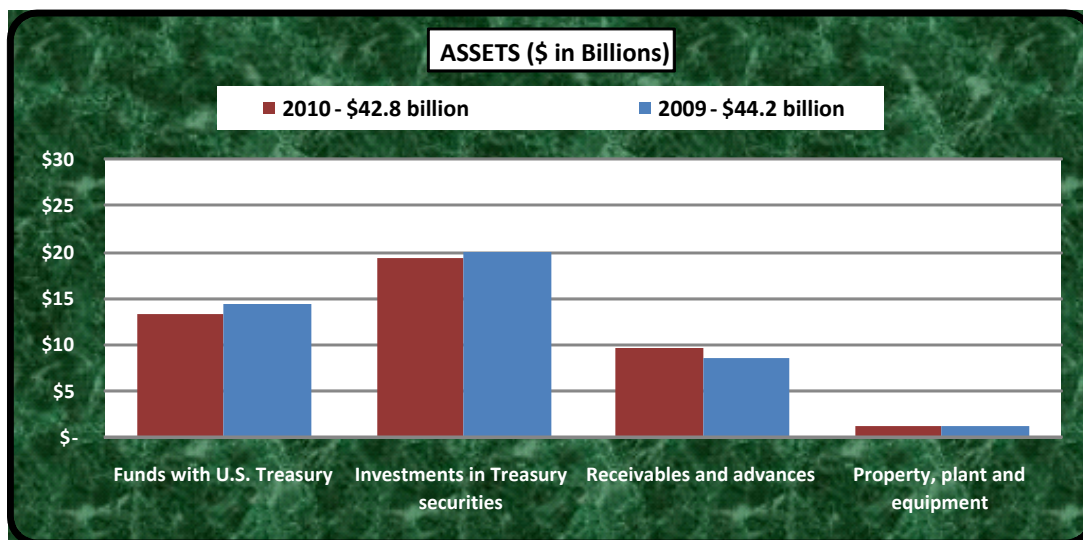
Continued assessment and change management will further assure the accuracy and completeness of migrated data, standardize the business processes, institutionalize financial practices and improve ease of preparation and completeness of all types of financial reports.

## 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 for FY 2010 and FY 2009.

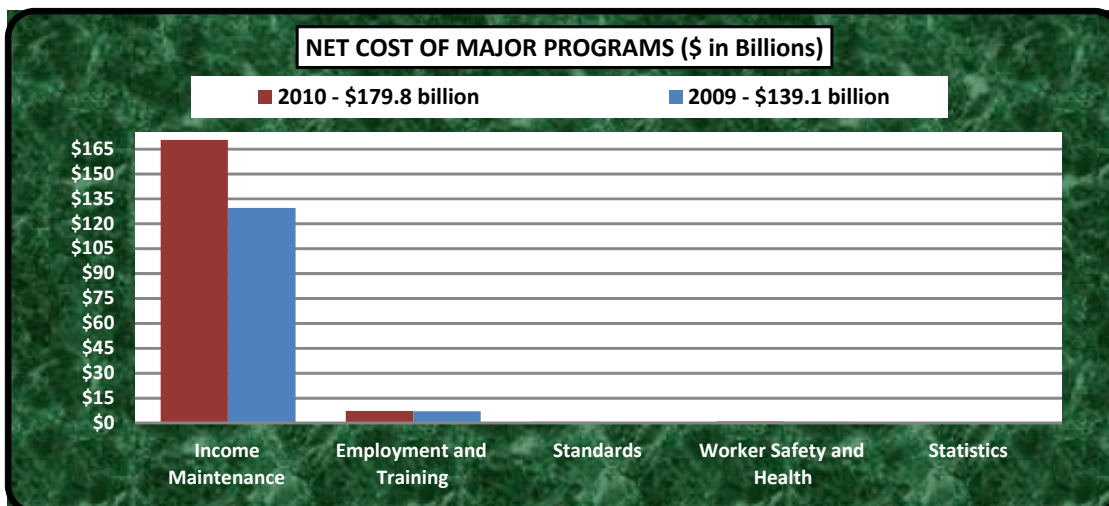
### Financial Position

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 \$44.2 billion in FY 2009 to \$42.8 billion in FY 2010, a decrease of about 3%. Liabilities increased from \$29.7 billion at the end of FY 2009 to \$61.8 billion at the end of FY 2010, an increase of over 108%. This increase was primarily due to increases in liabilities for current and future benefits (43.4%) and intra-governmental debt (181.5%). Liabilities for current and future benefits increased due to the increase in current unemployment benefits payable, future workers' compensation benefits liability, and future benefits payable under the Energy Employees Occupational Illness Compensation program. Intra-governmental debt increased due to Unemployment Trust Fund borrowings from the General Fund of the Treasury to meet unemployment benefit requirements.



### Net Cost of Operations

The Department's Net Cost of Operations for the year ended September 30, 2010 was \$179.8 billion, an increase of \$40.7 billion (29.3%) over 2009. This increase 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 \$168.9 billion, an increase of 30.39% over FY 2009. This increase was primarily due to increases in benefits for regular, extended, emergency and additional unemployment compensation (EUC) provided under existing legislation, with supplemental provisions extended through FY 2010.

**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, or make long-term career plans. Employment and training costs were \$8.4 billion in FY 2010, an increase of 16.9% over FY 2009. This increase was primarily due to increases in costs for job training programs for dislocated workers and youth under the Recovery Act.

**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 2010 and FY 2009, as well as the status of these resources at the end of each fiscal year. The Department had direct obligations of \$256.6 billion in FY 2010, an increase of \$81.9 billion (46.9 %) over FY 2009.

**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 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 table below shows the target and actual improper payments error rates for the programs classified as at-risk:

| DOL Program              | FY 2008 |        | FY 2009 |        | FY 2010 |        | FY 2011 |
|--------------------------|---------|--------|---------|--------|---------|--------|---------|
|                          | Target  | Actual | Target  | Actual | Target  | Actual | Target  |
| Unemployment Insurance   | 11.5%   | 10.0%  | 10.0%   | 10.3%  | 9.9%    | 11.2%  | 9.8%    |
| Workforce Investment Act | 0.19%   | 0.07%  | 0.07%   | 0.2%   | 0.07%   | 0.2%   | 0.07%   |

The target UI improper payments error rate for FY 2010 was 9.9 %, whereas the actual error rate was 11.2 %. 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 cause, and claimants who failed to meet active work search requirements. These 3 causes accounted for 64% of overpayments in FY 2009 and 65% of overpayments in FY 2010 and represent approximately 70% of the increase in the overpayment rate. Corrective actions to address these causes are described in "Improper Payments Information Act Reporting Details" in the Other Accompanying Information section of this report. The higher actual error rate for WIA in FY 2009 and FY 2010 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.

## 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

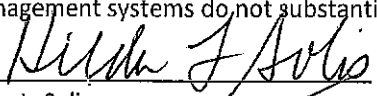
The Department of Labor's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). DOL is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of 3 material weaknesses over financial reporting. The weaknesses are summarized on the following page.

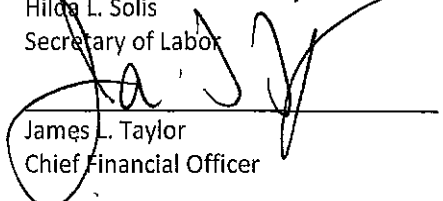
DOL conducted its assessment of the effectiveness of internal control over the efficiency and effectiveness of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, DOL 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, 2010, was operating effectively and no material weaknesses were found in the design or operation of the internal controls. Due to the material weaknesses noted in the financial reporting processes, DOL's financial management systems are not in substantial 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 identified 3 material weaknesses in its internal control over financial reporting as of June 30, 2010. Other than the exceptions noted on the following page, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over financial reporting.

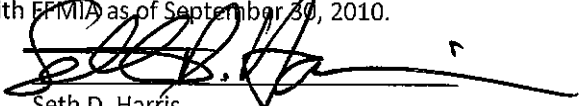
#### Federal Financial Management Improvement Act of 1996

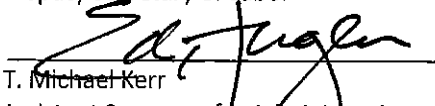
The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Due to the material weaknesses noted in the financial reporting processes, DOL's financial management systems do not substantially comply with FFMIA as of September 30, 2010.

  
Hilda L. Solis  
Secretary of Labor

  
James L. Taylor  
Chief Financial Officer

November 14, 2010

  
Seth D. Harris  
Deputy Secretary of Labor

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

for

## Summary of Material Weaknesses

**Weaknesses over Financial Reporting** -- DOL implemented the New Core Financial Management System (NCFMS) in January 2010. The Department experienced significant transaction and reporting errors in its financial reporting processes resulting from the implementation. This was primarily due to data migration problems that required significant corrections during the remainder of the year; interfaces with subsystems initially not operating as intended; certain processes, such as for accounting for property, plant, and equipment, were not functioning properly within the new system and required workarounds; and lack of adequate policies and procedures to account for and reconcile data on a timely basis and the preparation and review of financial statements and reports. The Department was not able to prepare interim financial statements for the quarter ending March 31, 2010, for submission to OMB. Such financial statements were completed by early July but were not accurate. The Department is currently unable to produce auditable financial statements on a timely basis. Audit readiness and financial reporting have been delayed as a result of the need to resolve issues related to the migration, process workarounds, and legacy interfaces. Although significant progress has been made to correct the migrated data and resolve the issues with the interfaces such that day-to-day financial transaction processing is being performed on a timely basis, the Department must complete the correction of inaccurate data from the migration and implement formal policies and procedures for the preparation and review of interim and annual financial statements and reports. Management is in the process of implementing corrective action plans to address these deficiencies and expects to complete the corrective actions by the end of FY 2011.

**Weakness over Preparation and Review of Journal Vouchers** -- Journal vouchers, which are used to account for various significant activities, were not available when NCFMS was implemented in January 2010. Journal voucher templates, which are used to prepare the journal vouchers, were then created and training was provided to the users in late April 2010. An Accounting Handbook that explained how the journal vouchers are to be used was not prepared until July 2010. During the third and fourth quarter, additional journal voucher templates had to be prepared as it was determined that certain accounting transactions were not being properly recorded in the new system. A significant amount of journal vouchers were prepared and recorded in the new system prior to June 30, 2010, that subsequently needed to be corrected. In addition, a significant amount of the journal vouchers were not adequately supported or properly reviewed and approved by supervisory personnel. To remediate these deficiencies, management has developed a corrective action plan which includes assessing the adequacy of existing policies regarding journal voucher creation, approval, and supporting documentation requirements, drafting updates to existing policies to reflect needed changes and developing a mandatory training program for key stakeholders responsible for journal voucher creation and approval.

**Weakness over Budgetary Accounts Reconciliations** -- As of June 30, 2010, quarterly reconciliations between the *Apportionment and Reapportionment Schedules (SF-132)* and the *Report on Budget Execution and Budgetary Resources (SF-133)* were not performed, and the SF-133 was not reconciled to the *Statement of Budgetary Resources*. Formal policies and procedures were not in place for the reconciliations and the required documentation to support the handling of differences. The lack of these significant reconciliations places management at risk of preparing inaccurate financial reports and producing and relying on inaccurate status of funds data for operations, which could result in the inefficient and inappropriate use of appropriations, duplicate postings of multiyear funding, and possible Antideficiency Act violations. Management is currently reviewing existing policies and procedures to identify areas that can be strengthened with budgetary accounts reconciliation processes, particularly the SF-132 to SF-133 reconciliation, to ensure that all reconciliations are prepared, reviewed, and approved on a timely basis, properly documented, and differences resolved.

# Financial Section





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## Message from the Chief Financial Officer

The U.S. Department of Labor implemented the New Core Financial Management System in January 2010 to increase productivity and improve internal controls when processing financial transactions and preparing financial reports. The event marked the first implementation of a secure, cloud computing-based financial management solution by a cabinet-level agency.



New technology such as this enables employees to perform their jobs efficiently and effectively, eliminating the need for cumbersome paper processes. By moving to a cloud-based system, the Department expects to drive major operational efficiencies, saving time and financial investments in hardware, software, and maintenance. This system is clearly aligned with the Obama administration's push for modernizing government through technology.

Another goal of the Obama administration and this Department is to foster American workers' efforts to find jobs, develop new skills in the workforce, and support an economic recovery. Through the American Recovery and Reinvestment Act of 2009, unemployment benefits eased the burdens of unemployment on the American workforce and stimulated a recessed economy. The Department's financial operations monitored the appropriate use of these funds.

As a consequence of converting to the New Core Financial Management System, the auditors were unable to complete a full examination of the Department's FY 2010 financial statements issued in November 2010. Difficulties with financial reporting capabilities and the timely migration of data from the legacy system delayed the new system's audit readiness, and created certain material weaknesses in the internal control over financial reporting.

Since that time, with the cooperation of the Office of Inspector General and their audit team, we continued our efforts to improve the quality of our financial reporting. Consequently, on May 20, 2011, we received an unqualified (clean) opinion on the financial statements as of and for the year ended September 30, 2010.

A clean audit opinion provides independent confirmation that the Department's financial statements are presented fairly and in conformity with generally accepted accounting principles. Accurate and timely financial information improves DOL's accountability to its stakeholders and the operational, budget, and policy decisions-making process. DOL is committed to upholding the unqualified (clean) audit opinion it has held for 14 years, and to resolving the material weaknesses in internal control.

The Office of the Chief Financial Officer leads the Department's financial management and fiscal integrity effort and, as stewards of taxpayers' dollars, we take our responsibility seriously. The Department will continue to strive for financial management excellence during 2011.

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

James L. Taylor  
Chief Financial Officer

May 20, 2011



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report**

Secretary and 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, 2010 and 2009; the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended; and the statements of social insurance as of September 30, 2010, 2009, 2008, 2007, and 2006 (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) 2010 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, 2010.

### **SUMMARY**

As discussed in our opinion on the financial statements, in our report dated November 15, 2010, we did not express an opinion on DOL's FY 2010 consolidated financial statements because DOL's implementation of a new financial accounting and reporting system hindered its ability to assure the accuracy and completeness of consolidated financial statement balances. Subsequently, management was able to prepare the consolidated financial statements, and we were able to obtain sufficient support of the balances reported in the consolidated financial statements. Accordingly, our present opinion on the FY 2010 consolidated financial statements, as presented herein, is different from that expressed in our previous report.

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, 2010 and 2009; its net costs, changes in net position, and budgetary resources for the years then ended; and the financial condition of its social insurance program as of September 30, 2010, 2009, 2008, 2007, and 2006, 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.

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:

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the U.S. member firm of KPMG International Cooperative  
("KPMG International"), a Swiss entity.



Material Weaknesses

1. Lack of Sufficient Controls over Financial Reporting
2. Lack of Sufficient Controls over Budgetary Accounting
3. Improvements Needed in the Preparation and Review of Journal Entries
4. Lack of Adequate Controls over Access to Key Financial and Support Systems

Significant Deficiencies

5. Weakness Noted over Payroll Accounting
6. Untimely and Inaccurate Processing of Property, Plant, and Equipment (PP&E) Transactions

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 noncompliance with the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) and one other matter that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and 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, 2010.

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, 2010 and 2009; the related consolidated statements of net cost and changes in net position and the combined statement of budgetary resources for the years then ended; and the statements of social insurance as of September 30, 2010, 2009, 2008, 2007, and 2006.

In our report dated November 15, 2010, we did not express an opinion on DOL's FY 2010 consolidated financial statements because DOL's implementation of a new financial accounting and reporting system hindered its ability to assure the accuracy and completeness of consolidated financial statement balances. Subsequently, management was able to prepare the consolidated financial statements, and we were able to obtain sufficient support of the balances reported in the consolidated financial statements. Accordingly, our present opinion on the FY 2010 consolidated financial statements, as presented herein, is different from that expressed in our previous report.

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, 2010 and 2009; its net costs, changes in net position, and



budgetary resources for the years then ended; and the financial condition of its social insurance program as of September 30, 2010, 2009, 2008, 2007, and 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1-W 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 statement 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 statement of social insurance and the actual results, and those differences may be material.

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 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 2010 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.

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



## COMPLIANCE AND OTHER MATTERS

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

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

**Other Matters.** DOL is currently reviewing an incident regarding a potential violation of the *Anti-deficiency Act*. As of the date of this report, no final noncompliance determination has been made for this incident.

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 not in substantial compliance with FFMIA as of September 30, 2010.

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, 2010. 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 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 certain weaknesses in DOL's financial management systems' access controls and related manual controls. DOL was also unable to produce timely and reliable financial reports, including auditable FY 2010 consolidated financial statements by the OMB reporting deadline of November 15, 2010. 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, 2010.

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## 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 2010 and 2009 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 2010 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 2010 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, 2010, 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.

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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

May 20, 2011

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## 1. Lack of Sufficient Controls over Financial Reporting

In fiscal year (FY) 2009, we reported a significant deficiency relating to the lack of sufficient internal controls over financial statement preparation. We recommended that the Chief Financial Officer (a) ensure that Office of Chief Financial Officer (OCFO) personnel perform a more detailed review of all financial information in the *Performance and Accountability Report (PAR)* including financial statements, notes, supplementary information, and supplementary stewardship information; and (b) update the *U.S. Department of Labor Manual Series (DLMS)* to include guidance for U.S. Department of Labor (DOL) supervisors to follow during their financial statement reviews, including procedures for comparing financial data reported on the different statements and notes to ensure accuracy and consistency.

In January 2010, DOL implemented the New Core Financial Management System (NCFMS) to replace its legacy accounting and reporting system, the Department of Labor Accounting and Related Systems (DOLAR\$). In late 2009, we conducted a pre-implementation performance audit of NCFMS, which identified a number of implementation risks related to user acceptance, interface, integration, and mock data conversion testing. These risks were not addressed prior to implementation, which contributed to DOL subsequently facing many significant challenges related to its financial reporting process.

DOL encountered implementation issues related to migrating data from DOLAR\$ to NCFMS, completing the interfaces between the legacy subsystems and NCFMS, developing new accounting processes to effectively use NCFMS, and identifying all the necessary reporting requirements. In addition, reports needed for management, control, and audit purposes were not readily available or had not been created upon activation of NCFMS.

As a result, the ability of management officials to monitor their budgets was significantly impacted and operational control procedures were not performed routinely throughout FY 2010. DOL also experienced delays in meeting certain Office of Management and Budget (OMB) reporting deadlines and in preparing audit deliverables.

Despite substantial effort by the OCFO, DOL was unable to fully address many of these implementation problems during FY 2010. Specifically, we noted the following issues:

**Reconciliation of Data:** Data errors related to coding, configuration, and migration and subsequent operational problems created significant differences between the payroll, trust fund, and property modules and the NCFMS general ledger. DOL also identified a number of reconciling differences and adjustments related to beginning balances migrated from DOLAR\$ to NCFMS that were not resolved until the third quarter of FY 2010. In addition, the system was not able to produce all required reports necessary to perform manual reconciliations between the subsystems, general ledger, and third party service providers. DOL was eventually able to complete all necessary reconciliations for the year ended September 30, 2010.

Also, DOL had significant difficulty reconciling its disbursement and collection activity with the U.S. Department of the Treasury's (Treasury) records subsequent to the implementation of NCFMS. The various differences and errors resulting from data migration and subsequent corrections significantly complicated and delayed efforts to verify the accuracy of the fund balance with Treasury account. In addition, the monthly submissions of the *Statement of Transactions (SF-224)* for the second quarter were delayed, and the collection and disbursement information for the SF-224s that were finally submitted to Treasury were based on estimated data because of the aforementioned difficulties. Furthermore, we were informed that monthly fund balance with Treasury reconciliations were not performed for the eight month period ended August 31, 2010 prior to fiscal year end and a net un-reconciled difference of \$1.7 billion was identified by DOL in its fund balance with Treasury account at that time. DOL was ultimately able to materially reconcile the net differences that were identified in its fund balance with Treasury account for the year ended September 30, 2010.

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In addition, we identified an overstatement of debt related to repayable advances of \$11 billion because DOL did not properly reconcile the balance to Treasury's records as of June 30, 2010. This error was corrected by DOL for the year ended September 30, 2010.

The inability of DOL to complete reconciliations and resolve reconciling differences timely was primarily due to NCFMS implementation errors that prevented users from retrieving complete and accurate information from NCFMS and from producing reports needed for reconciliation purposes. In addition, resource constraints and competing priorities related to the correction of implementation errors reduced time available for staff to perform reconciliations and maintain effective internal control. Prompt resolution of differences and errors is an essential component of financial data integrity, and its absence compromises the integrity of the financial statements.

***Interfaces between the General Ledger and Subsystems:*** Certain interfaces between the subsystems and NCFMS were not working properly subsequent to the system conversion. For instance, grant expense information in E-grants was not being transferred to NCFMS in a complete manner. In addition, certain grant obligations were not transmitted properly from NCFMS to the U.S. Department of Health and Human Services/Payment Management System in order for grantees to drawdown funds. In February 2010, certain "work-arounds" were developed and implemented to address these and other interface problems, and the majority of the underlying issues were corrected as of June 2010. We also noted that DOL experienced significant difficulties uploading data files from Treasury's Bureau of Public Debt and the Integrated Federal Employees Compensation System into NCFMS. As a result, DOL was unable to record the majority of the second quarter data related to the Unemployment Trust Fund (UTF) and Federal Employees' Compensation Act (FECA) activities in the general ledger until June 2010. Furthermore, significant differences existed between the data ultimately uploaded into NCFMS and these two subsystems. DOL was able to materially reconcile these differences for the year ended September 30, 2010.

***Financial Processes:*** NCFMS-specific accounting processes were not fully developed upon implementation of the system. For example, processes needed to record current year apportionments, evaluate the accuracy of the grant accrual, and record property, plant, and equipment additions and deletions were not fully implemented and documented for a significant part of the year. In addition, DOL had not fully implemented and documented the process to compile the quarterly financial statements, including development of procedures related to eliminations and allocations. As a result, DOL was unable to submit second quarter financial statements to OMB.

DOL was eventually able to provide the second quarter financial statements for audit purposes on July 2, 2010. During our review of these financial statements, we noted numerous errors that were not identified in the OCFO review nor communicated to us prior to delivery of the financial statements. In addition, management's responses to our findings on the second quarter financial statements were not completely provided until three weeks after the due date. For example, we identified the following issues:

- Certain beginning balances in the financial statements did not agree with the ending balances reported in the FY 2009 audited consolidated financial statements.
- Certain balances that were reported in multiple places in the statements did not agree.
- The allocation for the working capital fund for the second quarter was not recorded in the general ledger, and therefore, was not included in the financial statements.
- The financial statements presented several abnormal balances, such as Unexpended Appropriations – Earmarked Funds.

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Furthermore, the OCFO did not perform an initial overall analytical review to compare the current period financial statements to the prior period financial statements to determine the reasonableness of large or unusual fluctuations or identify additional errors.

The OCFO was able to submit the third quarter financial statements on July 22, 2010. However, upon delivery, the OCFO identified numerous errors in these financial statements that required significant adjustments, including errors identified in the second quarter financial statements that remained unresolved.

The delays in compiling the second quarter financial statements resulted from the initial data migration, system configuration, and coding errors, and an inability to produce reports from the system for external reporting purposes. The financial statement errors occurred because it was necessary for DOL to defer performance of a sufficiently detailed review and other financial analyses of the consolidated financial statements and trial balance to devote more resources to its corrective action plan related to NCFMS, which was not completed in time for submission of the third quarter financial statements. The lack of sufficient review of the DOL consolidated financial statements increases the risk that material errors or fraud would not be detected and corrected timely.

The OCFO also encountered significant difficulties in preparing the financial statements at year-end for OMB's reporting deadline of November 15. The draft financial statements were initially due on October 22, 2010; however, the OCFO was unable to complete the initial draft financial statements until November 6, 2010. Furthermore, several notes to the draft financial statements had not been completed at that time. In addition, the OCFO was not able to provide sufficient supporting documentation for all notes to the financial statements until November 11, 2010. Because the OCFO was unable to perform a sufficient review of the draft financial statements prior to submission to us, we identified numerous errors in the initial draft financial statements provided that were not identified in the OCFO review nor communicated to us prior to delivery of the draft financial statements. For example, we identified the following issues:

- Unexpended Appropriations - Other Funds in the amount of \$10.8 billion was incorrectly presented as Unexpended Appropriations - Earmarked Funds in FY 2009 column on the balance sheet.
- Numerous balances in the notes to the financial statements did not agree to the financial statements or other notes. For example, the Energy Employees Occupational Illness Compensation Benefits Liability of \$12.1 billion reported on the balance sheet as of September 30, 2010, was incorrectly reported as \$7.966 billion in the notes to the financial statements. In addition, the undiscounted liability of \$19.805 billion as of September 30, 2010, was incorrectly reported as \$12.989 billion.
- Distributed offsetting receipts of \$76 billion were incorrectly reported on the Reconciliation of Budgetary Resources Obligated to Net Cost of Operations presented in the notes to the financial statements.
- Note 2, Funds with U.S. Treasury, included misclassifications totaling \$2.1 billion.

We noted that the final FY 2010 consolidated financial statements were revised to correct these errors.

The OCFO informed us that the delay in submission of its draft financial statements was caused by difficulties encountered in completing the year-end Federal Agencies Centralized Trial Balance System II (FACTS II) accounting data submission. These difficulties prevented the OCFO from finalizing and recording the adjusting entries needed to begin preparation of the financial statements.

***Identifying and Reporting Intragovernmental Transactions:*** Within NCFMS, various issues related to the identification and coding of intragovernmental transactions by trading partner, including incomplete vendor information, were encountered as a result of data migration errors. These errors prevented DOL from preparing



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and submitting the required intragovernmental information to Treasury for the second quarter of FY 2010. Although DOL was able to prepare and submit the required intragovernmental information to Treasury for the third and fourth quarters, we were informed that certain reconciliation procedures had not been completed for all trading partners. In addition, significant, unexplained reconciling differences were reported in Treasury's Intragovernmental Fiduciary Confirmation System (IFCS) as of June 30, 2010. For instance, interest receivable, investments, and interest revenue related to UTF had unexplained differences of \$158 million, \$7.2 billion, and \$345 million, respectively, which were corrected in the fourth quarter. Although some errors related to intragovernmental transactions remained unresolved, DOL was able to correct material errors and accurately classify and report its intragovernmental transactions and balances, in all material respects, for the year ended September 30, 2010.

**Accounting Resources:** During our FY 2010 audit, we observed that the OCFO did not have a sufficient depth of accounting personnel with the accounting expertise to perform all necessary functions and provide all prepared by client (PBC) items in support of the audit in a timely and accurate manner. As a result, the OCFO relied heavily on a few key employees and contractors to perform certain accounting functions because of their historical knowledge of certain processes, including UTF. In the absence of these key employees and contractors, the OCFO lacked additional resources who could respond to questions we raised in relation to these processes during the course of the audit. In addition, the OCFO did not have a contingency plan in place to adequately and timely perform all accounting functions and internal control procedures related to these processes, without the assistance of these key individuals. For example, we noted that DOL did not record interest payable and interest expense related to the UTF repayable advances in the general ledger as of June 30, 2010, when one of its contractors was on extended leave. In addition, reconciliations and results of procedures performed by OCFO contractors related to the data migrated from DOLAR\$ to NCFMS could not be provided in their absence, which significantly delayed our audit procedures.

Although OCFO management supplemented their staff with outside resources, the OCFO did not have sufficiently skilled and knowledgeable employees assigned to monitor its contractors. We noted weaknesses in supervision, communication, and coordination between the OCFO and its contractors. Furthermore, certain PBC items, such as data extracts related to the general ledger transactions, undelivered orders, expenses, receivables, and UTF transfers were initially incomplete and/or incorrect. These issues were the result of poor communication with contractors and inadequate review of their work by OCFO employees. As a result, we encountered significant delays to the audit, and the OCFO and its contractors were required to incur substantial effort to correct the issues.

**Other Financial Reporting Controls:** The grant accrual calculation was not reviewed by someone other than the preparer before it was recorded in the general ledger for the periods ended June 30 and September 30, 2010. Certain key elements of grant data changed with the implementation of NCFMS, requiring that the grant accrual database be modified. Because DOL encountered significant difficulties in modifying the grant accrual database, the person normally responsible for reviewing the grant accrual had to perform the calculation for the periods noted above. As a result, no one with sufficient expertise was available to perform the review of the grant accrual. Without proper review, the grant accrual could be misstated.

We also noted the OCFO incorrectly recorded UTF Accounts Receivable in the general ledger using the balance of \$1.04 billion instead of the activity, which was \$40.2 million as of June 30, 2010. This error was caused by a new contractor recording the UTF-related entries and resulted in an error of \$1.0 billion that was subsequently corrected prior to year-end.

**U.S. Standard General Ledger (USSGL) Compliance:** In addition to the intragovernmental transactions identified above, we identified various other transactions that were not compliant with the USSGL. For example, we identified the following:

- Transfers totaling \$3.7 billion were not properly recorded by the receiving agencies in the appropriation trust fund expenditure transfers collected account because NCFMS was not configured properly. This error was manually corrected as of September 30, 2010.
- The \$4.05 billion change in the liability for estimated future benefits related to the Energy Employees Occupational Illness Compensation Program was incorrectly recorded as a contingent liability and a future funded expense in the general ledger. This issue was caused by DOL using the incorrect general ledger accounts to record this entry. The change in the liability was presented correctly in the financial statements as of September 30, 2010.
- Expended Appropriations and Appropriations Used were improperly recognized in the general ledger for Federal Employees' Compensation Act benefit payments that were not funded by appropriations because of the posting logic used in NCFMS. This situation resulted in abnormal balances of \$3.8 billion for Expended Appropriations and Unexpended Appropriations Used in the general ledger as of September 30, 2010. The OCFO recorded an on-top adjustment prior to submission of the draft financial statements to correct this error.
- Expended Appropriations and Appropriations Used were improperly recognized in the general ledger for State Unemployment Insurance and Employment Service Operations expenditure transfers because of the posting logic used in NCFMS. This situation resulted in abnormal balances of \$3.2 billion for Expended Appropriations and Unexpended Appropriations Used in the general ledger as of June 30, 2010. Although DOL implemented a manual process to substantially correct this error for financial reporting purposes, as of September 30, 2010, the configuration problem had not been resolved.
- Appropriations Used totaling \$202 million were improperly recorded in certain earmarked funds because NCFMS was configured incorrectly. Although DOL implemented a manual process to correct this error for financial reporting purposes, as of September 30, 2010, the configuration problem had not been resolved.
- Expenditure Transfers were improperly recorded to expense because NCFMS was configured incorrectly. Although DOL did implement a manual process to correct the transfers and record them in the proper account, as of September 30, 2010, the configuration problem had not been corrected.
- Intragovernmental employee benefit program expenses in the amount of \$187 million were misclassified as of September 30, 2010. This issue was caused by DOL incorrectly configuring its object class codes related to employee benefit programs in the general ledger.

***Federal Managers' Financial Integrity Act of 1982 (FMFIA) Assessment Process:*** DOL was unable to complete and submit the results of its FMFIA assessment prior to its receipt of the draft FY 2010 internal control report in October 2010, which cited four material weaknesses. The OCFO did verbally inform us initially that one material weakness had been identified related to financial reporting, which included deficiencies over journal entries. When we received the draft Management Assurances on November 6, 2010, we noted that management did not identify one material weakness that we identified during the FY 2010 audit – Lack of Adequate Controls over Access to Key Financial and Support Systems – and did not identify all elements included in the Lack of Sufficient Controls over Budgetary Accounting material weakness we reported. Because management did not concur with our reported material weakness related to controls over access to key financial and support systems it was not reported in the Management Assurances.

DOL's FMFIA assessment process, including activities specifically related to Appendix A of OMB Circular No. A-123, *Management's Responsibility for Internal Control*, was not appropriately designed to identify material

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weaknesses in internal control and timely prepare and provide the draft assurance statement. In addition, the OCFO did not receive the financial management quarterly certifications from the DOL agencies, likely as a result of the issues encountered with the implementation of NCFMS.

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (the Standards) states, "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."

OMB Circular No. A-123 states, "The agency head must establish controls that reasonably ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports...."

OMB Circular No. A-136, *Financial Reporting Requirements* (September 2010), section V states, "...Agencies are required to reconcile intragovernmental balances and transactions at least quarterly. While much of this reconciliation will occur after the fact, there are tools available that enable agencies to reconcile certain transaction types prior to final report submission. These transaction types include investments or borrowings with the Department of the Treasury, benefit-related transactions with the Department of Labor and the Office of Personnel Management, and transfers of budget authority."

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.

FMFIA paragraph 3 states, "...The head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement – that the agency's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1)...". In addition, per OMB Circular No. A-123, Section IV.A, "The agency head's assessment of internal control can be performed using a variety of information sources. Management has primary responsibility for assessing and monitoring controls, and should use other sources as a supplement to -- not a replacement for -- its own judgment."

To address the issues noted above, the Chief Financial Officer should (a) ensure that routine reconciliation controls are implemented and performed; (b) ensure that all necessary financial reports are developed and available to the agencies; (c) ensure that any remaining interface errors are promptly resolved; (d) fully document and implement all business processes and controls required for the accurate and timely operation of NCFMS; (e) promptly resolve the classification issues related to intragovernmental balances; (f) develop and implement policies and procedures to monitor the work of 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; (g) ensure that someone other than the preparer is properly reviewing the grant accrual calculation and the UTF accounts receivable journal entry prior to recording them in the general ledger; (h) review significant transactions for USSGL compliance and make any necessary corrections; (i) review its FMFIA assessment process and implement enhancements to better identify material weaknesses in internal control and more timely complete its draft FMFIA assurance statement; and (j) ensure that the draft DLMS policies and procedures requiring detailed review of all financial information in the draft financial statements are comprehensive and finalized and that OCFO personnel adhere to these policies. Financial statement review should include procedures for comparing

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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.

**Management's Response:** As indicated by the auditors, DOL encountered a number of challenges during FY 2010 with the implementation of the new financial management system, NCFMS. These challenges hampered our ability to perform certain quality assurance procedures relative to financial reporting and system operations, while simultaneously maintaining routine, day-to-day control activities and procedures. The OCFO chose to focus its attention and limited resources on identifying and implementing permanent system corrections to the many unforeseen system control and mapping issues. Workgroups were organized for both financial reporting and operational issues, and the OCFO aggressively managed the workgroups to ensure that issues identified with NCFMS were documented, tracked and corrected in a systematic manner.

While we generally concur with the auditor's recommendations, we note that many of the recommendations correspond with actions planned or already taken by the OCFO in its efforts to produce accurate and complete year-end financial statements. Quality assurance steps were performed for year-end financial reporting, and as noted by the auditors many of the issues identified by the auditors were resolved prior to the issuance of the financial statements. For the recommendations not yet resolved, OCFO resources will be prioritized to address these recommendations.

With respect to our available resources and the use of contractor staff, we do not agree with the auditor's conclusions. As noted above, the NCFMS implementation created many challenges for DOL and stretched staffing resources in our attempts to address system-related implementation issues. As such, OCFO management secured additional contractor resources during FY 2010 to support NCFMS operational issues and quarterly financial reporting requirements. The use of contractor support for financial management is well established in the federal government. We will continue to use contractors as we deem necessary, and believe that the practice is a prudent use of available resources and one that produces effective results. We will continue to ensure that work performed by contractors is well documented, supervised, and readily available to the auditors.

In addition, DOL did complete its internal controls assessment process on a timely basis although we agree that a draft of the assurance statement was not provided to the auditors by the requested date. The discussion noted by the auditors was preliminary as the Department was considering how to present the material weaknesses, such as one overall material weakness in financial reporting with various subparts, (e.g., financial statements preparation process, account and reports reconciliations, journal voucher preparation and approval process, and data validation) or as separate weaknesses. We also informed the auditors that our assessment did not determine that there was a material weakness in controls over access to financial systems and management has responded to the auditors that it does not agree with their assessment.

**Auditor's Response:** Management has provided a corrective action plan to address our recommendations. FY 2011 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

## 2. Lack of Sufficient Controls over Budgetary Accounting

As part of the FY 2009 significant deficiency we reported relating to the lack of sufficient internal controls over financial statement preparation, we recommended that the Chief Financial Officer (a) implement procedures to require that OCFO staff reconcile the amount of distributed offsetting receipts reported on DOL's quarterly Statement of Budgetary Resources (SBR) to distributed offsetting receipts reported on Treasury's *Quarterly Distributed Offsetting Receipts by Department* Report, and (b) complete the quarterly reconciliations of the SBR to the *Report on Budget Execution and Budgetary Resources* (SF-133), including the completion of documented

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supervisory reviews over these reconciliations, by a certain date that facilitates timely identification and correction of potential SBR misstatements.

During FY 2010, DOL encountered numerous issues related to its budgetary accounting. Specifically, we noted the following issues:

***Budgetary Resources:*** We tested the reconciliation of the *Apportionment and Reapportionment Schedules* (SF-132) to the SF-133 for the first quarter. We noted that the reconciliation identified a material difference between the SF-132 and SF-133, which lacked supporting documentation to substantiate that it was adequately researched and resolved. Upon further investigation, we noted that this difference was the result of appropriations received in the amount of \$12.5 billion that were recorded twice in the general ledger, resulting in appropriations received being overstated. During the first quarter, DOL appropriately recorded the initial entry in an annual fund for approved funding related to the continuing resolution. However, the appropriation law that was subsequently passed changed it from an annual fund to a multi-year fund. DOL subsequently submitted an updated SF-132 for the multi-year fund, and upon OMB approval during the second quarter, recorded the \$12.5 billion a second time without reversing the initial entry. The misstatement was corrected as of September 30, 2010. This error was not detected because the OCFO staff had limited time available to sufficiently and timely perform control activities due to competing priorities related to efforts resolving NCFMS implementation issues.

During our second quarter testing, we noted that DOL recorded an adjustment in the general ledger to decrease Appropriations Received in order to correct data migration errors stemming from the implementation of NCFMS. However, this entry was not properly reversed in the subsequent period, and as a result, Appropriations Received was understated by \$224 million. The misstatement was corrected as of September 30, 2010.

***Lack of Budgetary Reconciliations:*** The following budgetary reconciliations were not prepared by management for the second and third quarters: (1) SF-132 to the SF-133; (2) SF-133 to the SBR; (3) budgetary to proprietary account relationship analysis; (4) net outlays per the Government-wide Accounting (GWA) Account Statement Expenditure Activity Report to the SBR; and (5) distributed offsetting receipts per the SBR and general ledger to distributed offsetting receipts per Treasury's *Quarterly Distributed Offsetting Receipts by Department Report* (Department Report). While these reconciliations were performed in prior years, the OCFO informed us that the reconciliations would not be provided for the second and third quarters of FY 2010 because the OCFO staff needed to focus its efforts on resolving issues related to the implementation of NCFMS. Because the OCFO did not perform these reconciliations, we identified the following differences as of June 30, 2010:

SF-132 to the SF-133

- Spending Authority from Offsetting Collections: Expenditure Transfers from Trust Funds Collected, Anticipated reported on the SF-133 and in the general ledger was overstated by \$563 million.
- Temporarily not Available Pursuant to Public Law was overstated and total budgetary resources reported on the SF-133 and in the general ledger were understated by \$485.3 million.
- Appropriation Actual reported on the SF-133 and in the general ledger was overstated by \$11.95 billion while Appropriation Anticipated was understated by \$22.45 billion.

These misstatements were corrected in the general ledger for the year ended September 30, 2010.

SF-133 to the SBR

- Unobligated Balance Brought Forward, October 1, reported on the SBR exceeded the amounts reported on both the SF-133 and the general ledger by \$14.3 billion.
- Appropriation: Borrowing Authority reported on the SBR and in the general ledger exceeded the amounts reported on the SF-133 by \$11 billion.

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- Nonexpenditure Transfers, Net reported on the SBR was less than the amount report on the SF-133 by \$28.8 billion.
  - Total Budgetary Resources reported on the SBR exceeded the amount reported on the SF-133 by \$6 billion.
  - Obligations Incurred reported on the SBR exceeded the amount reported on the SF-133 by \$18.8 billion.
  - Net Outlays reported on the SBR exceeded the amount reported on the SF-133 by \$3 billion.

These misstatements were corrected in the general ledger for the year ended September 30, 2010.

#### Budgetary to Proprietary Account Relationship Analysis

We identified numerous differences between budgetary and proprietary accounts during our account relationship analysis as of June 30, 2010. Specifically, we identified material differences between budgetary and proprietary accounts related to fund balance with Treasury, accounts receivable, accounts payable, expenses, expended appropriations, unexpended appropriations, and revenue. These differences ranged from \$1.6 billion to \$14.8 billion. We also performed the account relationship analysis as of September 30, 2010. While we identified fewer differences at year end, we did note several differences related to expended appropriations, unexpended appropriations, accounts payable, expenses, and revenue. These differences ranged from \$482 million to \$3.2 billion. These differences were resolved in the final FY 2010 financial statements.

#### Distributed Offsetting Receipts

During our March 31, 2010 testing, we noted that distributed offsetting receipts reported on the SBR did not agree to Treasury's Department Report. The amount reported on the SBR was understated by approximately \$43.8 billion. DOL subsequently corrected the discrepancy in its June 30, 2010 SBR. However, we identified that the distributed offsetting receipts reported on the SBR as of June 30, 2010, did not agree to the general ledger. When we compared the distributed offsetting receipts recorded in the general ledger to Treasury's Department Report as of June 30, 2010, we noted that the general ledger was understated by \$11.4 billion. This misstatement was corrected as of September 30, 2010.

***Nonexpenditure Transfers:*** During our testing, we identified that nonexpenditure transfers in the amount of \$12.5 billion were recorded twice in the general ledger related to the Appropriations Received issue discussed in the Budgetary Resources section above. Furthermore, because the transfer was from a general fund to UTF, it was not compliant with OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, or the USSGL. This misstatement was corrected as of September 30, 2010.

In addition, we identified a nonexpenditure transfer in the amount of \$16.6 billion that was incorrectly recorded in the general ledger as Transfers – Current-Year Authority instead of Amounts Appropriated from Specific Invested TAFS – Transfer-Out. As a result, Nonexpenditure Transfers, Net was understated and Actual Appropriation was overstated by \$16.6 billion as of June 30, 2010. The error also resulted in noncompliance with the USSGL at the transactional level. This error occurred because the OCFO did not have policies and procedures in place regarding how to properly record UTF repayable advances. An on-top adjustment was recorded to the year-end financial statements to correct this issue.

We also identified 17 nonexpenditure transfers that were recorded in the general ledger but were not supported by a *Non Expenditure Transfer Authorization* (FMS 1151). This resulted in Nonexpenditure Transfers, Net being overstated by \$337 million as of June 30, 2010. We submitted follow-up questions to DOL to determine the cause of these discrepancies but did not receive a response to our inquiry. A \$249 million adjustment was subsequently recorded in the general ledger to partially correct this error as of September 30, 2010.

***Budgetary Entries for Multi-year and No-Year Funds:*** DOL did not record certain apportionments approved by OMB for multi-year and no-year funds. Our procedures disclosed eight instances where an apportionment approved by OMB was not recorded in the general ledger during the first quarter of FY 2010 because DOL had

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not developed policies and procedures for this activity. This resulted in Unobligated Balances Available being understated by approximately \$1.5 billion as of December 31, 2009. This misstatement was corrected as of September 30, 2010.

**Obligations and Fund Control:** Certain contracts and obligations were not migrated from DOLARS or were migrated with incorrect identifying information. As a result, several agencies reported concerns regarding the accuracy of the balances associated with their unliquidated and unpaid obligations, which adversely affected their ability to monitor and control their budgets. In addition, the posting logic contained within NCFMS prevented the reconciliation of paid and unpaid obligations from the purchasing and payables modules.

Furthermore, quarterly reviews of UDOs to determine whether any UDO balances required deobligation were not performed during the fiscal year. Because of resource constraints and competing priorities related to NCFMS implementation issues, the OCFO did not have sufficient resources to implement formal processes for the quarterly reviews. Without effective controls to monitor the status of UDOs and deobligate remaining funds timely, UDOs may be overstated.

In addition, we performed an analysis over DOL's obligations as of June 30, 2010. Specifically, 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 amount of obligations incurred exceeded total funds available by \$9.7 billion, raising a question about compliance with the *Anti-deficiency Act*. We submitted the results of our analysis to OCFO personnel and asked them to investigate and identify the causes of these discrepancies. OCFO personnel provided sufficient evidence in March 2011 that these discrepancies were not instances of noncompliance with the *Anti-deficiency Act*.

Additionally, we initially could not perform the same comparison as of September 30, 2010 because DOL did not submit the final FY 2010 SF-133s to us as of November 15, 2010. Once DOL submitted the final FY 2010 SF-133s, we performed a similar analysis as of September 30, 2010 and determined that the amount of obligations incurred exceeded total funds available by \$562,000. However, OCFO personnel provided evidence in April 2011 that this discrepancy was not an instance of noncompliance with the *Anti-deficiency Act*.

**Reconciliation of the SBR and the Budget of the United States Government:** The balances reported in the initial reconciliation to the Budget of the United States Government related to Budgetary Resources, Obligations Incurred, and Net Outlays as of September 30, 2009, did not agree to the underlying supporting documentation. The differences were caused by the improper exclusion of amounts related to the Black Lung Disability Trust Fund refinancing from the Budget of the United States Government line item. As a result, DOL improperly presented a reconciling difference between the SBR and the Budget of the United States Government of \$6.5 billion for each of the three aforementioned categories. We communicated the error to DOL, and it was subsequently resolved in the revised reconciliation. The error occurred because DOL did not perform an adequate review of the reconciliation prior to submitting it to us.

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

- DOL did not properly record the post-closing budgetary entries for unobligated balances related to unexpired multi-year funds at the end of FY 2009. While this error had no financial statement impact as both of the accounts affected were properly reported as Unobligated Balance Not Available in the FY 2009 consolidated financial statements, it did result in noncompliance with the USSGL at the transactional level that continued in FY 2010. This misstatement, which was subsequently corrected as of June 30, 2010, occurred because DOL did not develop policies and procedures for recording such entries. Additionally, the preparer of the entries did not have the technical accounting proficiency needed to properly record the entries, and the

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entries were not properly reviewed by someone other than the preparer prior to recording them in the general ledger.

- 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 10 days apart, but we identified several transactions that were recorded 60 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.
- Appropriated receipts from trust funds in the amount of \$599 million were improperly recorded in the general ledger as Other Appropriations Realized instead of Appropriated Trust or Special Fund Receipts as of September 30, 2010. The entries to record the appropriated receipts were not properly reviewed by someone other than the preparer prior to recording them in the general ledger. This misstatement was subsequently corrected through a post-closing journal entry.

The Standards state:

- “Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available.”
- “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.”
- “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. In addition, control activities help to ensure that all transactions are completely and accurately recorded.”
- “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 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.”

According to OMB Circular No. A-136, section II.4.6.1, "... 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. The SBR is an agency-wide report, which aggregates account-level information reported in the SF 133 ..."

OMB Circular No. A-136, section II.4.9.35 states, “Identify and explain material differences between amounts reported in the SBR and the actual amounts reported in the Budget of the United States Government as required by SFFAS No. 7. Since the financial statements are now published before the Budget, this reconciliation will be based on the prior year’s SBR and actual amounts for that year in the most recently published Budget.”

OMB Circular No. A-11 states, “... Nonexpenditure transfers are limited to transactions in which both accounts are within the same fund group (i.e., trust-to-trust or Federal-to-Federal).”

OMB Circular No. A-11 also states, “The Antideficiency Act 665(a), No officer or employee or the United States shall make or authorize any expenditure from or create or authorize an obligation under any appropriations or fund in excess of the amount available therein...”



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OMB Circular No. A-11 states, “You need to adjust the spending authority from cash collections if the account is authorized to perform reimbursable work for another Federal account and you incur obligations against receivables from Federal sources and unfilled customer orders from Federal sources without an advance—that is, before receiving the cash. The law allows you to incur such obligations as long as the paying account is a Federal account and an obligation is recorded against resources available to the paying account. For example, a financing account can obligate against a subsidy accounts receivable from the program account before the cash is received from the program account if the program account has recorded an obligation in the form of a subsidy accounts payable to the financing account. (You cannot incur obligations against customer orders received from non-Federal sources without an advance, unless a law specifically allows it.)”

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 ensure that (a) policies and procedures over the SF-132 and SF-133 reconciliations are enhanced to address the minimum documentation requirements needed to substantiate that identified differences were properly researched and resolved; (b) individuals performing supervisory reviews are required to check the reconciliations for appropriate supporting documentation; (c) 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; (d) procedures are implemented to periodically obtain and review the results of the agencies' review of their unliquidated obligations and ensure expired and invalid UDOs are deobligated timely in the general ledger either by the agency or OCFO; (e) 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; (f) preparers of budgetary entries are properly trained and possess the technical accounting proficiencies needed to properly record the entries; (g) 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; and (h) 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.

**Management's Response:** Management concurs with these recommendations and has initiated appropriate corrective action plans. For FY 2010 year-end financial reporting we were able to address all significant issues and recorded adjustments as required. Budgetary accounts were analyzed and adjusted as necessary to ensure accurate budgetary reporting. The year-end Statement of Budgetary Resources was extensively reviewed and subjected to various analytical procedures.

Management is also reviewing existing policies and procedures to identify areas that could be strengthened within our budgetary accounts reconciliation processes, particularly the SF-132 to SF-133 reconciliation.

The OCFO fiscal year-end closing checklist includes tasks for unexpired multi-year and no-year funds to ensure that post-closing entries for unobligated balances are properly recorded at year end, and that reapportionments are promptly recorded to the budgetary subsystem and general ledger.

The implementation of a new accounting system has required substantial additional resources, and has in some instances changed the skill levels necessary to perform routine operational activities. The OCFO is committed to providing additional training and support as needed to ensure that budgetary accounts are recorded accurately, completely and timely.

**Auditor's Response:** Management has provided a corrective action plan to address our recommendations. FY 2011 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

### 3. Improvements Needed in the Preparation and Review of Journal Entries

During the FY 2006 audit, we noted that accounting staff from all DOL agencies were able to prepare and enter journal entries into DOLAR\$ without approval. Although the OCFO developed Department-wide manual policies and procedures designed to ensure the segregation of journal entry preparation and approval authority in the second quarter of FY 2007, which was revised and reissued in the second quarter of FY 2008, the same lack of supporting documentation evidencing management review and approval was noted during the FYs 2007, 2008, and 2009 audits.

During the course of the FYs 2006, 2007, 2008, and 2009 audits, we issued several recommendations to the OCFO, including the FY 2007 recommendation that management reconfigure DOLAR\$ (and its successor system) so that journal entries entered into the DOLAR\$ general ledger system (and its successor system) are required to be approved electronically by an individual other than the preparer before posting. We also recommended that:

- Agencies implement manual compensating review controls until system controls have been implemented.
- OCFO management monitor DOL employees' and agencies' compliance with DOL-wide policies and procedures in place for documenting the review of all journal entries.
- OCFO management design and implement detective controls that require supervisors to periodically generate and review activity reports that list all journal entries posted to DOLAR\$.
- OCFO management revise DOL-wide policies and procedures to require that all manual entries, including top-side adjustment entries, be documented and reviewed and approved by a supervisor or someone other than the preparer before the financial statements are adjusted.

During our FY 2010 audit, we tested a sample of 151 journal entries recorded in DOLAR\$ from October 1, 2009, through December 31, 2009. For 10 of these journal entries, the OCFO did not provide support evidencing that they had been properly reviewed by a supervisor or someone other than the preparer before they were posted to DOLAR\$. Additionally, 20 of these journal entries were not supported by adequate supporting documentation (e.g., DL-1280, Miscellaneous Obligations Record, Invoice, or equivalent), which reflected the underlying economic transactions. Furthermore, seven of these journal entries were not in accordance with the USSGL.

In addition, we selected a sample of 242 journal entries recorded in NCFMS from January 1, 2010, through June 30, 2010. The OCFO was unable to provide any supporting documentation for 181 of the journal entries selected. None of the 61 journal entries tested had sufficient documentation to evidence that the entry was properly reviewed by a supervisor or someone other than the preparer prior to being posted. Additionally, 48 of these journal entries were not supported by adequate documentation, which prevented us from determining whether these journal entries were recorded in the proper period and in accordance with the USSGL.

In addition, we identified that 110 of the 242 journal entries were not prepared and approved by DOL personnel within NCFMS, because these entries were directly uploaded into the general ledger by the OCFO's shared service provider (SSP). Of these 110 journal entries, 104 (including 32 of the 61 exceptions noted above) did not have documentation to support that they were properly reviewed and approved by a DOL supervisor prior to posting.

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By posting transactions to the general ledger without proper review and approval and allowing individuals the authority to prepare and approve their own transactions, there is an increased risk 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.

DOL supervisors did not sufficiently review journal entries to ensure they were properly prepared and supported before posting to the general ledger. In addition, certain individuals did not follow, or document that they followed, DOL policies for the proper segregation of duties related to the preparation and posting of journal entries.

In the case of the journal entries posted by the SSP in Q2 and Q3, the journal entries were not automatically routed to the appropriate authorized approver in NCFMS because of system errors, necessitating the posting by the SSP. Given time constraints, proper DOL approval of some of these entries was not completed and documented.

In addition, DOL did not reconfigure DOLAR\$ to provide for electronic approval by an individual other than the preparer before posting because of the implementation of NCFMS in January 2010.

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."

The Standards also state that, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

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."

Because management has implemented a new general ledger system that requires electronic approval by someone other than the preparer before journal entries are posted, the recommendation we made in FY 2007 is considered closed. In addition, the recommendations we made in FY 2006 through FY 2009 related to manual controls were closed because of the change in the control environment resulting from the new general ledger system implementation.

To address the issues identified during FY 2010, we recommend that the Chief Financial Officer (a) evaluate the system errors that are preventing certain journal entries from being routed to the approver, and develop and implement appropriate corrective action; (b) enhance policies and procedures and provide related training to address the minimum documentation requirements needed to sufficiently support journal entries; and (c) 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.

**Management's Response:** Management generally concurs with the findings and recommendations noted above and has initiated appropriate corrective actions to address these recommendations. We have revised our policies

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covering the preparation and approval of journal entries and the required supporting documentation. We have also provided training to staff preparing journal entries.

Management does not agree that journal entries directly uploaded by the OCFO SSP were not prepared, properly reviewed, and approved by authorized personnel and/or DOL supervisors prior to posting in NCFMS. Management considers vendor responsibilities with regard to manual JVs to include the upload and transfer of JVs to the general ledger as part of the SSP services provided. Systematic controls inherent to the NCFMS system are designed to ensure management review and approval of all data changes to journal vouchers prior to posting.

**Auditor Response:** Management has provided a corrective action plan to address our recommendations. FY 2011 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

#### **4. Lack of Adequate Controls over Access to Key Financial and Support Systems**

In FY 2006 through FY 2009, we reported a significant deficiency relating to the lack of adequate controls over access to key financial and support systems.

We recommended that the Chief Information Officer (a) coordinate efforts among the DOL agencies to develop and/or enforce procedures and controls to address access control weaknesses in current financial management 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 control weaknesses.

In FY 2010, DOL agencies were able to complete corrective action to address certain previously-identified control weaknesses. However, the results of our FY 2010 testing of DOL's information technology (IT) systems indicated that access control weaknesses continued to be systemic across various DOL agencies. In our testing, we identified new access control weaknesses in addition to access control weaknesses that were reported in prior years.

We have classified the weaknesses identified into the following three categories: account management, system access settings, and system audit log reviews. The first two categories summarize those weaknesses identified related to controls that are designed to help prevent unauthorized access to IT systems. The specific weaknesses identified in these two categories were as follows:

##### *Account Management*

- Account management controls were not performed, evidenced by incomplete or missing access requests, non-disclosure agreements, modification forms, and termination forms;
- Certain user accounts were granted more privileges than what was requested on their access request forms;
- 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;
- Certain system account access was not properly restricted to those with a need-to-know;
- Periodic user account reviews or re-certifications were not appropriately performed;
- Procedures requiring periodic review of data center access were not updated;
- Generic accounts existed on a system without a proper business justification for approximately half of the fiscal year;
- Multiple user accounts existed for the same user; and

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- Incidents were not timely reported.

#### *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 and remote session timeouts did not comply with the Office of the Chief Information Officer Computer Security Handbook.

The account management access control weaknesses 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 weaknesses 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.

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 weaknesses in those controls, as follows:

#### *System Audit Logs Review*

- Certain system administrator activities were not properly logged;
- 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;
- Audit logs monitoring firewall and Intrusion Detection System activity were not reviewed; and
- Application-level audit logs (e.g., high risk transactions) were not proactively reviewed.

The lack of system audit log reviews may allow for unauthorized or inappropriate activities to go undetected by management. Collectively, the aforementioned weaknesses 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 weaknesses, their causes, and the systems impacted by them has been communicated separately to management.

Additionally, during the second quarter of FY 2010, DOL implemented a new general ledger system, which significantly changed its control environment and led to a deterioration of manual compensating controls that had historically mitigated certain access control weaknesses. As a result, we consider the recurring prior year access control weaknesses coupled with new access control weaknesses identified in our FY 2010 testing of DOL's IT systems a material weakness in the aggregate.

The identified IT control weaknesses 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.

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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 control weaknesses in current financial management 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 control weaknesses.

**Management's Response:** The Office of the Assistant Secretary for Administration and Management (OASAM) does not concur with the aggregated material weakness regarding lack of adequate controls over access to key financial and support systems. DOL management asserts DOL policies, procedures, and standards collectively provide compound safeguards and redundant security measures to ensure the integrity of DOL financial systems.

The findings, as presented, do not 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*. The layers of security safeguards required to be overcome to successfully exploit access control weaknesses identified in the report suggests that the report does not accurately reflect the risk associated with the identified vulnerabilities.

The diversity and inconsistent distribution of the findings across systems and fiscal years does not support a Department-wide systemic access control deficiency, but rather system and agency specific access control weaknesses. In FY 2010 64% of the financial system audit findings related to only two agencies and 33% of the total were attributed to two individual systems in separate agencies. This distribution of control weakness finding supports the need for a focused effort within the offending agencies and systems; however, this does not substantiate a Department-wide material weakness.

A Department-wide comprehensive risk strategy was established to address identified conditions associated with the FY 2009 audit findings, and the following milestones were achieved in FY 2010:

- Developed FY 2010 Agency Core Profiles to establish a baseline for overall compliance, including access control and configuration management elements;
- Implemented an Enterprise Risk Management Compliance Program (RMCP) to measure agency compliance with security control requirements and Plan of Action and Milestone (POAM) resolution and issued Agency Dashboards in March 2011; and
- Successfully resolved the highest priority FY 2009 configuration management findings for the timely application of patches and access restrictions to sensitive files, directories and software.

Management remains committed to safeguarding DOL financial systems. In FY 2011, Management will continue to deploy policies, procedures, and automated tools aimed at strengthening providing continuous monitoring of the overall security posture of DOL's computer security program.

**Auditor Response:** The details of our FY 2010 IT findings and recommendations were provided to DOL management through the established Notification of Findings and Recommendations 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 recommendations, they plan on taking steps to address them. FY 2011 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

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## 5. Weakness Noted over Payroll Accounting

During fiscal years (FY) 2006 through 2010, the U.S. Department of Labor (DOL) used the U.S. Department of Agriculture's (USDA) Office of Chief Financial Officer (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 Detail Pay and Deduct Register report for each DOL Human Resources office.

In FY 2006, we noted that DOL did not utilize the Detail Pay and Deduct Register reports to perform reviews or reconciliations of data processed by the NFC, and no other controls were in place during the year to ensure that the information that was submitted to NFC via Time and Attendance records was reconciled to what was shown as paid in the Detail Pay and Deduct Register.

We recommended that management develop and implement policies and procedures to reconcile payroll information provided to the NFC to the payroll information processed by the NFC each pay period. These reconciliations should be documented, reviewed, approved by an appropriate supervisor, and maintained.

As part of DOL's corrective action plan for FY 2007, the OCFO's PeoplePower Task Force created a Time and Attendance Reconciliation Report, and the DOL OCFO issued policies and procedures that stated that each DOL Human Resources office should review the Time and Attendance Reconciliation Reports each pay period and research and resolve differences identified. No offices that we tested in FY 2007 complied with the new OCFO procedures, but two offices that we tested performed their own reconciliation procedures.

During FY 2008, the OCFO issued revised policies and procedures dated October 23, 2007, requiring a review of the Time and Attendance Reconciliation Reports, and implemented these policies and procedures. The OCFO also performed monitoring department-wide to ensure that the reviews were completed, documented, and approved by an appropriate supervisor, and maintained. However, we noted that the reconciliation tested from the Atlanta processing center did not contain a signature to validate the review. In addition, the Time and Attendance Reconciliation Reports do not contain a space for the date of the review; therefore, the timeliness of the reconciliations and certifications was not verifiable. Furthermore, the policies and procedures issued and the related reviews and audits reconciled and certified time and attendance records only.

In FY 2009, DOL issued revised policies and procedures with an effective date of July 24, 2009, to provide guidance on the need for agencies to review payroll-related items other than time and attendance records. In addition to the revised policies issued, OCFO management represented that they also implemented a procedure to monitor the completion of the reviews of payroll-related items other than time and attendance. Since the revised policies and procedures were not effective until the last quarter of FY 2009, our testwork focused on the time and attendance reconciliation policies that were effective for the first three quarters (i.e., the majority) of FY 2009, and we did not test the revised procedures implemented in July 2009. Our test results for the first three quarters indicated that insufficient evidence existed to determine that the preparation and review of payroll-related items, including time and attendance, were completed.

In FY 2010, we tested the revised policies and procedures issued by DOL in July 2009. We selected a sample of 25 reviews of payroll-related items from various agencies for the period of October 1, 2009, to June 30, 2010. Although we eventually received all 25 agency reviews selected, they were not provided timely, and DOL did not respond to our follow-up questions regarding the information submitted to us. For the 25 Payroll/Time and Attendance Reconciliation Reports tested, we identified the following exceptions:

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- 11 instances where HR offices failed to provide sufficient documentation to support that errors were adequately researched and corrective actions were initiated;
  - 14 instances where HR officials did not review the Payroll/Time and Attendance Reconciliation Reports and investigate issues timely; and
  - 9 instances where supervisor and HR certifier review and approval of the Payroll/Time & Attendance Reconciliation Certification & Review form were not documented.

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 noted that the OCFO monitoring control for the Payroll/Time and Attendance Reconciliation Reports was not routinely performed and was not operating effectively. 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.

Although the Payroll/Time and Attendance Reconciliation Reports had been updated to include hourly pay and total earnings, the reports continued to lack sufficient details, such as employee and 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 as the OCFO did not sufficiently consider all items that should have been addressed in the reconciliation.

In addition, the last reconciliation of the payroll register provided by the NFC to the general ledger was completed as of December 31, 2009. OCFO management represented that they did not have adequate resources to resolve New Core Financial Management System (NCFMS) implementation issues and perform payroll reconciliations simultaneously. As a result, management has not reconciled the payroll register to the general ledger for the majority of FY 2010.

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 since the implementation of NCFMS 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 2010 Report No. 11401-33-FM, "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 (OMB) 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 Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (the Standards), "Internal control should generally be designed to assure that ongoing monitoring



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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 close the prior year recommendation and address the new control weakness identified during FY 2010, the Chief Financial Officer should ensure that (a) the Payroll/Time and Attendance Reconciliation Reports are properly designed to reflect the necessary payroll-related information to conduct an adequate reconciliation; and (b) proper monitoring is routinely completed by the OCFO to ensure that the July 2009 policy and procedures are implemented and complied with throughout DOL.

We recommend that the Director of the Human Resource Center 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.

**Management's Response:** Management concurs with the recommendations noted above and has initiated appropriate corrective actions to address these recommendations.

Management understands that 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. Likewise, management recognizes the importance of accurate information when performing effective reviews of financial statements. OCFO management will work with the Director, Human Resource Center and the Office of Inspector General to design and implement internal audit procedures to ensure that revised payroll monitoring procedures are implemented and consistently applied agency-wide.

**Auditor Response:** Management has provided a corrective action plan to address our recommendations. FY 2011 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

## 6. Untimely and Inaccurate Processing of Property, Plant, and Equipment (PP&E) Transactions

Because of the implementation of NCFMS, DOL had to revise its process for recording PP&E transactions in the general ledger. As of June 30, 2010, we noted that DOL's revised process had not been implemented, which resulted in the untimely processing of certain PP&E transactions. Specifically, during our testwork over DOL's PP&E balances as of June 30, 2010, we noted the following errors in both the general ledger and the related PP&E module:

- Untimely recording of construction-in-progress additions in the amount of \$46.8 million;
- Untimely recording of building deletions in the amount of \$9.2 million; and
- Untimely recording of transfers to the building account in the amount of \$47.1 million.

During July 2010, the OCFO performed an analysis of current year additions and deletions related to the construction-in-progress and buildings asset categories, resulting in correcting adjustments being recorded in the general ledger via journal entry. However, as of August 31, 2010, an analysis of current year additions and deletions to the remaining PP&E asset categories (i.e., other structures and facilities, land, leasehold improvements, internal use software, software in development, and equipment) had yet to be performed. As a result, certain other additions and deletions may have been omitted from the PP&E module and the related general ledger accounts.

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In addition to the issues noted above, we also noted inaccuracies in the calculation of accumulated depreciation within the PP&E module. Subsequent to the implementation of NCFMS, the OCFO performed an analysis of the accumulated depreciation balances calculated by the newly implemented PP&E module. As a result of this analysis, the OCFO determined that the system-calculated balances were overstated by \$228.6 million. The OCFO elected not to record these balances in the general ledger, but instead utilized the December 31, 2009, accumulated depreciation balances, which were converted from the prior general ledger for interim financial reporting purposes. At year-end, DOL posted a manual adjustment to both the accumulated depreciation and current year depreciation expense accounts to record current year activity.

The above misstatements resulted in the net book value of PP&E recorded in the NCFMS general ledger and related PP&E module initially being understated by \$37.7 million and \$266.3 million, respectively. Furthermore, the continued inability of DOL to timely and accurately record PP&E additions and deletions, and also to timely and accurately calculate accumulated depreciation and depreciation expense, increases the likelihood that PP&E will continue to be misstated going forward.

As stated above, DOL implemented a new general ledger system in January 2010. The above issues occurred as a result of DOL's failure to dedicate the resources necessary to implement a formalized process for identifying and recording PP&E additions and deletions in NCFMS. Additionally, as of June 30, 2010, the PP&E module within NCFMS was not configured to accurately calculate either accumulated depreciation balances or current year depreciation expense amounts.

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, paragraph 34 states that, "PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E." In addition, paragraph 36 states, "Depreciation expense shall be accumulated in a contra asset account—accumulated depreciation."

The Standards state that, "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. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

OMB Circular No. A-123 states, "Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports."

We recommend that the Chief Financial Officer (a) 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; and (b) configure NCFMS to accurately calculate both accumulated depreciation balances and current year depreciation expense amounts.

**Management's Response:** Management agrees with the recommendation that the NCFMS needs to be configured to record PP&E additions, deletions and depreciation in a timely manner. However, the conditions noted above were not caused because the OCFO did not dedicate resources necessary to implement formalized processes. Formalized processes for identifying and recording PP&E additions and deletions, and calculating depreciation expense, were developed and documented in the NCFMS *Acquire to Dispose* and *Build to Cost* user manuals. The conditions noted occurred because the NCFMS PP&E subledgers were not properly configured or working as intended.

As such the NCFMS subledgers and the related amounts noted by the auditor were not used for reporting purposes and transactions were recorded directly in the general ledger. OCFO implemented alternative

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procedures to ensure that PP&E transactions and depreciation expense from migration, on January 1, 2010, through September 30, 2010 were properly recorded in the general ledger. The alternative procedures applied included:

Construction in Progress:

- Determined the status of each construction in progress (CIP) project;
- Analyzed the recorded expenses according to project status and compiled the costs that needed to be transferred to either CIP or PP&E in use;
- Analyzed the costs previously recorded as CIP and determined those costs that needed to be transferred to either PP&E in use or written-off;
- Created subsidiary ledgers to provide an audit trail of balances and transactions; and
- Recorded applicable costs in CIP and transferred the accumulated costs of completed projects to PP&E.

PP&E:

- Obtained the list of disposals of land and buildings and compiled the costs of the retired assets by inventory number;
- Obtained the data files of DOL property under IOUE custody, compiled the costs of additions and dispositions of such property and calculated depreciation expense;
- Analyzed the recorded balance of equipment, compiled the costs of additions and dispositions of equipment and calculated depreciation expense for equipment;
- Calculated depreciation expense for all other PP&E;
- Prepared supporting work papers to provide an audit trail of balances and transactions; and
- Record additions, deletions and depreciation expense.

Software

- Analyzed the status of software projects in development for EBSA, ETA and MSHA (other agencies do not have major software projects);
- Analyzed the recorded expenses according to the completion status of the projects and compiled the costs that needed to be transferred to either software in development or software in use;
- Calculated the DOL labor and overhead costs associated with the software projects in development;
- Calculated depreciation expense for software in use including for those projects that became operational;
- Prepared supporting work papers to provide an audit trail of balances and transactions; and
- Recorded additions, deletions and depreciation expense.

Based on the above procedures, we believe that PP&E balances and depreciation expense are properly stated as of September 30, 2010, and for the year then ended.

As noted above, the OCFO agrees with the audit recommendation and will work to ensure that the NCFMS PP&E subledgers are properly configured so that PP&E transactions (additions, deletions and depreciation expense) are properly and timely recorded in the general ledger in FY 2011.

**Auditor Response:** Management has provided a corrective action plan to address our recommendations. FY 2011 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

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## **1. 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 about whether the agency has met this requirement.

The U.S. Department of Labor's (DOL) FY 2010 FMFIA assessment process was not in full compliance with FMFIA. Specifically, we noted that DOL was unable to prepare and provide a complete draft of the fiscal year (FY) 2010 FMFIA assurance statement in a timely manner. Furthermore, DOL did not complete and submit the results of its FMFIA assessment prior to its receipt of the draft FY 2010 internal control report in October 2010. See Material Weakness No. 1 in Exhibit I for further information.

FMFIA paragraph 3 states, "...The head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement – that the agency's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1)..." In addition, per Office of Management and Budget (OMB) Circular No. A-123, Section IV.A, "The agency head's assessment of internal control can be performed using a variety of information sources. Management has primary responsibility for assessing and monitoring controls, and should use other sources as a supplement to -- not a replacement for -- its own judgment."

We recommend that DOL follow the recommendation provided in Material Weakness No. 1, in Exhibit I, and improve its process to ensure compliance with the requirements of FMFIA in FY 2011.

## **2. Federal Financial Management Improvement Act of 1996 (FFMIA)**

Under section 803(a) of FFMIA, DOL'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. DOL represented that in accordance with the provisions and requirements of FFMIA, the Secretary of Labor determined that DOL's financial management systems were not in substantial compliance with FFMIA as of September 30, 2010.

As a result of FY 2010 testing, we concluded that DOL did not substantially comply with the requirements of section 803(a) of FFMIA. Specifically, we noted the following:

- DOL was unable to produce auditable financial statements by the OMB reporting deadline of November 15, 2010 based on data from its financial accounting and reporting system, and numerous financial reports were not available to perform analyses or complete decision making. See Material Weakness No. 1 in Exhibit I for further information.
- Numerous information technology (IT) general and application control weaknesses related to computer security were identified as part of the IT testing in FY 2010. These weaknesses impact the IT environments and systems in several large DOL agencies. See Material Weakness No. 4 in Exhibit I for further information.
- Several material transactions, such as nonexpenditure transfers, appropriations used, appropriated receipts, unexpended appropriations, and the change in actuarial liability, were not recorded in accordance with the USSGL. See Material Weakness Nos. 1, 2 and 3 in Exhibit I.
- Certain budgetary and proprietary accounts were not in balance as of September 30, 2010. See Material Weakness No. 2 in Exhibit I.

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We recommend that DOL follow the recommendations provided in Material Weakness Nos. 1, 2, 3 and 4 in Exhibit I, and improve its processes to ensure compliance with FFMIA section 803(a) requirements in FY 2011.



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## **Annual Financial Statements**

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**Principal Financial Statements and Notes**

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## PRINCIPAL FINANCIAL STATEMENTS

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### 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 (FY) 2010 and 2009 consist of the following:

- The **Consolidated Balance Sheet**, which presents as of September 30, 2010 and 2009 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, 2010 and 2009. 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, 2010 and 2009.
- The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to DOL during FY 2010 and 2009, the status of these resources at September 30, 2010 and 2009, the change in obligated balance during FY 2010 and 2009, and net outlays of budgetary resources for the years ended September 30, 2010 and 2009.
- 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, 2010, 2009, 2008, 2007, and 2006.

**CONSOLIDATED BALANCE SHEET**  
As of September 30, 2010 and 2009  
(Dollars in Thousands)

|   | <b>2010</b>          | <b>2009</b>          |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| Intra-governmental  |                      |                      |
| Funds with U.S. Treasury (Notes 1-C and 2)  | \$ 12,618,146        | \$ 14,406,751        |
| Investments (Notes 1-D and 3)   | 19,281,093           | 20,111,346           |
| Accounts receivable (Notes 1-E and 4)   | 5,882,371            | 5,467,497            |
| Total intra-governmental  | 37,781,610           | 39,985,594           |
| Accounts receivable, net of allowance (Notes 1-E and 4)                             | 2,011,881            | 1,353,841            |
| Property, plant and equipment, net<br>of accumulated depreciation (Notes 1-F and 5) | 1,174,713            | 1,154,240            |
| Other   |                      |                      |
| Advances (Notes 1-G and 6)  | 1,872,192            | 1,691,098            |
| <b>Total assets</b>   | <b>\$ 42,840,396</b> | <b>\$ 44,184,773</b> |
| <b>LIABILITIES AND NET POSITION</b>   |                      |                      |
| <b>Liabilities (Note 1-I)</b>   |                      |                      |
| Intra-governmental  |                      |                      |
| Accounts payable  | \$ 11,965            | \$ 17,983            |
| Debt (Notes 1-J and 8)  | 40,400,725           | 14,351,967           |
| Other liabilities (Note 9)  | 222,511              | 101,424              |
| Total intra-governmental  | 40,635,201           | 14,471,374           |
| Accounts payable  | 1,466,974            | 1,346,997            |
| Accrued benefits (Notes 1-K and 10)   | 5,284,543            | 4,627,250            |
| Future workers' compensation benefits (Notes 1-L and 11)                            | 2,075,547            | 889,259              |
| Other   |                      |                      |
| Energy employees occupational illness<br>compensation benefits (Note 1-M)           | 12,114,480           | 8,063,563            |
| Accrued leave (Note 1-N)  | 116,505              | 107,311              |
| Other liabilities (Note 9)  | 155,209              | 150,442              |
| <b>Total liabilities</b>  | <b>61,848,459</b>    | <b>29,656,196</b>    |
| Contingencies (Note 13)   |                      |                      |
| <b>Net position (Note 1-R)</b>  |                      |                      |
| Unexpended appropriations - other funds   | 10,539,272           | 10,825,237           |
| Cumulative results of operations  |                      |                      |
| Earmarked funds (Note 21)   | (23,762,133)         | 4,562,666            |
| Other funds   | (5,785,202)          | (859,326)            |
| <b>Total net position</b>   | <b>(19,008,063)</b>  | <b>14,528,577</b>    |
| <b>Total liabilities and net position</b>   | <b>\$ 42,840,396</b> | <b>\$ 44,184,773</b> |

The accompanying notes are an integral part of these statements.

**CONSOLIDATED STATEMENT OF NET COST**

For the Years Ended September 30, 2010 and 2009

(Dollars in Thousands)

|  | <u>2010</u>           | <u>2009</u>           |
|--|-----------------------|-----------------------|
| <b>NET COST OF OPERATIONS</b> (Notes 1-S and 15) |                       |                       |
| <b>CROSSCUTTING PROGRAMS</b>                     |                       |                       |
| <b>Income maintenance</b>                        |                       |                       |
| Gross cost                                       | \$ 173,153,232        | \$ 133,351,382        |
| Less earned revenue                              | (4,302,214)           | (3,780,083)           |
| Net program cost                                 | <u>168,851,018</u>    | <u>129,571,299</u>    |
| <b>Employment and training</b>                   |                       |                       |
| Gross cost                                       | 8,420,173             | 7,205,646             |
| Less earned revenue                              | (11,262)              | (11,439)              |
| Net program cost                                 | <u>8,408,911</u>      | <u>7,194,207</u>      |
| <b>Labor, employment and pension standards</b>   |                       |                       |
| Gross cost                                       | 779,994               | 720,836               |
| Less earned revenue                              | (8,872)               | (13,517)              |
| Net program cost                                 | <u>771,122</u>        | <u>707,319</u>        |
| <b>Worker safety and health</b>                  |                       |                       |
| Gross cost                                       | 1,020,139             | 943,808               |
| Less earned revenue                              | (6,025)               | (2,750)               |
| Net program cost                                 | <u>1,014,114</u>      | <u>941,058</u>        |
| <b>OTHER PROGRAMS</b>                            |                       |                       |
| <b>Statistics</b>                                |                       |                       |
| Gross cost                                       | 694,918               | 629,399               |
| Less earned revenue                              | (13,634)              | (8,321)               |
| Net program cost                                 | <u>681,284</u>        | <u>621,078</u>        |
| <b>COSTS NOT ASSIGNED TO PROGRAMS</b>            |                       |                       |
| Gross cost                                       | 96,580                | 96,777                |
| Less earned revenue not attributed to programs   | (9,453)               | (13,247)              |
| Net cost not assigned to programs                | <u>87,127</u>         | <u>83,530</u>         |
| <b>Net cost of operations</b>                    | <u>\$ 179,813,576</u> | <u>\$ 139,118,491</u> |

The accompanying notes are an integral part of these statements.

**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the Years Ended September 30, 2010 and 2009

(Dollars in Thousands)

|  | 2010                         |                              |                    | 2009                         |                              |                    |
|--|------------------------------|------------------------------|--------------------|------------------------------|------------------------------|--------------------|
|  | Consolidated Earmarked Funds | Consolidated All Other Funds | Consolidated Total | Consolidated Earmarked Funds | Consolidated All Other Funds | Consolidated Total |
| <b>Cumulative results of operations, beginning</b> | \$ 4,562,666                 | \$ (859,326)                 | \$ 3,703,340       | \$ 62,052,699                | \$ (2,908,108)               | \$ 59,144,591      |
| Adjustments  |                              |                              |                    |                              |                              |                    |
| Change in accounting principle (Note 1-B)          | -                            | -                            | -                  | -                            | (30,268)                     | (30,268)           |
| Beginning balances, as adjusted                    | 4,562,666                    | (859,326)                    | 3,703,340          | 62,052,699                   | (2,938,376)                  | 59,114,323         |
| <b>Budgetary financing sources</b> (Note 1-T)      |                              |                              |                    |                              |                              |                    |
| Appropriations used                                | -                            | 99,719,400                   | 99,719,400         | -                            | 42,689,532                   | 42,689,532         |
| Non-exchange revenue (Note 16)                     |                              |                              |                    |                              |                              |                    |
| Employer taxes                                     | 41,060,101                   | -                            | 41,060,101         | 35,954,378                   | -                            | 35,954,378         |
| Interest   | 778,939                      | 10                           | 778,949            | 2,059,807                    | 187                          | 2,059,994          |
| Assessments  | -                            | 8                            | 8                  | -                            | 779                          | 779                |
| Reimbursement of unemployment benefits             | 4,721,275                    | 3,997                        | 4,725,272          | 2,763,817                    | -                            | 2,763,817          |
| Total non-exchange revenue                         | 46,560,315                   | 4,015                        | 46,564,330         | 40,778,002                   | 966                          | 40,778,968         |
| Transfers without reimbursement (Note 17)          | 70,525,944                   | (70,322,150)                 | 203,794            | 18,514,212                   | (18,414,660)                 | 99,552             |
| <b>Other financing sources</b> (Note 1-U)          |                              |                              |                    |                              |                              |                    |
| Imputed financing from costs absorbed by others    | 214                          | 172,840                      | 173,054            | 170                          | 136,483                      | 136,653            |
| Transfers without reimbursement (Note 17)          | -                            | 3,507                        | 3,507              | -                            | 2,803                        | 2,803              |
| Other  | (52,950)                     | (48,234)                     | (101,184)          | -                            | -                            | -                  |
| Total financing sources                            | 117,033,523                  | 29,529,378                   | 146,562,901        | 59,292,384                   | 24,415,124                   | 83,707,508         |
| Net cost of operations                             | (145,358,322)                | (34,455,254)                 | (179,813,576)      | (116,782,417)                | (22,336,074)                 | (139,118,491)      |
| Net change   | (28,324,799)                 | (4,925,876)                  | (33,250,675)       | (57,490,033)                 | 2,079,050                    | (55,410,983)       |
| <b>Cumulative results of operations, ending</b>    | (23,762,133)                 | (5,785,202)                  | (29,547,335)       | 4,562,666                    | (859,326)                    | 3,703,340          |
| <b>Unexpended appropriations, beginning</b>        | -                            | 10,825,237                   | 10,825,237         | -                            | 8,169,166                    | 8,169,166          |
| <b>Budgetary financing sources</b> (Note 1-T)      |                              |                              |                    |                              |                              |                    |
| Appropriations received (Note 18-F)                | -                            | 101,266,852                  | 101,266,852        | -                            | 35,525,352                   | 35,525,352         |
| Appropriations transferred                         | -                            | (214,474)                    | (214,474)          | -                            | 10,466,238                   | 10,466,238         |
| Appropriations not available                       | -                            | (1,618,943)                  | (1,618,943)        | -                            | (645,987)                    | (645,987)          |
| Appropriations used                                | -                            | (99,719,400)                 | (99,719,400)       | -                            | (42,689,532)                 | (42,689,532)       |
| Subtotal   | -                            | (285,965)                    | (285,965)          | -                            | 2,656,071                    | 2,656,071          |
| <b>Unexpended appropriations, ending</b>           | -                            | 10,539,272                   | 10,539,272         | -                            | 10,825,237                   | 10,825,237         |
| <b>Net position</b>                                | \$ (23,762,133)              | \$ 4,754,070                 | \$ (19,008,063)    | \$ 4,562,666                 | \$ 9,965,911                 | \$ 14,528,577      |

The accompanying notes are an integral part of these statements.

**COMBINED STATEMENT OF BUDGETARY RESOURCES**

For the Years Ended September 30, 2010 and 2009

(Dollars in Thousands)

|   | <u>2010</u>           | <u>2009</u>           |
|---|-----------------------|-----------------------|
| <b>BUDGETARY RESOURCES</b>  |                       |                       |
| Unobligated balance, brought forward, October 1                                     | \$ 4,124,635          | \$ 4,157,428          |
| Recoveries of prior year unpaid obligations   | 162,552               | 262,069               |
| Budget authority  |                       |                       |
| Appropriations received (Note 18-F)   | 227,533,225           | 167,463,706           |
| Borrowing authority   | 29,110,000            | 14,445,717            |
| Spending authority from offsetting collections                                      |                       |                       |
| Earned  |                       |                       |
| Collected   | 2,973,698             | 1,860,954             |
| Change in receivables from Federal sources  | (20,973)              | 5,136                 |
| Change in unfilled customer orders  |                       |                       |
| Advance received  | 33,299                | (23,131)              |
| Without advance from Federal sources  | (822)                 | -                     |
| Expenditure transfers from trust funds  | 5,070,175             | 5,348,330             |
| Total budget authority  | 264,698,602           | 189,100,712           |
| Nonexpenditure transfers, net   | (6,382)               | (1,703)               |
| Temporarily not available pursuant to Public Law                                    | (38,626)              | (35,130)              |
| Permanently not available   |                       |                       |
| Redemption of debt  | (3,242,445)           | (10,483,557)          |
| All other   | (1,730,312)           | (1,080,459)           |
| <b>Total budgetary resources</b>  | <b>\$ 263,968,024</b> | <b>\$ 181,919,360</b> |
| <b>STATUS OF BUDGETARY RESOURCES</b>  |                       |                       |
| Obligations incurred (Note 18-A)  |                       |                       |
| Direct  | \$ 256,587,422        | \$ 174,719,690        |
| Reimbursable  | 3,189,059             | 3,075,035             |
| Total obligations incurred  | 259,776,481           | 177,794,725           |
| Unobligated balances available  |                       |                       |
| Apportioned   | 3,067,897             | 3,232,633             |
| Exempt from apportionment   | 386,996               | 301,633               |
| Total unobligated balances available  | 3,454,893             | 3,534,266             |
| Unobligated balances not available  | 736,650               | 590,369               |
| <b>Total status of budgetary resources</b>  | <b>\$ 263,968,024</b> | <b>\$ 181,919,360</b> |
| <b>CHANGE IN OBLIGATED BALANCE</b>  |                       |                       |
| Obligated balance, net  |                       |                       |
| Unpaid obligations, brought forward, October 1                                      | \$ 18,216,935         | \$ 9,363,199          |
| Less uncollected customer payments from Federal sources, brought forward, October 1 | (2,331,775)           | (1,183,351)           |
| Total unpaid obligated balance, net   | 15,885,160            | 8,179,848             |
| Obligations incurred, net   | 259,776,481           | 177,794,725           |
| Less gross outlays  | (259,382,936)         | (168,678,920)         |
| Other   | 150                   | -                     |
| Less recoveries of prior year unpaid obligations, actual                            | (162,552)             | (262,069)             |
| Change in uncollected customer payments from Federal sources                        | 420,236               | (1,148,424)           |
| Obligated balance, net, end of period   |                       |                       |
| Unpaid obligations  | 18,448,078            | 18,216,935            |
| Less uncollected customer payments from Federal sources                             | (1,911,539)           | (2,331,775)           |
| Total unpaid obligated balance, net, end of period                                  | <b>\$ 16,536,539</b>  | <b>\$ 15,885,160</b>  |
| <b>NET OUTLAYS</b>  |                       |                       |
| Gross outlays   | \$ 259,382,936        | \$ 168,678,920        |
| Less offsetting collections   | (8,475,613)           | (6,078,853)           |
| Less distributed offsetting receipts  | (76,620,902)          | (24,625,433)          |
| Net outlays   | <b>\$ 174,286,421</b> | <b>\$ 137,974,634</b> |

The accompanying notes are an integral part of these statements.

**STATEMENT OF SOCIAL INSURANCE**

As of September 30, 2010, 2009, 2008, 2007, and 2006

(Dollars in Thousands)

|  | <b>For the Projection Period Ending September 30, 2040 (Note 1W)</b> |                       |                        |                        |                       |
|--|--|-----------------------|------------------------|------------------------|-----------------------|
|  | <b>2010</b>  | <b>2009</b>           | <b>2008</b>            | <b>2007</b>            | <b>2006</b>           |
| <b>BLACK LUNG DISABILITY</b>   |  |                       |                        |                        |                       |
| <b>BENEFIT PROGRAM (Note 1-W)</b>  |  |                       |                        |                        |                       |
| Actuarial present value of future benefit payments during the projection period to disabled coal miners and dependent survivors  | \$ 2,125,231   | \$ 2,170,943          | \$ 2,139,810           | \$ 2,450,064           | \$ 2,722,801          |
| Present value of estimated future administrative costs during the projection period  | <u>881,311</u>   | <u>984,996</u>        | <u>827,437</u>         | <u>831,439</u>         | <u>848,218</u>        |
| Actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period  | 3,006,542  | 3,155,939             | 2,967,247              | 3,281,503              | 3,571,019             |
| Less the present value of estimated future excise tax income during the projection period  | <u>8,457,022</u>   | <u>8,876,813</u>      | <u>8,009,265</u>       | <u>7,897,423</u>       | <u>7,957,821</u>      |
| 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 | <u>\$ 5,450,480</u>  | <u>\$ 5,720,874</u>   | <u>\$ 5,042,018</u>    | <u>\$ 4,615,920</u>    | <u>\$ 4,386,802</u>   |
| Trust fund net position deficit at start of projection period (Note 21)  | <u>\$ (6,238,612)</u>  | <u>\$ (6,320,321)</u> | <u>\$ (10,439,186)</u> | <u>\$ (10,027,701)</u> | <u>\$ (9,604,743)</u> |

The accompanying notes are an integral part of these statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**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 four 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)
- Employment Standards Administration (ESA)
- Office of Job Corps
- 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 Services (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. Once these four component agencies were reorganized, their funding, previously requested under the ESA appropriation, would be requested under separate appropriations for each component agency. This reorganization was reflected in DOL's FY 2011 budget. In FY 2010, funding for these component agencies occurred under the ESA appropriation; and 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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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.

**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 Services 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:

**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 Revenue 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.)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**A. Reporting Entity - Continued**

**3. Fund accounting structure - continued**

**Earmarked funds - continued**

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 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 District of Columbia Workmen's Compensation Act, provides compensation and medical payments to 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued****A. Reporting Entity - Continued****3. Fund accounting structure - continued****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 such as Job Corps, 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, 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 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 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**A. Reporting Entity - Continued**

**3. Fund accounting structure - continued**

**All other funds - continued**

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 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.

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued****A. Reporting Entity - Continued****3. Fund accounting structure - continued****All other funds - continued**

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 U.S. Department of the Treasury (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.

**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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**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 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 Department of Agriculture and the 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 Environmental Protection Agency, the State Department and the 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.

Effective for FY 2009, SFFAS 31, "Accounting for Fiduciary Activities" removed fiduciary assets and related activities from the proprietary financial statements. The effect on beginning cumulative results of operations in FY 2009 of this change in accounting principle is reflected on the Consolidated Statement of Changes in Net Position for FY 2009.

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued****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.

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.)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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, 2010 and 2009

**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<br>FY 2001 | FY 2002 and<br>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)

|   | <u>Years</u> |
|---|--------------|
| 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)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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. In FY 2009, the BLDTF borrowed from Treasury \$6.496 billion and received a one time appropriation of \$6.498 billion; total proceeds from the transactions were \$12.994 billion, an amount equal to the market value of the outstanding repayable Advances from U.S. Treasury at refinancing. The corresponding carrying value of the outstanding advances, including accrued interest, was \$10.498 billion. The BLDTF recognized a loss of \$2.496 billion for the difference between the market value as determined by Treasury and the carrying value of the outstanding repayable Advances from U.S. Treasury in FY 2009. BLDTF borrowings from Treasury's Bureau of Public Debt were 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. 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. There were no additional borrowings in FY 2009. The BLDTF issued additional debt on September 30, 2010 (due September 30, 2011) bearing an interest rate of 0.267%. (See Note 8.)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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, 2010 and 2009 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% and 3.375% 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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 Employment 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' unemployment benefits to the extent of unpaid 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 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**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 2010 and FY 2009 were as follows:

| FY    | COLA  |       | CPIM  |       |
|-------|-------|-------|-------|-------|
|       | 2010  | 2009  | 2010  | 2009  |
| 2010  | N/A   | 0.47% | N/A   | 3.42% |
| 2011  | 2.23% | 1.40% | 3.45% | 3.29% |
| 2012  | 1.13% | 1.50% | 3.43% | 3.48% |
| 2013  | 1.70% | 1.80% | 3.64% | 3.71% |
| 2014  | 1.90% | 2.00% | 3.66% | 3.71% |
| 2015+ | 1.93% | 2.00% | 3.73% | 3.71% |

Projected annual payments were discounted to present value based on OMB's interest rate assumptions for ten year Treasury notes. For 2010, interest rate assumptions were 3.653% in year one and 4.300% in year two and thereafter. For 2009, interest rate assumptions were 4.223% in year one and 4.715% in year two and thereafter. (See Note 11.)

**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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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 \$12.114 billion and \$8.064 billion actuarial liability for estimated future benefits payable by DOL at September 30, 2010 and 2009, respectively, to eligible individuals under the EEOICPA. At September 30, 2010 the undiscounted liability is \$19.805 billion discounted to a present value liability of \$12.114 billion based on an interest rate of 4.30% projected over a 51 year period. The present value liability increased significantly at September 30, 2010 due to increased cancer Special Exposure Cohort (SEC) claims, higher medical costs and a lower discount rate. At September 30, 2009, the undiscounted liability is \$12.759 billion discounted to a present value liability of \$8.064 billion based on an interest rate 4.715% projected over a 52 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 (FEGSLIP). DOL matches the employee contributions to each program to pay for current benefits. During 2010, DOL's contributions to the FEHBP and FEGSLIP were \$91.3 million and \$2.3 million, respectively. During 2009, DOL's contributions to the FEHBP and FEGSLIP were \$82.5 million and \$2.2 million, respectively. These contributions are recognized as current operating expenses.

**P. Other Retirement Benefits**

DOL employees eligible to participate in the FEHBP and the FEGSLIP 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 OPM. Using cost factors supplied by OPM, DOL recorded ORB imputed costs and imputed financing sources of \$107.8 million in 2010 and \$97.5 million in 2009.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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 \$86.7 million in 2010 and \$78.5 million in 2009.

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 2010 and 2009, 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 2010 and 2009. 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 2010 and 2009, 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.

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.)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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 the Longshore and Harbor Workers' Compensation Act Trust Fund for administrative costs and 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)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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**

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)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued****W. Significant Assumptions Used in the Statement of Social Insurance - Continued**

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 significant assumptions used in the projections for the Statement of Social Insurance are the number of beneficiaries, life expectancy, coal excise tax revenue estimates, the tax rate structure, Federal civilian pay raises and medical cost inflation.

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 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-mine coal sold, and 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. 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 increases 5.0% in 2011 and 4.0% in each year thereafter and medical cost increases 3.4% in 2011, and ranges from 3.5% 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.

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 3.75% 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued****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. Use of Estimates**

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Z. Reclassifications**

The FY 2009 statements were reclassified to conform to the FY 2010 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.

In connection with the preparation of the current year financial statements, the Department identified two immaterial errors in the FY 2009 Statement of Changes in Net Position. The Appropriations Received and Appropriations Transferred were each misstated by \$7.95 billion. However, the errors offset each other and had no net impact on any total line in the Statement of Changes in Net Position, including the Department's net position as of September 30, 2009. The balances of Appropriations Received and Appropriations Transferred have been corrected in the FY 2009 Statement of Changes in Net Position. This correction also impacted the presentation of Note 18F, Status of Budgetary Resources – Appropriations Received.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 2 - FUNDS WITH U.S. TREASURY**

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

| <b>(Dollars in thousands)</b> | <b>Entity Assets</b>                         |  |  | <b>Total<br/>Entity Assets</b> | <b>Non-entity<br/>Assets</b> | <b>Total</b>         |
|-------------------------------|--|--|--|--------------------------------|------------------------------|----------------------|
|                               | <b>Unobligated<br/>Balance<br/>Available</b> | <b>Unobligated<br/>Balance<br/>Unavailable</b> | <b>Obligated<br/>Balance Not<br/>Yet Disbursed</b> |                                |                              |                      |
| 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                |
|                               | <u>\$ 3,043,962</u>                          | <u>\$ 729,310</u>                              | <u>\$ 8,841,882</u>                                | <u>\$ 12,615,154</u>           | <u>\$ 2,992</u>              | <u>\$ 12,618,146</u> |

Funds with U.S. Treasury at September 30, 2009 consisted of the following:

| <b>(Dollars in thousands)</b> | <b>Entity Assets</b>                         |  |  | <b>Total<br/>Entity Assets</b> | <b>Non-entity<br/>Assets</b> | <b>Total</b>         |
|-------------------------------|--|--|--|--------------------------------|------------------------------|----------------------|
|                               | <b>Unobligated<br/>Balance<br/>Available</b> | <b>Unobligated<br/>Balance<br/>Unavailable</b> | <b>Obligated<br/>Balance Not<br/>Yet Disbursed</b> |                                |                              |                      |
| Revolving funds               | \$ 16,351                                    | \$ -   | \$ 61,785  | \$ 78,136                      | \$ -                         | \$ 78,136            |
| Trust funds                   | 2,340,232                                    | -  | (298,848)  | 2,041,384                      | (687)                        | 2,040,697            |
| General funds                 | 2,742,223                                    | 637,147  | 8,902,843  | 12,282,213                     | -                            | 12,282,213           |
| Other                         | -  | -  | -  | -                              | 5,705                        | 5,705                |
|                               | <u>\$ 5,098,806</u>                          | <u>\$ 637,147</u>                              | <u>\$ 8,665,780</u>                                | <u>\$ 14,401,733</u>           | <u>\$ 5,018</u>              | <u>\$ 14,406,751</u> |

The negative fund balances reported as of September 30, 2010 and 2009 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 are still subject to the annual apportionment and allotment process.

Unobligated Balance Available at September 30, 2010 includes \$514 million of funds apportioned for use in the subsequent year.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 3 - INVESTMENTS**

Investments at September 30, 2010 consisted of the following:

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 3 - INVESTMENTS - Continued**

Investments at September 30, 2009 consisted of the following:

| <u>(Dollars in thousands)</u>                                      | <u>Face<br/>Value</u> | <u>Premium<br/>(Discount)</u> | <u>Interest<br/>Receivable</u> | <u>Net<br/>Value</u> | <u>Market<br/>Value</u> |
|--|-----------------------|-------------------------------|--------------------------------|----------------------|-------------------------|
| <b>Unemployment Trust Fund</b>                                     |                       |                               |                                |                      |                         |
| <u>Non-marketable</u>  |                       |                               |                                |                      |                         |
| Special issue U.S. Treasury Bonds                                  |                       |                               |                                |                      |                         |
| 3.250% maturing June 30, 2010                                      | \$ 334,382            | \$ -                          | \$ 32                          | \$ 334,414           | \$ 334,382              |
| 4.500% maturing June 30, 2011                                      | <u>19,293,800</u>     | <u>-</u>                      | <u>217,055</u>                 | <u>19,510,855</u>    | <u>19,293,800</u>       |
|  | <u>19,628,182</u>     | <u>-</u>                      | <u>217,087</u>                 | <u>19,845,269</u>    | <u>19,628,182</u>       |
| <b>Panama Canal Commission<br/>Compensation Fund</b>               |                       |                               |                                |                      |                         |
| <u>Marketable</u>  |                       |                               |                                |                      |                         |
| U.S. Treasury Notes  |                       |                               |                                |                      |                         |
| 3.500% to 4.625% various maturities                                | 66,664                | 44                            | 1,103                          | 67,811               | 67,268                  |
| U.S. Treasury Bonds  |                       |                               |                                |                      |                         |
| 11.750% to be called November 15, 2009                             | <u>5,163</u>          | <u>52</u>                     | <u>228</u>                     | <u>5,443</u>         | <u>5,234</u>            |
|  | <u>71,827</u>         | <u>96</u>                     | <u>1,331</u>                   | <u>73,254</u>        | <u>72,502</u>           |
| <b>Energy Employees Occupational Illness<br/>Compensation Fund</b> |                       |                               |                                |                      |                         |
| <u>Non-marketable</u>  |                       |                               |                                |                      |                         |
| One Day Certificate  |                       |                               |                                |                      |                         |
| 0.070% maturing October 1, 2009                                    | <u>192,823</u>        | <u>-</u>                      | <u>-</u>                       | <u>192,823</u>       | <u>192,823</u>          |
|  | <u>\$ 19,892,832</u>  | <u>\$ 96</u>                  | <u>\$ 218,418</u>              | <u>\$ 20,111,346</u> | <u>\$ 19,893,507</u>    |
| <b>Entity Investments</b>  | <u>\$ 19,856,989</u>  | <u>\$ 96</u>                  | <u>\$ 218,022</u>              | <u>\$ 20,075,107</u> | <u>\$ 19,857,665</u>    |
| <b>Non-entity investments</b>                                      | <u>35,843</u>         | <u>-</u>                      | <u>396</u>                     | <u>36,239</u>        | <u>35,842</u>           |
|  | <u>\$ 19,892,832</u>  | <u>\$ 96</u>                  | <u>\$ 218,418</u>              | <u>\$ 20,111,346</u> | <u>\$ 19,893,507</u>    |



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 4 - ACCOUNTS RECEIVABLE, NET OF ALLOWANCE**

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

| <u>(Dollars in thousands)</u>           | <u>Gross<br/>Receivables</u> | <u>Allowance</u>      | <u>Net<br/>Receivables</u> |
|---|------------------------------|-----------------------|----------------------------|
| <b>Entity intra-governmental assets</b> |                              |                       |                            |
| 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                      |
|   | <u>5,882,371</u>             | <u>-</u>              | <u>5,882,371</u>           |
| <b>Entity assets</b>                    |                              |                       |                            |
| State unemployment taxes                | 953,709                      | (691,600)             | 262,109                    |
| Due from reimbursable employers         | 1,235,093                    | (92,864)              | 1,142,229                  |
| Benefit overpayments                    | 2,933,557                    | (2,467,752)           | 465,805                    |
| Other                                   | 55,214                       | (32,830)              | 22,384                     |
|   | <u>5,177,573</u>             | <u>(3,285,046)</u>    | <u>1,892,527</u>           |
| <b>Non-entity assets</b>                |                              |                       |                            |
| Fines and penalties                     | 169,680                      | (50,326)              | 119,354                    |
|   | <u>5,347,253</u>             | <u>(3,335,372)</u>    | <u>2,011,881</u>           |
|   | <u>\$ 11,229,624</u>         | <u>\$ (3,335,372)</u> | <u>\$ 7,894,252</u>        |

Accounts receivable at September 30, 2009 consisted of the following:

| <u>(Dollars in thousands)</u>           | <u>Gross<br/>Receivables</u> | <u>Allowance</u>      | <u>Net<br/>Receivables</u> |
|---|------------------------------|-----------------------|----------------------------|
| <b>Entity intra-governmental assets</b> |                              |                       |                            |
| Due for UCFE and UCX benefits           | \$ 474,770                   | \$ -                  | \$ 474,770                 |
| Due for workers' compensation benefits  | 4,982,929                    | -                     | 4,982,929                  |
| Other                                   | 9,798                        | -                     | 9,798                      |
|   | <u>5,467,497</u>             | <u>-</u>              | <u>5,467,497</u>           |
| <b>Entity assets</b>                    |                              |                       |                            |
| State unemployment taxes                | 945,324                      | (682,354)             | 262,970                    |
| Due from reimbursable employers         | 733,404                      | (46,191)              | 687,213                    |
| Benefit overpayments                    | 1,989,258                    | (1,640,575)           | 348,683                    |
| Other                                   | 5,247                        | (841)                 | 4,406                      |
|   | <u>3,673,233</u>             | <u>(2,369,961)</u>    | <u>1,303,272</u>           |
| <b>Non-entity assets</b>                |                              |                       |                            |
| Fines and penalties                     | 91,143                       | (40,574)              | 50,569                     |
|   | <u>3,764,376</u>             | <u>(2,410,535)</u>    | <u>1,353,841</u>           |
|   | <u>\$ 9,231,873</u>          | <u>\$ (2,410,535)</u> | <u>\$ 6,821,338</u>        |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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

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

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

Property, plant and equipment at September 30, 2009 consisted of the following:

| <b>(Dollars in thousands)</b>                  | <b>2009</b>         |   |                           |
|--|---------------------|---|---------------------------|
|  | <b>Cost</b>         | <b>Accumulated<br/>Depreciation/<br/>Amortization</b> | <b>Net Book<br/>Value</b> |
| <b>Structures, facilities and improvements</b> |                     |   |                           |
| Structures and facilities                      | \$ 1,111,949        | \$ (468,889)  | \$ 643,060                |
| Improvements to leased facilities              | 420,863             | (244,674)   | 176,189                   |
|  | <u>1,532,812</u>    | <u>(713,563)</u>                                      | <u>819,249</u>            |
| <b>Furniture and equipment</b>                 |                     |   |                           |
| Equipment held by contractors                  | 170,681             | (162,628)   | 8,053                     |
| Furniture and equipment                        | 33,248              | (22,614)  | 10,634                    |
|  | <u>203,929</u>      | <u>(185,242)</u>                                      | <u>18,687</u>             |
| <b>Internal use software</b>                   | 196,561             | (73,408)  | 123,153                   |
| <b>Construction-in-progress</b>                | 97,377              | -   | 97,377                    |
| <b>Land</b>                                    | 95,774              | -   | 95,774                    |
|  | <u>\$ 2,126,453</u> | <u>\$ (972,213)</u>                                   | <u>\$ 1,154,240</u>       |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 6 – ADVANCES**

Advances at September 30, 2010 and 2009 consisted of the following:

| <u>(Dollars in thousands)</u>              | <u>2010</u>         | <u>2009</u>         |
|--|---------------------|---------------------|
| Advances to states for UI benefit payments | \$ 1,746,918        | \$ 1,583,858        |
| Other                                      | 125,274             | 107,240             |
|  | <u>\$ 1,872,192</u> | <u>\$ 1,691,098</u> |

**NOTE 7 - NON-ENTITY ASSETS**

Non-entity assets consisted of the following at September 30, 2010 and 2009:

| <u>(Dollars in thousands)</u>         | <u>2010</u>       | <u>2009</u>      |
|---------------------------------------|-------------------|------------------|
| Intra-governmental                    |                   |                  |
| Funds with U.S. Treasury              | \$ 2,992          | \$ 5,018         |
| Investments                           | 30,211            | 36,239           |
|                                       | 33,203            | 41,257           |
| Accounts receivable, net of allowance | 119,354           | 50,569           |
|                                       | <u>\$ 152,557</u> | <u>\$ 91,826</u> |

**NOTE 8 - DEBT**

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

| <u>(Dollars in thousands)</u>    | <u>Balance at<br/>September 30,<br/>2009</u> | <u>Refinancing</u> | <u>Net<br/>Borrowing</u> | <u>Balance at<br/>September 30,<br/>2010</u> |
|----------------------------------|--|--------------------|--------------------------|--|
| 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                                   |
|                                  | <u>\$ 14,351,967</u>                         | <u>\$ -</u>        | <u>\$ 26,048,758</u>     | <u>\$ 40,400,725</u>                         |

DOL's debt during FY 2009 consisted of the following:

| <u>(Dollars in thousands)</u>    | <u>Balance at<br/>September 30,<br/>2008</u> | <u>Refinancing</u>    | <u>Net<br/>Borrowing</u> | <u>Balance at<br/>September 30,<br/>2009</u> |
|----------------------------------|--|-----------------------|--------------------------|--|
| Intra-governmental               |  |                       |                          |  |
| Debt to Treasury                 |  |                       |                          |  |
| Black Lung Disability Trust Fund |  |                       |                          |  |
| Advances from U.S. Treasury      | \$ 10,483,557                                | \$ (10,483,557)       | \$ -                     | \$ -   |
| Borrowing from U.S. Treasury     | -  | 6,495,717             | (125,137)                | 6,370,580                                    |
| Unemployment Trust Fund          |  |                       |                          |  |
| Advances from U.S. Treasury      | -  | -                     | 7,981,387                | 7,981,387                                    |
|                                  | <u>\$ 10,483,557</u>                         | <u>\$ (3,987,840)</u> | <u>\$ 7,856,250</u>      | <u>\$ 14,351,967</u>                         |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 8 - DEBT - Continued**

In FY 2009, refinancing includes the replacement of high interest rate Advances from U.S. Treasury with borrowings in the form of discounted instruments, similar to zero coupon bonds. For the Black Lung Disability Trust Fund, net borrowing includes capitalized interest of \$223.9 million, repaid debt of (\$353.4 million), interest of (\$11.3 million), and additional borrowing of \$60.0 million, for a total of (\$80.8 million) and capitalized interest of \$212.3 million and repaid debt of (\$337.4 million) for a total of (\$125.1 million) in FYs 2010 and 2009, respectively. For the Unemployment Trust Fund, net borrowing includes new advances of \$29.05 billion, repayments of \$2.9 billion and (\$31.4 million) for accrued interest for a net total of \$26.1 billion and new advances of \$7.95 billion and accrued interest of \$31.4 million for a total of \$7.98 billion in FYs 2010 and 2009, respectively.

**NOTE 9 - OTHER LIABILITIES**

Other liabilities at September 30, 2010 and 2009 consisted of the following current liabilities:

| <b>(Dollars in thousands)</b>                           | <b>2010</b>       | <b>2009</b>       |
|---|-------------------|-------------------|
| Intra-governmental                                      |                   |                   |
| Accrued payroll benefits                                | \$ 53,930         | \$ 15,222         |
| Unearned FECA assessments                               | 18                | 18                |
| Non-entity receivables due to U.S. Treasury             | 119,354           | 50,332            |
| Amounts held for the Railroad Retirement Board          | 29,582            | 35,552            |
| Advances from other Federal agencies                    | 19,627            | 300               |
| Total intra-governmental                                | <u>222,511</u>    | <u>101,424</u>    |
| Accrued payroll and benefits                            | 95,086            | 69,124            |
| Deposit and clearing accounts                           | 3,930             | 5,944             |
| Readjustment allowances and other Job Corps liabilities | 53,453            | 75,374            |
| Other Liabilities                                       | 2,740             | -                 |
|   | <u>155,209</u>    | <u>150,442</u>    |
|   | <u>\$ 377,720</u> | <u>\$ 251,866</u> |

**NOTE 10 - ACCRUED BENEFITS**

Accrued benefits at September 30, 2010 and 2009 consisted of the following:

| <b>(Dollars in thousands)</b>                                       | <b>2010</b>         | <b>2009</b>         |
|---|---------------------|---------------------|
| State regular and extended unemployment benefits payable            | \$ 2,634,528        | \$ 1,775,266        |
| Federal extended unemployment benefits payable                      | 436,522             | 520,503             |
| Federal emergency unemployment benefits payable                     | 1,524,946           | 1,300,425           |
| Federal employees' unemployment benefits payable                    | 455,940             | 642,555             |
| Federal additional unemployment benefits payable                    | 130,446             | 231,361             |
| Total unemployment benefits payable                                 | <u>5,182,382</u>    | <u>4,470,110</u>    |
| Black lung disability benefits payable                              | 33,606              | 36,017              |
| Federal employees' disability and 10(h) benefits payable            | 40,639              | 90,017              |
| Energy employees occupational illness compensation benefits payable | 27,916              | 31,106              |
|   | <u>\$ 5,284,543</u> | <u>\$ 4,627,250</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 11 - FUTURE WORKERS' COMPENSATION BENEFITS**

DOL's liability for future workers' compensation benefits at September 30, 2010 and 2009 consisted of the following:

| <u>(Dollars in thousands)</u>  | <u>2010</u>          | <u>2009</u>          |
|--|----------------------|----------------------|
| <i>Projected gross liability of the Federal government for future FECA benefits</i>  | <u>\$ 29,819,932</u> | <u>\$ 26,953,702</u> |
| <i>Less liabilities attributed to other agencies:</i>  |                      |                      |
| U.S. Postal Service  | (10,597,448)         | (9,507,251)          |
| Department of Navy   | (2,463,087)          | (2,425,587)          |
| Department of Army   | (1,813,932)          | (1,790,270)          |
| Department of Veterans Affairs   | (1,862,265)          | (1,734,929)          |
| Department of Air Force  | (1,321,451)          | (1,286,935)          |
| Department of Transportation   | (976,753)            | (970,738)            |
| Department of Homeland Security  | (1,937,837)          | (1,826,221)          |
| Tennessee Valley Authority   | (499,357)            | (505,491)            |
| Department of Treasury   | (544,345)            | (525,430)            |
| Department of Agriculture  | (881,453)            | (845,995)            |
| Department of Justice  | (1,314,107)          | (1,233,899)          |
| Department of Interior   | (723,131)            | (697,210)            |
| Department of Defense, Other   | (820,707)            | (815,854)            |
| Department of Health and Human Services  | (259,500)            | (253,312)            |
| Social Security Administration   | (319,295)            | (310,636)            |
| General Services Administration  | (135,331)            | (135,953)            |
| Department of Commerce   | (210,235)            | (171,187)            |
| Department of Energy   | (93,317)             | (95,897)             |
| Department of State  | (71,997)             | (71,621)             |
| Department of Housing and Urban Development  | (72,289)             | (69,058)             |
| Department of Education  | (17,603)             | (16,199)             |
| National Aeronautics and Space Administration  | (55,402)             | (56,912)             |
| Environmental Protection Agency  | (44,938)             | (44,122)             |
| Small Business Administration  | (29,960)             | (29,640)             |
| Office of Personnel Management   | (22,043)             | (21,695)             |
| National Science Foundation  | (1,356)              | (1,319)              |
| Nuclear Regulatory Commission  | (7,575)              | (7,628)              |
| Agency for International Development   | (26,035)             | (26,885)             |
| Other  | (621,636)            | (586,569)            |
|  | <u>(27,744,385)</u>  | <u>(26,064,443)</u>  |
|  | <u>\$ 2,075,547</u>  | <u>\$ 889,259</u>    |
| <i>Projected liability of the Department of Labor for future FECA benefits</i>   |                      |                      |
| FECA benefits not chargeable to other Federal agencies payable by DOL's Federal Employees' Compensation Act Special Benefit Fund | \$ 1,794,522         | \$ 616,541           |
| FECA benefits due to eligible workers of DOL and Job Corps enrollees   | 226,491              | 216,793              |
| FECA benefits due to eligible workers of the Panama Canal Commission   | 54,534               | 55,925               |
|  | <u>\$ 2,075,547</u>  | <u>\$ 889,259</u>    |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 12 - LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

Liabilities not covered by budgetary resources at September 30, 2010 and 2009 consisted of the following:

| <b>(Dollars in thousands)</b>                           | <b>2010</b>          | <b>2009</b>          |
|---|----------------------|----------------------|
| Intra-governmental<br>Debt                              | \$ 40,400,725        | \$ 14,320,580        |
| Accrued benefits  | 359,002              | 515,593              |
| Future workers' compensation benefits                   | 1,524,846            | 296,339              |
| Accrued annual leave                                    | 116,505              | 99,737               |
| Readjustment allowances and other Job Corps liabilities | 53,453               | 74,699               |
|   | <u>2,053,806</u>     | <u>986,368</u>       |
|   | <u>\$ 42,454,531</u> | <u>\$ 15,306,948</u> |

**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 2010 consisted of the following:

| <b>(Dollars in thousands)</b>        | <b>Employer<br/>Contributions</b> | <b>Costs Imputed<br/>by OPM</b> | <b>Total<br/>Pension<br/>Expense</b> |
|--------------------------------------|-----------------------------------|---------------------------------|--------------------------------------|
| 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                               |
|                                      | <u>\$ 190,422</u>                 | <u>\$ 65,273</u>                | <u>\$ 255,695</u>                    |

Pension expense in FY 2009 consisted of the following:

| <b>(Dollars in thousands)</b>        | <b>Employer<br/>Contributions</b> | <b>Costs Imputed<br/>by OPM</b> | <b>Total<br/>Pension<br/>Expense</b> |
|--------------------------------------|-----------------------------------|---------------------------------|--------------------------------------|
| Civil Service Retirement System      | \$ 21,938                         | \$ 36,392                       | \$ 58,330                            |
| Federal Employees' Retirement System | 110,402                           | 2,849                           | 113,251                              |
| Thrift Savings Plan                  | 41,613                            | -                               | 41,613                               |
|                                      | <u>\$ 173,953</u>                 | <u>\$ 39,241</u>                | <u>\$ 213,194</u>                    |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**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 Statement of Net Costs for 2010. 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, 2010 and 2009

**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, 2010 consisted of the following (intra-agency transactions were eliminated within each agency column rather than shown under the eliminations column):

| <b>(Dollars in thousands)</b>                  | <b>Employment<br/>and Training<br/>Administration</b> | <b>Employment<br/>Standards<br/>Administration</b> | <b>Office<br/>of<br/>Job Corps</b> | <b>Occupational<br/>Safety and Health<br/>Administration</b> |
|--|---|--|------------------------------------|--|
| <b>CROSSCUTTING PROGRAMS</b>                   |   |  |                                    |  |
| <b>Income maintenance</b>                      |   |  |                                    |  |
| 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  |
| <b>Employment and training</b>                 |   |  |                                    |  |
| 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                          | -  |
| <b>Labor, employment and pension standards</b> |   |  |                                    |  |
| 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  | -                                  | -  |
| <b>Worker safety and health</b>                |   |  |                                    |  |
| 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  |
| <b>OTHER PROGRAMS</b>                          |   |  |                                    |  |
| <b>Statistics</b>                              |   |  |                                    |  |
| Intra-governmental                             | -   | -  | -                                  | -  |
| With the public                                | -   | -  | -                                  | -  |
| Gross cost                                     | -   | -  | -                                  | -  |
| Intra-governmental earned revenue              | -   | -  | -                                  | -  |
| Public earned revenue                          | -   | -  | -                                  | -  |
| Less earned revenue                            | -   | -  | -                                  | -  |
| Net program cost                               | -   | -  | -                                  | -  |
| <b>COSTS NOT ASSIGNED TO PROGRAMS</b>          |   |  |                                    |  |
| Gross cost                                     | -   | -  | -                                  | -  |
| Less earned revenue not attributed to programs | -   | -  | -                                  | -  |
| Net cost not assigned to programs              | -   | -  | -                                  | -  |
| <b>Net cost of operations</b>                  | <b>\$ 167,932,929</b>                                 | <b>\$ 7,873,917</b>                                | <b>\$ 1,662,617</b>                | <b>\$ 615,774</b>  |



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

| <b>Bureau of<br/>Labor<br/>Statistics</b> | <b>Mine Safety<br/>and Health<br/>Administration</b> | <b>Employee Benefits<br/>Security<br/>Administration</b> | <b>Veterans'<br/>Employment<br/>and Training</b> | <b>Other<br/>Departmental<br/>Programs</b> | <b>Eliminations</b> | <b>Total</b>   |
|---|--|--|--|--|---------------------|----------------|
| \$ -                                      | \$ -   | \$ 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 |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**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, 2010 consisted of the following (intra-agency transactions were eliminated within each program column rather than shown under the eliminations column):

| <u>(Dollars in thousands)</u>  | <u>Employment<br/>Security</u> | <u>Training and<br/>Employment<br/>Programs</u> | <u>Eliminations</u> | <u>Total</u>          |
|--------------------------------|--------------------------------|---|---------------------|-----------------------|
| <b>CROSSCUTTING PROGRAMS</b>   |                                |   |                     |                       |
| <b>Income maintenance</b>      |                                |   |                     |                       |
| Benefits                       | \$ 156,692,552                 | \$ -  | \$ -                | \$ 156,692,552        |
| Grants                         | 4,545,418                      | -   | -                   | 4,545,418             |
| Interest                       | 1,001,890                      | -   | -                   | 1,001,890             |
| Administrative and other       | 689,237                        | -   | -                   | 689,237               |
| 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           |
| <b>Employment and training</b> |                                |   |                     |                       |
| 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             |
| <b>Net cost of operations</b>  | <b>\$ 161,413,081</b>          | <b>\$ 6,519,848</b>                             | <b>\$ -</b>         | <b>\$ 167,932,929</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 2010 and 2009

## 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, 2010 consisted of the following (intra-agency transactions were eliminated within each office column rather than shown under the eliminations column):

| <u>(Dollars in thousands)</u>                  | <u>Office of<br/>Workers'<br/>Compensation<br/>Programs</u> | <u>Office of<br/>Federal<br/>Contract<br/>Compliance</u> | <u>Wage<br/>and Hour<br/>Division</u> | <u>Office of<br/>Labor<br/>Management<br/>Standards</u> | <u>Eliminations</u> | <u>Total</u>        |
|--|---|--|---------------------------------------|---|---------------------|---------------------|
| <b>CROSSCUTTING PROGRAMS</b>                   |   |  |                                       |   |                     |                     |
| <b>Income maintenance</b>                      |   |  |                                       |   |                     |                     |
| Benefits                                       | \$ 9,545,486  | \$ -   | \$ -                                  | \$ -  | \$ -                | \$ 9,545,486        |
| Interest                                       | 223,923   | -  | -                                     | -   | -                   | 223,923             |
| Administrative and other                       | 413,825   | -  | -                                     | -   | -                   | 413,825             |
| 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           |
| <b>Labor, employment and pension standards</b> |   |  |                                       |   |                     |                     |
| 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             |
| <b>Employment and training</b>                 |   |  |                                       |   |                     |                     |
| Benefits                                       | -   | -  | -                                     | -   | -                   | -                   |
| Administrative and other                       | -   | -  | 880                                   | -   | -                   | 880                 |
| Gross cost                                     | -   | -  | 880                                   | -   | -                   | 880                 |
| Less earned revenue                            | -   | -  | -                                     | -   | -                   | -                   |
| Net program cost                               | -   | -  | 880                                   | -   | -                   | 880                 |
| <b>Net cost of operations</b>                  | <b>\$ 7,397,662</b>   | <b>\$ 124,448</b>  | <b>\$ 295,187</b>                     | <b>\$ 56,620</b>  | <b>\$ -</b>         | <b>\$ 7,873,917</b> |

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 2009.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**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, 2009 consisted of the following:

| <b>(Dollars in thousands)</b>                  | <b>Employment<br/>and Training<br/>Administration</b> | <b>Employment<br/>Standards<br/>Administration</b> | <b>Office<br/>of<br/>Job Corps</b> | <b>Occupational<br/>Safety and Health<br/>Administration</b> |
|--|---|--|------------------------------------|--|
| <b>CROSSCUTTING PROGRAMS</b>                   |   |  |                                    |  |
| <b>Income maintenance</b>                      |   |  |                                    |  |
| Intra-governmental                             | \$ 208,566  | \$ 2,843,904                                       | \$ -                               | \$ -   |
| With the public                                | 125,688,846   | 4,624,270  | -                                  | -  |
| Gross cost                                     | <u>125,897,412</u>                                    | <u>7,468,174</u>                                   | -                                  | -  |
| Intra-governmental earned revenue              | (1,015,214)   | (2,787,375)  | -                                  | -  |
| Public earned revenue                          | -   | -  | -                                  | -  |
| Less earned revenue                            | <u>(1,015,214)</u>                                    | <u>(2,787,375)</u>                                 | -                                  | -  |
| Net program cost                               | <u>124,882,198</u>                                    | <u>4,680,799</u>                                   | -                                  | -  |
| <b>Employment and training</b>                 |   |  |                                    |  |
| Intra-governmental                             | 42,936  | -  | 17,029                             | -  |
| With the public                                | 5,451,065   | -  | 1,480,441                          | -  |
| Gross cost                                     | <u>5,494,001</u>                                      | -  | <u>1,497,470</u>                   | -  |
| Intra-governmental earned revenue              | (11,611)  | -  | -                                  | -  |
| Public earned revenue                          | -   | -  | (378)                              | -  |
| Less earned revenue                            | <u>(11,611)</u>                                       | -  | <u>(378)</u>                       | -  |
| Net program cost                               | <u>5,482,390</u>                                      | -  | <u>1,497,092</u>                   | -  |
| <b>Labor, employment and pension standards</b> |   |  |                                    |  |
| Intra-governmental                             | -   | 119,662  | -                                  | -  |
| With the public                                | -   | 259,890  | -                                  | -  |
| Gross cost                                     | -   | <u>379,552</u>                                     | -                                  | -  |
| Intra-governmental earned revenue              | -   | -  | -                                  | -  |
| Public earned revenue                          | -   | -  | -                                  | -  |
| Less earned revenue                            | -   | -  | -                                  | -  |
| Net program cost                               | -   | <u>379,552</u>                                     | -                                  | -  |
| <b>Worker safety and health</b>                |   |  |                                    |  |
| Intra-governmental                             | -   | -  | -                                  | 125,474  |
| With the public                                | -   | -  | -                                  | 417,460  |
| Gross cost                                     | -   | -  | -                                  | <u>542,934</u>   |
| Intra-governmental earned revenue              | -   | -  | -                                  | (16)   |
| Public earned revenue                          | -   | -  | -                                  | (1,370)  |
| Less earned revenue                            | -   | -  | -                                  | <u>(1,386)</u>   |
| Net program cost                               | -   | -  | -                                  | <u>541,548</u>   |
| <b>OTHER PROGRAMS</b>                          |   |  |                                    |  |
| <b>Statistics</b>                              |   |  |                                    |  |
| Intra-governmental                             | -   | -  | -                                  | -  |
| With the public                                | -   | -  | -                                  | -  |
| Gross cost                                     | -   | -  | -                                  | -  |
| Intra-governmental earned revenue              | -   | -  | -                                  | -  |
| Public earned revenue                          | -   | -  | -                                  | -  |
| Less earned revenue                            | -   | -  | -                                  | -  |
| Net program cost                               | -   | -  | -                                  | -  |
| <b>COSTS NOT ASSIGNED TO PROGRAMS</b>          |   |  |                                    |  |
| Gross cost                                     | -   | -  | -                                  | -  |
| Less earned revenue not attributed to programs | -   | -  | -                                  | -  |
| Net cost not assigned to programs              | -   | -  | -                                  | -  |
| <b>Net cost of operations</b>                  | <u>\$ 130,364,588</u>                                 | <u>\$ 5,060,351</u>                                | <u>\$ 1,497,092</u>                | <u>\$ 541,548</u>  |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 2010 and 2009

| Bureau of<br>Labor<br>Statistics | Mine Safety<br>and Health<br>Administration | Employee Benefits<br>Security<br>Administration | Veterans'<br>Employment<br>and Training | Other<br>Departmental<br>Programs | Eliminations | Total          |
|----------------------------------|---|---|---|-----------------------------------|--------------|----------------|
| \$ -                             | \$ -  | \$ -  | \$ -                                    | \$ 1,428                          | \$ (42,542)  | \$ 3,011,356   |
| -                                | -   | -   | -                                       | 6,874                             | 20,036       | 130,340,026    |
| -                                | -   | -   | -                                       | 8,302                             | (22,506)     | 133,351,382    |
| -                                | -   | -   | -                                       | -                                 | 22,506       | (3,780,083)    |
| -                                | -   | -   | -                                       | -                                 | -            | -              |
| -                                | -   | -   | -                                       | -                                 | 22,506       | (3,780,083)    |
| -                                | -   | -   | -                                       | 8,302                             | -            | 129,571,299    |
| -                                | -   | -   | 9,729                                   | 435                               | (21,845)     | 48,284         |
| -                                | -   | -   | 203,816                                 | 745                               | 21,295       | 7,157,362      |
| -                                | -   | -   | 213,545                                 | 1,180                             | (550)        | 7,205,646      |
| -                                | -   | -   | -                                       | -                                 | 550          | (11,061)       |
| -                                | -   | -   | -                                       | -                                 | -            | (378)          |
| -                                | -   | -   | -                                       | -                                 | 550          | (11,439)       |
| -                                | -   | -   | 213,545                                 | 1,180                             | -            | 7,194,207      |
| -                                | -   | 56,438  | 971                                     | 15,527                            | (45,911)     | 146,687        |
| -                                | -   | 131,108   | 19,521                                  | 117,719                           | 45,911       | 574,149        |
| -                                | -   | 187,546   | 20,492                                  | 133,246                           | -            | 720,836        |
| -                                | -   | (12,526)  | -                                       | (983)                             | -            | (13,509)       |
| -                                | -   | (8)   | -                                       | -                                 | -            | (8)            |
| -                                | -   | (12,534)  | -                                       | (983)                             | -            | (13,517)       |
| -                                | -   | 175,012   | 20,492                                  | 132,263                           | -            | 707,319        |
| -                                | 128,686                                     | -   | -                                       | 4,459                             | (59,951)     | 198,668        |
| -                                | 260,774                                     | -   | -                                       | 6,955                             | 59,951       | 745,140        |
| -                                | 389,460                                     | -   | -                                       | 11,414                            | -            | 943,808        |
| -                                | -   | -   | -                                       | -                                 | -            | (16)           |
| -                                | (1,364)                                     | -   | -                                       | -                                 | -            | (2,734)        |
| -                                | (1,364)                                     | -   | -                                       | -                                 | -            | (2,750)        |
| -                                | 388,096                                     | -   | -                                       | 11,414                            | -            | 941,058        |
| 205,484                          | -   | -   | -                                       | 12,818                            | (23,969)     | 194,333        |
| 391,100                          | -   | -   | -                                       | 19,997                            | 23,969       | 435,066        |
| 596,584                          | -   | -   | -                                       | 32,815                            | -            | 629,399        |
| (5)                              | -   | -   | -                                       | -                                 | -            | (5)            |
| (8,316)                          | -   | -   | -                                       | -                                 | -            | (8,316)        |
| (8,321)                          | -   | -   | -                                       | -                                 | -            | (8,321)        |
| 588,263                          | -   | -   | -                                       | 32,815                            | -            | 621,078        |
| -                                | -   | -   | -                                       | 99,536                            | (2,759)      | 96,777         |
| -                                | -   | -   | -                                       | (16,006)                          | 2,759        | (13,247)       |
| -                                | -   | -   | -                                       | 83,530                            | -            | 83,530         |
| \$ 588,263                       | \$ 388,096                                  | \$ 175,012                                      | \$ 234,037                              | \$ 269,504                        | \$ -         | \$ 139,118,491 |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**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, 2009 consisted of the following:

| <b>(Dollars in thousands)</b>  | <b>Employment<br/>Security</b> | <b>Training and<br/>Employment<br/>Programs</b> | <b>Eliminations</b> | <b>Total</b>          |
|--------------------------------|--------------------------------|---|---------------------|-----------------------|
| <b>CROSSCUTTING PROGRAMS</b>   |                                |   |                     |                       |
| <b>Income maintenance</b>      |                                |   |                     |                       |
| Benefits                       | \$ 120,912,065                 | \$ 82   | \$ -                | \$ 120,912,147        |
| Grants                         | 4,475,166                      | -   | -                   | 4,475,166             |
| Interest                       | 34,228                         | -   | -                   | 34,228                |
| Administrative and other       | 475,472                        | 399   | -                   | 475,871               |
| Gross cost                     | 125,896,931                    | 481   | -                   | 125,897,412           |
| Less earned revenue            | (1,015,214)                    | -   | -                   | (1,015,214)           |
| Net program cost               | 124,881,717                    | 481   | -                   | 124,882,198           |
| <b>Employment and training</b> |                                |   |                     |                       |
| Benefits                       | -                              | 10,045  | -                   | 10,045                |
| Grants                         | 1,747                          | 5,289,212                                       | -                   | 5,290,959             |
| Administrative and other       | -                              | 192,997   | -                   | 192,997               |
| Gross cost                     | 1,747                          | 5,492,254                                       | -                   | 5,494,001             |
| Less earned revenue            | -                              | (11,611)  | -                   | (11,611)              |
| Net program cost               | 1,747                          | 5,480,643                                       | -                   | 5,482,390             |
| <b>Net cost of operations</b>  | <b>\$ 124,883,464</b>          | <b>\$ 5,481,124</b>                             | <b>\$ -</b>         | <b>\$ 130,364,588</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 2010 and 2009

## 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, 2009 consisted of the following:

| <u>(Dollars in thousands)</u>                  | <u>Office of<br/>Workers'<br/>Compensation<br/>Programs</u> | <u>Office of<br/>Federal<br/>Contract<br/>Compliance</u> | <u>Wage<br/>and Hour<br/>Division</u> | <u>Office of<br/>Labor<br/>Management<br/>Standards</u> | <u>Eliminations</u> | <u>Total</u>        |
|--|---|--|---------------------------------------|---|---------------------|---------------------|
| <b>CROSSCUTTING PROGRAMS</b>                   |   |  |                                       |   |                     |                     |
| <b>Income maintenance</b>                      |   |  |                                       |   |                     |                     |
| Benefits                                       | \$ 4,398,133  | \$ -   | \$ -                                  | \$ -  | \$ (2,071)          | \$ 4,396,062        |
| Interest                                       | 231,292   | -  | -                                     | -   | -                   | 231,292             |
| Loss on debt refinancing                       | 2,495,660   | -  | -                                     | -   | -                   | 2,495,660           |
| Administrative and other                       | 345,160   | -  | -                                     | -   | -                   | 345,160             |
| Gross cost                                     | 7,470,245   | -  | -                                     | -   | (2,071)             | 7,468,174           |
| Less earned revenue                            | (2,789,446)   | -  | -                                     | -   | 2,071               | (2,787,375)         |
| Net program cost                               | 4,680,799   | -  | -                                     | -   | -                   | 4,680,799           |
| <b>Labor, employment and pension standards</b> |   |  |                                       |   |                     |                     |
| Benefits                                       | -   | 11,198   | 25,740                                | 7,280   | -                   | 44,218              |
| Administrative and other                       | -   | 87,040   | 202,363                               | 45,931  | -                   | 335,334             |
| Gross cost                                     | -   | 98,238   | 228,103                               | 53,211  | -                   | 379,552             |
| Less earned revenue                            | -   | -  | -                                     | -   | -                   | -                   |
| Net program cost                               | -   | 98,238   | 228,103                               | 53,211  | -                   | 379,552             |
| <b>Net cost of operations</b>                  | <b>\$ 4,680,799</b>   | <b>\$ 98,238</b>   | <b>\$ 228,103</b>                     | <b>\$ 53,211</b>  | <b>\$ -</b>         | <b>\$ 5,060,351</b> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 16 - NON-EXCHANGE REVENUE**

Non-exchange revenues reported on the Consolidated Statement of Changes in Net Position in 2010 and 2009 consisted of the following:

| <b>(Dollars in thousands)</b>  | <b>2010</b>          | <b>2009</b>          |
|--|----------------------|----------------------|
| <b>Employer taxes</b>  |                      |                      |
| Unemployment Trust Fund  |                      |                      |
| Federal unemployment taxes   | \$ 6,451,722         | \$ 6,658,309         |
| State unemployment taxes   | 34,013,576           | 28,651,188           |
|  | 40,465,298           | 35,309,497           |
| Black Lung Disability Trust Fund excise taxes  | 594,803              | 644,881              |
|  | <u>41,060,101</u>    | <u>35,954,378</u>    |
| <b>Interest</b>  |                      |                      |
| Unemployment Trust Fund  | 776,082              | 2,056,548            |
| Panama Canal Commission Compensation Fund  | 553                  | 1,976                |
| Energy Employees Occupational Illness Compensation Fund  | 10                   | 187                  |
| Black Lung Disability Trust Fund   | 2,304                | 1,283                |
|  | <u>778,949</u>       | <u>2,059,994</u>     |
| <b>Assessments</b>   | <u>8</u>             | <u>779</u>           |
| <b>Reimbursement of unemployment benefits from state and local governments and non-profit organizations to the Unemployment Trust Fund</b> |                      |                      |
|  | <u>4,725,272</u>     | <u>2,763,817</u>     |
|  | <u>\$ 46,564,330</u> | <u>\$ 40,778,968</u> |

**NOTE 17 - TRANSFERS WITHOUT REIMBURSEMENT**

Transfers from (to) other Federal agencies in FY 2010 and FY 2009 consisted of the following:

| <b>(Dollars in thousands)</b>   | <b>2010</b>       | <b>2009</b>       |
|---|-------------------|-------------------|
| <b>Budgetary financing sources</b>  |                   |                   |
| From H-1B Nonimmigrant Petitioner Account, Department of Homeland Security              | \$ 201,794        | \$ 94,451         |
| From Longshore and Harbor Workers' Compensation Act Trust Fund                          | -                 | 2,101             |
| From DOL general fund unexpended appropriation accounts to the DOL Working Capital Fund | 2,000             | 3,000             |
|   | <u>203,794</u>    | <u>99,552</u>     |
| <b>Other financing sources</b>  |                   |                   |
| From General Services Administration  | 3,507             | 2,803             |
|   | <u>3,507</u>      | <u>2,803</u>      |
|   | <u>\$ 207,301</u> | <u>\$ 102,355</u> |

The balance of \$203.8 and \$99.6 million in budgetary financing sources for FY 2010 and 2009, respectively, reflects the elimination of intra-DOL transfers of \$70.5 and \$18.5 billion.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 18 - STATUS OF BUDGETARY RESOURCES****A. Apportionment Categories of Obligations Incurred**

Obligations incurred reported on the Combined Statement of Budgetary Resources in FY 2010 and FY 2009 consisted of the following:

| <b>(Dollars in thousands)</b>         | <b>2010</b>           | <b>2009</b>           |
|---------------------------------------|-----------------------|-----------------------|
| <b>Direct Obligations</b>             |                       |                       |
| Category A                            | \$ 4,325,174          | \$ 4,269,886          |
| Category B                            | 100,212,112           | 44,407,391            |
| Exempt from apportionment             | 152,050,136           | 126,042,413           |
| <b>Total direct obligations</b>       | <b>256,587,422</b>    | <b>174,719,690</b>    |
| <b>Reimbursable Obligations</b>       |                       |                       |
| Category A                            | 254,927               | 231,280               |
| Category B                            | 2,934,132             | 2,843,755             |
| <b>Total reimbursable obligations</b> | <b>3,189,059</b>      | <b>3,075,035</b>      |
|                                       | <b>\$ 259,776,481</b> | <b>\$ 177,794,725</b> |

**B. Permanent Indefinite Appropriations**

DOL's permanent indefinite appropriations include all trust funds, the Federal Employees' Compensation Act Special Benefit 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 Fund, 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.

**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, 2010 and 2009 reclassified from unobligated balances to UTF unavailable collections is presented on the following page.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 18 - STATUS OF BUDGETARY RESOURCES - Continued****C. Legal Arrangements Affecting Use of Unobligated Balances - Continued**

| <u>(Dollars in millions)</u>  | <u>2010</u>      | <u>2009</u>      |
|---|------------------|------------------|
| <b>Unemployment Trust Fund unavailable collections, beginning</b>         | <b>\$ 14,221</b> | <b>\$ 69,509</b> |
| Budget authority from current year appropriations and borrowing authority | 148,378          | 66,556           |
| Less obligations incurred   | <u>(151,636)</u> | <u>(121,844)</u> |
| Excess (deficiency) of budget authority over obligations                  | <u>(3,258)</u>   | <u>(55,288)</u>  |
| <b>Unemployment Trust Fund unavailable collections, ending</b>            | <b>\$ 10,963</b> | <b>\$ 14,221</b> |

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

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, 2009 is shown below.

| <u>(Dollars in millions)</u>                             | <u>Budgetary Resources</u> | <u>Obligations Incurred</u> | <u>Distributed Offsetting Receipts</u> | <u>Net Outlays</u> |
|--|----------------------------|-----------------------------|--|--------------------|
| <b>Combined Statement of Budgetary Resources</b>         | <b>\$ 181,919</b>          | <b>\$ 177,795</b>           | <b>\$ 24,625</b>                       | <b>\$ 137,975</b>  |
| Pension Benefit Guaranty Corporation reported separately | 17,609                     | 4,772                       | -                                      | 194                |
| Distributed offsetting receipts                          | -                          | -                           | -                                      | 24,625             |
| Expired accounts   | (711)                      | (132)                       | -                                      | -                  |
| Other  | <u>81</u>                  | <u>75</u>                   | <u>-</u>                               | <u>77</u>          |
| <b>Budget of the United States Government</b>            | <b>\$ 198,898</b>          | <b>\$ 182,510</b>           | <b>\$ 24,625</b>                       | <b>\$ 162,871</b>  |

**E. Undelivered Orders**

Undelivered orders at September 30, 2010 and 2009 were as follows.

| <u>(Dollars in thousands)</u> | <u>2010</u>          | <u>2009</u>          |
|-------------------------------|----------------------|----------------------|
| Undelivered orders            | <u>\$ 12,015,527</u> | <u>\$ 12,169,557</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 18 - STATUS OF BUDGETARY RESOURCES - Continued****F. Appropriations Received**

The Combined Statement of Budgetary Resources discloses appropriations received of \$227,533 and \$167,464 million for FY 2010 and 2009, respectively. Appropriations received on the Consolidated Statement of Changes in Net Position are \$101,267 and \$35,525 million for FY 2010 and 2009, respectively. The differences of \$126,266 and \$131,939 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. Refer to Note 1.Z for a discussion regarding the reclassifications on the FY 2009 Statement of Changes in Net Position.

| <b>(Dollars in millions)</b>   | <b>2010</b>       | <b>2009</b>       |
|--|-------------------|-------------------|
| Receipts recognized as revenue and transfers in current or prior years |                   |                   |
| Unemployment Trust Fund  | \$ 125,474        | \$ 113,894        |
| Black Lung Disability Trust Fund                                       | 596               | 7,177             |
| Other earmarked funds  | 196               | 193               |
| Fiduciary funds  | -                 | 145               |
|  | <u>126,266</u>    | <u>121,409</u>    |
| Other  |                   |                   |
| Black Lung Disability Trust Fund redemption of debt and Other          | -                 | 10,530            |
|  | <u>\$ 126,266</u> | <u>\$ 131,939</u> |

**G. Borrowing Authority**

As of September 30, 2010, section 2 of P.L. 111-46 (123 Stat. 1970 dated August 7, 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**

For the Years Ended September 30, 2010 and 2009

**NOTE 19 - RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS**

| <b><u>(Dollars in thousands)</u></b>  | <b><u>2010</u></b>    | <b><u>2009</u></b>    |
|---|-----------------------|-----------------------|
| <b>Resources used to finance activities</b>   |                       |                       |
| <b>Budgetary resources obligated</b>  |                       |                       |
| Obligations incurred  | \$ 259,776,481        | \$ 177,794,725        |
| Recoveries of prior year obligations  | (162,552)             | (262,069)             |
| Less spending authority from offsetting collections   | (8,055,377)           | (7,191,289)           |
| Obligations, net of offsetting collections and recoveries   | <u>251,558,552</u>    | <u>170,341,367</u>    |
| <b>Other resources</b>  |                       |                       |
| Imputed financing from costs absorbed by others   | 173,055               | 136,653               |
| Transfers, net  | 3,507                 | 2,803                 |
| Exchange revenue not in budget  | (1,613,215)           | (2,211,750)           |
| <b>Total resources used to finance activities</b>   | <u>250,121,899</u>    | <u>168,269,073</u>    |
| <b>Resources used to finance items not part of the net cost of operations</b>   |                       |                       |
| Change in budgetary resources obligated for goods, services and benefits ordered but not yet received or provided       | 188,220               | (5,825,269)           |
| Resources that finance the acquisition of assets  | (113,686)             | (98,743)              |
| Obligations of fiduciary funds  | -                     | (140,736)             |
| Transfers that do not effect the net cost of operations   | (75,452,547)          | (23,809,019)          |
| <b>Total resources used to finance items not part of the net cost of operations</b>                                     | <u>(75,378,013)</u>   | <u>(29,873,767)</u>   |
| <b>Total resources used to finance the net cost of operations</b>   | <u>174,743,886</u>    | <u>138,395,306</u>    |
| <b>Components of the net cost of operations that will not require or generate resources in the current period</b>       |                       |                       |
| Components requiring or generating resources in other periods   |                       |                       |
| Increase (decrease) in annual leave liability   | 9,194                 | (4,196)               |
| Increase in benefits liabilities  | 4,993,544             | 503,072               |
| Other   | 103,613               | 233,161               |
| Total   | <u>5,106,351</u>      | <u>732,037</u>        |
| Components not requiring or generating resources  |                       |                       |
| Depreciation and amortization   | 82,310                | 76,038                |
| Revaluation of assets and liabilities   | 1,342,385             | 656,595               |
| Benefit overpayments  | (1,461,356)           | (741,485)             |
| Total   | <u>(36,661)</u>       | <u>(8,852)</u>        |
| <b>Total components of the net cost of operations that will not require or generate resources in the current period</b> | <u>5,069,690</u>      | <u>723,185</u>        |
| <b>Net cost of operations</b>   | <u>\$ 179,813,576</u> | <u>\$ 139,118,491</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 20 - SOURCES AND DISPOSITIONS OF CUSTODIAL REVENUE**

Custodial revenues in FY 2010 consisted of the following:

| <b>(Dollars in thousands)</b> | <b>Cash<br/>Collections</b> | <b>Less<br/>Refunds</b> | <b>Net Cash<br/>Collections<br/>and Transfers to<br/>U.S. Treasury<br/>General Fund</b> | <b>Increase<br/>(Decrease) in<br/>Amounts to<br/>be Collected<br/>and Transferred</b> | <b>Total<br/>Revenues</b> |
|-------------------------------|-----------------------------|-------------------------|---|---|---------------------------|
| 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                     |
|                               | <u>241,276</u>              | <u>(184)</u>            | <u>241,092</u>  | <u>4,536</u>  | <u>245,628</u>            |
| ETA disallowed grant costs    | 8,133                       | (86)                    | 8,047   | (1,098)   | 6,949                     |
| Other                         | 580                         | (757)                   | (177)   | (76)  | (253)                     |
|                               | <u>\$ 249,989</u>           | <u>\$ (1,027)</u>       | <u>\$ 248,962</u>   | <u>\$ 3,362</u>   | <u>\$ 252,324</u>         |

Custodial revenues in FY 2009 consisted of the following:

| <b>(Dollars in thousands)</b> | <b>Cash<br/>Collections</b> | <b>Less<br/>Refunds</b> | <b>Net Cash<br/>Collections<br/>and Transfers to<br/>U.S. Treasury<br/>General Fund</b> | <b>Increase<br/>(Decrease) in<br/>Amounts to<br/>be Collected<br/>and Transferred</b> | <b>Total<br/>Revenues</b> |
|-------------------------------|-----------------------------|-------------------------|---|---|---------------------------|
| Civil monetary penalties      |                             |                         |   |   |                           |
| OSHA                          | \$ 65,418                   | \$ (145)                | \$ 65,273   | \$ 6,077  | \$ 71,350                 |
| MSHA                          | 63,527                      | (120)                   | 63,407  | 954   | 64,361                    |
| EBSA                          | 25,511                      | (475)                   | 25,036  | (203)   | 24,833                    |
| ESA                           | 15,947                      | -                       | 15,947  | 53  | 16,000                    |
|                               | <u>170,403</u>              | <u>(740)</u>            | <u>169,663</u>  | <u>6,881</u>  | <u>176,544</u>            |
| ETA disallowed grant costs    | 5,479                       | -                       | 5,479   | 648   | 6,127                     |
| Other                         | 1,292                       | (4)                     | 1,288   | (1)   | 1,287                     |
|                               | <u>\$ 177,174</u>           | <u>\$ (744)</u>         | <u>\$ 176,430</u>   | <u>\$ 7,528</u>   | <u>\$ 183,958</u>         |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**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, 2010 is shown below.

| <u>(Dollars in thousands)</u>             | <u>Unemployment</u>  | <u>Black Lung<br/>Disability</u> | <u>Other</u>      | <u>Total</u>         |
|---|----------------------|----------------------------------|-------------------|----------------------|
| <b>Assets</b>                             |                      |                                  |                   |                      |
| 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                  |
| <b>Total assets</b>                       | <b>\$ 23,183,429</b> | <b>\$ 68,028</b>                 | <b>\$ 421,469</b> | <b>\$ 23,672,926</b> |
| <b>Liabilities</b>                        |                      |                                  |                   |                      |
| 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            |
| <b>Total liabilities</b>                  | <b>41,059,655</b>    | <b>6,306,640</b>                 | <b>68,764</b>     | <b>47,435,059</b>    |
| <b>Net position</b>                       |                      |                                  |                   |                      |
| Cumulative results of operations          | (17,876,226)         | (6,238,612)                      | 352,705           | (23,762,133)         |
| <b>Total liabilities and net position</b> | <b>\$ 23,183,429</b> | <b>\$ 68,028</b>                 | <b>\$ 421,469</b> | <b>\$ 23,672,926</b> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 21 - EARMARKED FUNDS - Continued**

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

| (Dollars in thousands)                 | <u>Unemployment</u>    | <u>Black Lung<br/>Disability</u> | <u>Other</u>      | <u>Total</u>           |
|--|------------------------|----------------------------------|-------------------|------------------------|
| <b>Cost, net of earned revenues</b>    |                        |                                  |                   |                        |
| 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               | <u>(1,568,235)</u>     | <u>(9,410)</u>                   | <u>(10,714)</u>   | <u>(1,588,359)</u>     |
|  | (146,259,407)          | (454,310)                        | (143,920)         | (146,857,637)          |
| Earned revenue                         | <u>1,499,315</u>       | -                                | -                 | <u>1,499,315</u>       |
| Net cost of operations                 | <u>(144,760,092)</u>   | <u>(454,310)</u>                 | <u>(143,920)</u>  | <u>(145,358,322)</u>   |
| <b>Net financing sources</b>           |                        |                                  |                   |                        |
| 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)               |
|  | <u>116,345,009</u>     | <u>536,019</u>                   | <u>152,495</u>    | <u>117,033,523</u>     |
| Net results of operations              | <u>(28,415,083)</u>    | <u>81,709</u>                    | <u>8,575</u>      | <u>(28,324,799)</u>    |
| Net position, beginning of period      | <u>10,538,857</u>      | <u>(6,320,321)</u>               | <u>344,130</u>    | <u>4,562,666</u>       |
| Net position, end of period            | <u>\$ (17,876,226)</u> | <u>\$ (6,238,612)</u>            | <u>\$ 352,705</u> | <u>\$ (23,762,133)</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 21 - EARMARKED FUNDS - Continued**

The financial position of the earmarked funds as of September 30, 2009 is shown below.

| <u>(Dollars in thousands)</u>                                | <u>Unemployment</u>  | <u>Black Lung<br/>Disability</u> | <u>Other</u>      | <u>Total</u>         |
|--|----------------------|----------------------------------|-------------------|----------------------|
| <b>Assets</b>  |                      |                                  |                   |                      |
| Intra-governmental   |                      |                                  |                   |                      |
| Funds with U.S. Treasury                                     | \$ 1,988,130         | \$ 52,469                        | \$ 344,578        | \$ 2,385,177         |
| Investments  | 19,845,269           | -                                | 73,254            | 19,918,523           |
| Accounts receivable, net                                     |                      |                                  |                   |                      |
| Due from other Federal agencies<br>for UCX and UCFE benefits | 475,630              | -                                | -                 | 475,630              |
| Total intra-governmental                                     | 22,309,029           | 52,469                           | 417,832           | 22,779,330           |
| Accounts receivable, net                                     |                      |                                  |                   |                      |
| State unemployment tax                                       | 262,970              | -                                | -                 | 262,970              |
| Due from reimbursable employers                              | 687,213              | -                                | -                 | 687,213              |
| Benefit overpayments   | 308,359              | 15,129                           | -                 | 323,488              |
| Other  | -                    | -                                | 2                 | 2                    |
| Advances   | 1,510,624            | -                                | -                 | 1,510,624            |
| Other  | -                    | -                                | 588               | 588                  |
| <b>Total assets</b>  | <b>\$ 25,078,195</b> | <b>\$ 67,598</b>                 | <b>\$ 418,422</b> | <b>\$ 25,564,215</b> |
| <b>Liabilities</b>   |                      |                                  |                   |                      |
| Intra-governmental   |                      |                                  |                   |                      |
| Accounts payable to DOL agencies                             | \$ 2,283,650         | \$ -                             | \$ -              | \$ 2,283,650         |
| Debt   | 7,981,387            | 6,370,580                        | -                 | 14,351,967           |
| Amounts held for the Railroad<br>Retirement Board            | 35,552               | -                                | -                 | 35,552               |
| Other  | -                    | -                                | 7,372             | 7,372                |
| Total intra-governmental                                     | 10,300,589           | 6,370,580                        | 7,372             | 16,678,541           |
| Accounts payable   | -                    | -                                | 10,371            | 10,371               |
| Future workers' compensation benefits                        | -                    | -                                | 55,925            | 55,925               |
| Accrued benefits   | 4,238,749            | 17,339                           | -                 | 4,256,088            |
| Other  | -                    | -                                | 624               | 624                  |
| <b>Total liabilities</b>                                     | <b>14,539,338</b>    | <b>6,387,919</b>                 | <b>74,292</b>     | <b>21,001,549</b>    |
| <b>Net position</b>  |                      |                                  |                   |                      |
| Cumulative results of operations                             | 10,538,857           | (6,320,321)                      | 344,130           | 4,562,666            |
| <b>Total liabilities and net position</b>                    | <b>\$ 25,078,195</b> | <b>\$ 67,598</b>                 | <b>\$ 418,422</b> | <b>\$ 25,564,215</b> |



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 21 - EARMARKED FUNDS - Continued**

The net results of operations of the earmarked funds for the year ended September 30, 2009 is shown below.

| <u>(Dollars in thousands)</u>            | <u>Unemployment</u>  | <u>Black Lung<br/>Disability</u> | <u>Other</u>      | <u>Total</u>         |
|--|----------------------|----------------------------------|-------------------|----------------------|
| <b>Cost, net of earned revenues</b>      |                      |                                  |                   |                      |
| Benefits                                 | \$ (114,281,060)     | \$ (240,625)                     | \$ (8,739)        | \$ (114,530,424)     |
| Grants                                   | -                    | -                                | (110,869)         | (110,869)            |
| Interest                                 | (34,228)             | (231,292)                        | -                 | (265,520)            |
| Loss on debt refinancing                 | -                    | (2,495,660)                      | -                 | (2,495,660)          |
| Administrative and other                 | (368,303)            | (384)                            | (15,688)          | (384,375)            |
|  | <u>(114,683,591)</u> | <u>(2,967,961)</u>               | <u>(135,296)</u>  | <u>(117,786,848)</u> |
| Earned revenue                           | <u>1,004,431</u>     | <u>-</u>                         | <u>-</u>          | <u>1,004,431</u>     |
|  | <u>(113,679,160)</u> | <u>(2,967,961)</u>               | <u>(135,296)</u>  | <u>(116,782,417)</u> |
| <b>Net financing sources</b>             |                      |                                  |                   |                      |
| Taxes                                    | 35,309,497           | 644,881                          | -                 | 35,954,378           |
| Interest                                 | 2,056,548            | 1,283                            | 1,976             | 2,059,807            |
| Reimbursement of unemployment benefits   | 2,763,817            | -                                | -                 | 2,763,817            |
| Imputed financing                        | -                    | -                                | 170               | 170                  |
| Transfers-in                             |                      |                                  |                   |                      |
| Department of Homeland Security          | -                    | -                                | 94,451            | 94,451               |
| DOL entities                             | 17,273,663           | 6,497,989                        | -                 | 23,771,652           |
| Transfers-out                            |                      |                                  |                   |                      |
| DOL entities                             | (5,294,564)          | (57,327)                         | -                 | (5,351,891)          |
|  | <u>52,108,961</u>    | <u>7,086,826</u>                 | <u>96,597</u>     | <u>59,292,384</u>    |
| Net results of operations                | (61,570,199)         | 4,118,865                        | (38,699)          | (57,490,033)         |
| <b>Net position, beginning of period</b> | <u>72,109,056</u>    | <u>(10,439,186)</u>              | <u>382,829</u>    | <u>62,052,699</u>    |
| <b>Net position, end of period</b>       | <u>\$ 10,538,857</u> | <u>\$ (6,320,321)</u>            | <u>\$ 344,130</u> | <u>\$ 4,562,666</u>  |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**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, 2010 is shown below.

| <u>(Dollars in thousands)</u>                  | <u>Wage and Hour<br/>and Public<br/>Contracts<br/>Restitution<br/>Fund</u> | <u>Longshore<br/>and Harbor<br/>Workers'<br/>Compensation<br/>Act Trust<br/>Fund</u> | <u>District of<br/>Columbia<br/>Workmen's<br/>Compensation<br/>Act Trust<br/>Fund</u> | <u>Total<br/>Fiduciary<br/>Funds</u> |
|--|--|--|---|--------------------------------------|
| <b>Fiduciary activity</b>                      |  |  |   |                                      |
| 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                 | <u>(21,273)</u>  | <u>(128,550)</u>   | <u>(9,382)</u>  | <u>(159,205)</u>                     |
| Increase (decrease) in fiduciary net assets    | 5,883  | (1,194)  | 1,711   | 6,400                                |
| <b>Fiduciary net assets, beginning of year</b> | <u>86,447</u>  | <u>26,404</u>  | <u>3,980</u>  | <u>116,831</u>                       |
| <b>Fiduciary net assets, end of year</b>       | <u>\$ 92,330</u>   | <u>\$ 25,210</u>   | <u>\$ 5,691</u>   | <u>\$ 123,231</u>                    |

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

| <u>(Dollars in thousands)</u>     | <u>Wage and Hour<br/>and Public<br/>Contracts<br/>Restitution<br/>Fund</u> | <u>Longshore<br/>and Harbor<br/>Workers'<br/>Compensation<br/>Act Trust<br/>Fund</u> | <u>District of<br/>Columbia<br/>Workmen's<br/>Compensation<br/>Act Trust<br/>Fund</u> | <u>Total<br/>Fiduciary<br/>Funds</u> |
|-----------------------------------|--|--|---|--------------------------------------|
| <b>Fiduciary assets</b>           |  |  |   |                                      |
| 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                 | <u>-</u>   | <u>(43,761)</u>  | <u>(2,470)</u>  | <u>(46,231)</u>                      |
| <b>Total fiduciary net assets</b> | <u>\$ 92,330</u>   | <u>\$ 25,210</u>   | <u>\$ 5,691</u>   | <u>\$ 123,231</u>                    |

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 2009. These separate financial statements were presented in accordance with U.S. GAAP. Copies of these financial statements are available on DOL's website at <http://www.oig.dol.gov>.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

**NOTE 22 - FIDUCIARY ACTIVITY - Continued**

The schedule of fiduciary activity for the fiduciary funds for the year ended September 30, 2009 is shown below.

| <u>(Dollars in thousands)</u>                  | <b>Wage and Hour<br/>and Public<br/>Contracts<br/>Restitution<br/>Fund</b> | <b>Longshore<br/>and Harbor<br/>Workers'<br/>Compensation<br/>Act Trust<br/>Fund</b> | <b>District of<br/>Columbia<br/>Workmen's<br/>Compensation<br/>Act Trust<br/>Fund</b> | <b>Total<br/>Fiduciary<br/>Funds</b> |
|--|--|--|---|--------------------------------------|
| <b>Fiduciary activity</b>                      |  |  |   |                                      |
| Assessments                                    | \$ 37,941  | \$ 130,209   | \$ 10,730   | \$ 178,880                           |
| Investment earnings                            | -  | 44   | 4   | 48                                   |
| Administrative and other expenses              | -  | (2,101)  | -   | (2,101)                              |
| Transfer of funds to Treasury                  | (9,783)  |  |   | (9,783)                              |
| Disbursements to beneficiaries                 | (23,653)   | (128,993)  | (9,777)   | (162,423)                            |
| Increase (decrease) in fiduciary net assets    | 4,505  | (841)  | 957   | 4,621                                |
| <b>Fiduciary net assets, beginning of year</b> | <b>81,942</b>  | <b>27,245</b>  | <b>3,023</b>  | <b>112,210</b>                       |
| <b>Fiduciary net assets, end of year</b>       | <b>\$ 86,447</b>   | <b>\$ 26,404</b>   | <b>\$ 3,980</b>   | <b>\$ 116,831</b>                    |

The schedule of fiduciary net assets for these funds as of September 30, 2009 is shown below.

| <u>(Dollars in thousands)</u>     | <b>Wage and Hour<br/>and Public<br/>Contracts<br/>Restitution<br/>Fund</b> | <b>Longshore<br/>and Harbor<br/>Workers'<br/>Compensation<br/>Act Trust<br/>Fund</b> | <b>District of<br/>Columbia<br/>Workmen's<br/>Compensation<br/>Act Trust<br/>Fund</b> | <b>Total<br/>Fiduciary<br/>Funds</b> |
|-----------------------------------|--|--|---|--------------------------------------|
| <b>Fiduciary assets</b>           |  |  |   |                                      |
| Cash                              | \$ 80,034  | \$ 2,085   | \$ 995  | \$ 83,114                            |
| Investments                       | -  | 58,969   | 5,228   | 64,197                               |
| Other assets                      | 6,413  | 3,756  | 674   | 10,843                               |
| Less: liabilities                 | -  | (38,406)   | (2,917)   | (41,323)                             |
| <b>Total fiduciary net assets</b> | <b>\$ 86,447</b>   | <b>\$ 26,404</b>   | <b>\$ 3,980</b>   | <b>\$ 116,831</b>                    |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2010 and 2009

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**NOTE 23 - SUBSEQUENT EVENTS**

**Permanent Indefinite Appropriations Returned to the U.S. Department of the Treasury**

Subsequent to September 30, 2010, the Department returned to the U.S. Department of the Treasury permanent indefinite appropriations unobligated as of September 30, 2010, in the amount of \$1.2 billion. In addition, \$2.9 billion of borrowings from indefinite appropriations were repaid effective as of September 30, 2010. The effects of these events are reflected in the Department's financial statements, notes, and required supplementary information.

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

**Unemployment Insurance**

Subsequent to September 30, 2010, the Extended Unemployment Compensation Account (EUCA) of the Unemployment Trust Fund (UTF) borrowed as Advances from U.S. Treasury, \$9.0 billion at interest rates ranging from 2.875% to 3.0%. During the same period, the Federal Unemployment Account (FUA) of the UTF borrowed as Advances from U.S. Treasury, \$10.0 billion at interest rates ranging from 2.875% to 3.0%.

P.L. 111-312, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, was enacted on December 17, 2010. This Act, among other things, authorized continuing 100% Federal funding of extended unemployment benefits to January 4, 2012, and changed the expiration date of the emergency unemployment insurance program to January 3, 2012.

**Office of Workers' Compensation Programs (OWCP)**

The Division of Coal Mine Workers' Compensation (DCMWC) within OWCP administers the Black Lung Program and the payment of benefits under the Black Lung Benefits Act. The Federal Coal Mine Health and Safety Act, Section 412(a)(1), 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 (as defined in 5 USC 2105) 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 Statement of Social Insurance, related notes, and Black Lung Disability Benefit Program required supplementary information do not reflect P.L. 111-322's unchanged benefit rates through 2012.

The Division of Federal Employees' Compensation within 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 October 2010, the USPS reimbursed the FECA Special Benefits Fund for \$1.145 billion. In their FY 2010 Annual Report issued November 15, 2010, the USPS disclosed in the notes to their audited financial statements that they will have insufficient cash available to make the 2011 annual payment. In their first and second quarter FY 2011 Quarterly Reports issued in February and May 2011, respectively, the USPS repeated similar disclosures in the notes to their financial statements. In Note 11, Future Workers' Compensation Benefits, the USPS liability of \$10.6 billion represents the largest portion of the projected gross liability of the Federal government for future FECA benefits attributed to other Agencies of \$27.7 billion.

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**Required Supplementary Stewardship Information**

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**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**

(Unaudited)

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**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 2010, ETA incurred total net costs of \$167.9 billion. The majority of ETA's total net costs consisted of unemployment benefit payments, which increased by over \$100 billion from pre-recession levels. Also included in ETA's total net costs were investments in human capital of \$6.5 billion, which provided services to over 9.3 million participants in 2010. These investments were made through job training programs authorized by the Workforce Investment Act of 1998 (WIA), Title V of the Older Americans Act, the Trade Act of 1974, as amended by the Trade Adjustment Assistance Reform Act of 2002, and the National Apprenticeship Act of 1937. The Office of Job Corps also invests in human capital through WIA job training programs. OJC's investment in human capital in 2010 was \$1.7 billion. In February 2009, Congress enacted the American Recovery and Reinvestment Act (ARRA), which authorized additional funding for job training, which was distributed through these established training programs in 2010. The ETA and OJC job training programs under WIA are discussed below.

**Workforce Investment Act Job Training Programs**

- **Adult employment and training programs** – ETA awards grants to States and territories to design and operate training and employment assistance programs for disadvantaged adults, including public assistance recipients. ETA's 2010 investment in human capital through WIA adult programs was \$899 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 awards non-competitive grants for unexpected economic impacts and emergency dislocations; and competitive grants from the national reserve account to build training capacity and to train workers through community and technical colleges. ETA's 2010 investment in human capital through WIA dislocated worker programs was \$2,539 million.
- **Youth programs** – ETA awards grants to states to support 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 2010 investment in human capital through WIA youth programs was \$1,431 million.
- **Job Corps program** – OJC awards contracts to support a system of primarily residential centers offering basic education, training, work experience and other support, typically to economically disadvantaged youth. Large and small corporations and non-profit organizations manage and operate 96 Job Corps centers under these contractual arrangements. The remaining 28 centers are operated through interagency agreements between DOL and the U.S. Departments of Agriculture and Interior. In addition, 20 operators are contracted to provide outreach and admissions (OA) and career transition services (CTS). OJC's 2010 investment in human capital through the WIA Job Corps program was \$1,663 million.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**

(Unaudited)

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- **Reintegration of Ex-Offenders** – 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 2010 investment in human capital through ex-offender programs was \$70 million.
  
  - **National programs** – ETA's National programs provide employment and training services and support through WIA nationally administered activities, for segments of the population that have special disadvantages in the labor market, including grants to Indian tribes and other Native American governments or non-profit organizations, and to Migrant and Seasonal Farmworker service organizations, to provide training, work experience and employment-related services to eligible participants. ETA's 2010 investment in human capital through WIA National Programs was \$134 million.

**Title V of the Older Americans Act, as Amended**

ETA also invests in human capital through its older worker program, authorized under Title V of the Older Americans Act, to benefit low income workers, age 55 and over. The Older Americans Act Amendments of 2006, reauthorized and provided important reforms to Title V's Community Service Employment for Older Americans Program, including an increase in the percentage of program funds available for skills training and related services.

- **Community Service Employment for Older Americans program (CSEOA)** – An employment and training program that provides part-time training through work experience in community service activities for low-income persons age 55 and older, who wish to remain in or re-enter the workforce, with the ultimate goal of moving the participants into unsubsidized employment. ETA's 2010 investment in human capital through the CSEOA program was \$740 million.

**Trade Act of 1974, as Amended**

ETA makes investments in human capital through training programs authorized by the Trade Act of 1974, as amended by the Trade Adjustment Assistance Reform Act of 2002, which consolidated the Trade Adjustment Assistance (TAA) and the NAFTA Trade Adjustment Assistance programs into a single, enhanced TAA program.

- **Trade Adjustment Assistance programs** – TAA programs provide training, income support and related assistance to workers who have been adversely affected by foreign trade agreements. TAA benefit payments are classified as income maintenance program costs and are not included as investments in human capital. ETA's 2010 investment in trade adjustment assistance training programs was \$540 million.

**The National Apprenticeship Act**

- 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 a national system for skilled and technical occupational training, which promotes apprentices, registers apprenticeship programs, certifies apprenticeship standards, and safeguards the welfare of apprentices. ETA's 2010 investment in apprenticeship programs was \$28 million.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**

(Unaudited)

**Program Costs and Outputs**

The cost of ETA and OJC investments in human capital, and the participants served by each, are shown in the chart below, for the five year period FY 2006 through FY 2010.

**ETA And OJC Investments in Human Capital  
Program Costs (in Millions) and Participants Served (in Thousands)\*  
For The Five Year Period FY 2006 through FY 2010**

| Program                   | 2010           |                | 2009           |                | 2008           |                | 2007           |                | 2006           |                |
|---------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                           | Costs          | Part. Served   | Costs          | Part. Served   | Costs          | Part. Served   | Costs          | Part. Served   | Costs          | Part. Served   |
| <i>WIA</i>                |                |                |                |                |                |                |                |                |                |                |
| Adult (1)                 | \$899          | 6,695.3        | \$878          | 4,921.8        | \$844          | 2,828.7        | \$ 896         | 1,723.2        | \$ 912         | 1,052.6        |
| Dislocated Worker (2)     | 2,539          | 1,250.4        | 1,440          | 842.1          | 1,307          | 401.3          | 1,409          | 413.1          | 1,543          | 398.2          |
| Youth (3)                 | 1,431          | 316.3          | 1,125          | 438.9          | 966            | 250.7          | 866            | 248.9          | 1,017          | 272.9          |
| Job Corps                 | 1,663          | 59.8           | 1,640          | 60.9           | 1,589          | 63.4           | 1,485          | 64.8           | 1,402          | 61.0           |
| Ex-Offenders (4)          | 70             | 36.1           | 58             | 9.8            | 61             | 14.2           | 76             | 15.7           | 52             | 11.5           |
| National Programs (5)     | 134            | 61.3           | 206            | 35.0           | 206            | 44.7           | 220            | 44.0           | 267            | 42.1           |
| <i>Title V</i>            |                |                |                |                |                |                |                |                |                |                |
| CSEOA                     | 740            | 103.6          | 543            | 89.0           | 479            | 89.6           | 444            | 86.4           | 432            | 93.5           |
| <i>Trade Act</i>          |                |                |                |                |                |                |                |                |                |                |
| TAA Training              | 540            | 232.7          | 286            | 105.0          | 248            | 82.1           | 223            | 79.2           | 189            | 84.2           |
| <i>Apprenticeship Act</i> |                |                |                |                |                |                |                |                |                |                |
| Apprenticeship System     | 28             | 485.4          | 25             | 301.6          | 25             | 385.7          | 24             | 309.5          | 25             | 237.9          |
| <i>Other (6)</i>          | 139            | 95.8           | 120            | Na             | 108            | Na             | 91             | Na             | 99             | Na             |
| <b>TOTAL</b>              | <b>\$8,183</b> | <b>9,336.7</b> | <b>\$6,321</b> | <b>6,804.1</b> | <b>\$5,833</b> | <b>4,160.4</b> | <b>\$5,734</b> | <b>2,984.8</b> | <b>\$5,938</b> | <b>2,253.9</b> |

\* Certain program costs were reclassified, beginning in 2006, due to changes in allocation methodologies adopted in 2009.

- (1) Adult program increases in participants served, beginning in 2006, can 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 Green Job Training. ARRA activities account for the 2010 increases in costs and participants served.
- (3) Youth program participants served in 2010 include youth reported in ARRA monthly reports.
- (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) Other includes training programs for highly skilled occupations funded through H1-B fees, and costs for lapsed programs.



**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**  
(Unaudited)

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**Program Outcomes**

Outcomes for training programs comprising ETA's investment in human capital are presented in the Department's Annual Performance Report for FY 2010 available on the DOL website [www.dol.gov/%5Fsec/media/reports/](http://www.dol.gov/%5Fsec/media/reports/).

***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 21<sup>st</sup> 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 program, supports the majority of VETS activities through three major VETS programs, as discussed below:

- **Disabled Veterans Outreach Program (DVOP) Specialist** – The DVOP, (38 U.S.C. 4103A), awards formula grants to State Workforce Agencies (SWAs) to support DVOP specialists providing intensive services to meet the employment needs of veterans, including counseling, assessment, lifelong learning skills and referral to training, particularly veterans with disabilities or those who recently separated from the military.
- **Local Veterans Employment Representative (LVER)** – The LVER, (38 U.S.C. 4104), provides grants to State Workforce Agencies (SWAs) for the appointment of LVER staff positions identified in Job Service local offices and One-Stop Career Centers, to enhance veterans' services and help them into productive employment.
- **Transition Assistance Program (TAP)** – TAP, (38 U.S.C. 4215 and 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 and Veterans Preference Rights (USERRA) compliance and outreach. Activities, as discussed below:

- **Uniformed Services Employment and Reemployment Rights 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. VETS promotes a productive relationship between employer and employee by educating both on the employment rights of the individual veterans.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**

(Unaudited)

**Homeless Veterans and Veterans' Workforce Investment Programs**

- **Homeless Veterans Reintegration Project (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, (38 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 Statement of Net Costs. 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 Five Year Period FY 2006 through FY 2010**

| Program      | 2010             |              | 2009             |              | 2008             |              | 2007             |                | 2006             |                |
|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|----------------|------------------|----------------|
|              | Costs            | Part. Served | Costs            | Part. Served | Costs            | Part. Served | Costs            | Part. Served   | Costs            | Part. Served   |
| DVOP         | \$99,818         | 351.1        | \$91,064         | 345.1        | \$86,844         | 363.8        | \$86,667         | 363.4          | \$86,153         | 398.1          |
| LVER         | 91,984           | 357.9        | 83,917           | 362.3        | 80,028           | 366.4        | 80,000           | 400.6          | 79,526           | 429.3          |
| TAP          | 7,928            | 129.0        | 7,233            | 124.7        | 6,898            | 150.0        | 7,704            | 151.3          | 4,792            | 139.5          |
| USERRA       | 11,043           | 101.6        | 10,075           | 107.9        | 9,100            | 93.0         | 9,170            | 70.8           | 8,819            | 109.9          |
| HVRP         | 31,746           | 14.4         | 28,962           | 13.7         | 27,620           | 14.0         | 27,504           | 12.8           | 26,975           | 13.8           |
| VWIP         | 8,794            | 3.3          | 8,023            | 3.6          | 7,651            | 3.3          | 7,667            | 3.6            | 9,123            | 3.8            |
| <b>TOTAL</b> | <b>\$251,313</b> | <b>957.3</b> | <b>\$229,274</b> | <b>957.3</b> | <b>\$218,141</b> | <b>990.5</b> | <b>\$218,712</b> | <b>1,002.5</b> | <b>\$215,388</b> | <b>1,094.4</b> |

**Program Outcomes**

Outcomes for the programs comprising VETS' investment in human capital are presented in the Department's Annual Performance Report for FY 2010 available on the DOL website [www.dol.gov/%5Fsec/media/reports/](http://www.dol.gov/%5Fsec/media/reports/).

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**Required Supplementary Information**

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**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

**DEFERRED MAINTENANCE**

The U.S. Department of Labor (DOL) maintains one hundred twenty-four (124) 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
- recommended maintenance schedules
- estimated costs of maintenance actions
- 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 Scores<sup>(1)</sup>**  
**For the Fiscal Years Ended September 30, 2006 – September 30, 2010**

|                        |                  | 2010          |         | 2009          |         | 2008          |         | 2007          |         | 2006 <sup>(2)</sup> |         |
|------------------------|------------------|---------------|---------|---------------|---------|---------------|---------|---------------|---------|---------------------|---------|
| <b>Asset Condition</b> | <b>FCI Score</b> | No. of Assets | Asset % | No. of Assets | Asset % | No. of Assets | Asset % | No. of Assets | Asset % | No. of Assets       | Asset % |
| <b>Excellent</b>       | 90- 100%         | 3,273         | 86.4    | 3,037         | 84.6    | 2,878         | 81.9    | 2,966         | 80.9    | 2,665               | 75.1    |
| <b>Good</b>            | 80- 89%          | 282           | 7.4     | 290           | 8.1     | 311           | 8.9     | 338           | 9.2     | 433                 | 12.2    |
| <b>Fair</b>            | 70- 79%          | 90            | 2.4     | 95            | 2.6     | 115           | 3.3     | 126           | 3.4     | 145                 | 4.1     |
| <b>Poor</b>            | 60- 69%          | 57            | 1.5     | 71            | 2.0     | 89            | 2.5     | 98            | 2.7     | 135                 | 3.8     |
| <b>Very Poor</b>       | < 60%            | 88            | 2.3     | 96            | 2.7     | 118           | 3.4     | 136           | 3.8     | 170                 | 4.8     |
|                        |                  | 3,790         | 100.0   | 3,589         | 100.0   | 3,511         | 100.0   | 3,664         | 100.0   | 3,548               | 100.0   |

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

(2) FCI scores for 2006 were distributed based on modifications to the calculation of asset condition implemented in 2007.

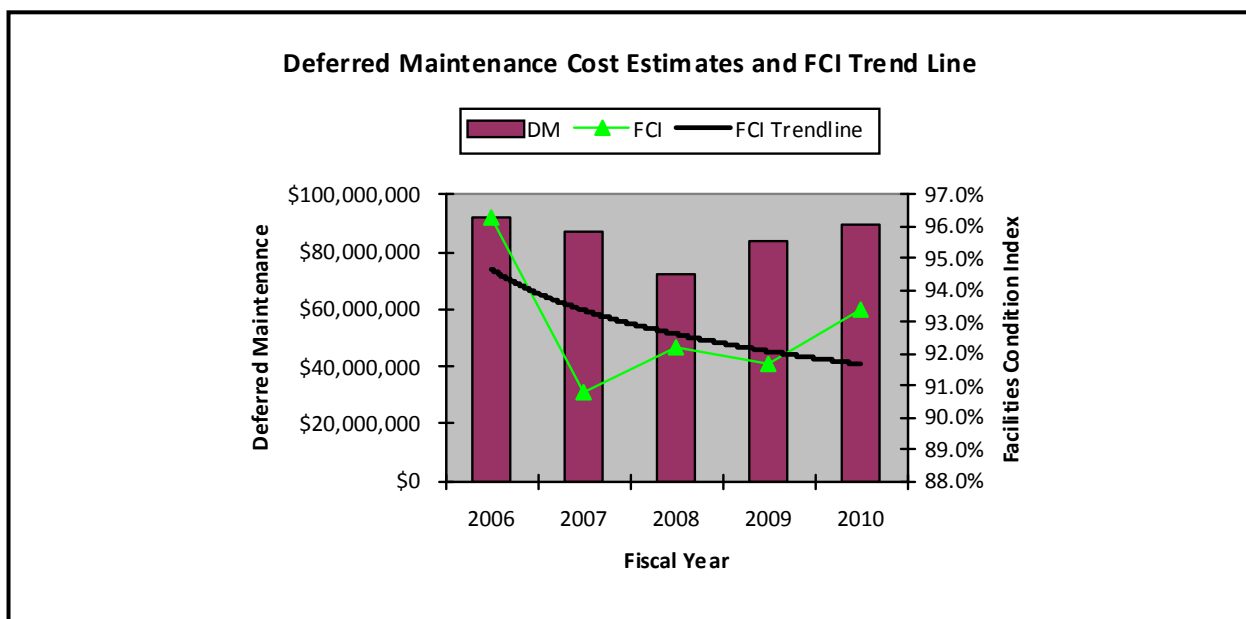
**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

**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 2010, the portfolio's aggregate FCI score for 3,790 constructed assets was 93.4%, and deferred maintenance costs to return the portfolio to an acceptable condition were estimated at \$89.8 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 2010.

**Job Corps Center Constructed Assets  
Portfolio Condition and Deferred Maintenance Cost Estimates at  
September 30, 2006 - 2010**

| <b>Constructed Assets - FY</b>  | <b>Number of Constructed Assets</b> | <b>Portfolio Condition Based on Aggregate FCI Score</b> | <b>Deferred Maintenance Costs to Return Assets To Acceptable Condition</b> |
|---------------------------------|-------------------------------------|---|--|
| 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   |
| Buildings and structures - 2006 | 3,548                               | Excellent - 96.3%                                       | \$92,100,000   |



**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

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**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.

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 through no fault of their own. 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'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 maintain a loan account within the UTF, from which insolvent States may borrow funds 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.

**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 6.2% 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

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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.

**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

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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)

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**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

There are no Federal standards regarding eligibility, amount or duration of regular UI benefits. 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's 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

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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. 111-205, the Unemployment Compensation Extension Act of 2010, which extended the expiration date of the program to November 27, 2010. Emergency benefits were last authorized in 2002 under the Temporary Extended Unemployment Compensation Act. Payments in excess of \$23 billion were paid under the program which ended in January 2005. Prior to that, emergency benefits were authorized in 1991 under the Emergency Unemployment Compensation Act. Emergency benefit payments in excess of \$28 billion were paid over the three year period ended in 1994.

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, 2010, total liabilities within the UTF exceeded total assets by \$17.9 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, 2010 was \$18.9 billion. This interest is distributed to eligible State and Federal accounts within the UTF. Interest income from these investments during FY 2010 was \$0.8 billion. Federal and State UI tax and reimbursable revenues of \$45.2 billion and regular, extended and emergency benefit payment expense of \$143.7 billion were recognized for the year ended September 30, 2010.

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, 2010 were \$5.1 billion.

During FY 2010, 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 \$31.0 billion, of which \$5.0 billion bear interest at 3.375% and \$26.0 billion bear interest at 3.25%, as of September 30, 2010. EUCA had an outstanding repayable advances balance of \$3.1 billion, which bears interest at 3.25%, as of September 30, 2010.

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

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**Subsequent Events**

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

Subsequent to September 30, 2010, the Extended Unemployment Compensation Account (EUCA) of the Unemployment Trust Fund (UTF) borrowed as Advances from U.S. Treasury, \$9.0 billion at interest rates ranging from 2.875% to 3.0%. During the same period, the Federal Unemployment Account (FUA) of the UTF borrowed as Advances from U.S. Treasury, \$10.0 billion at interest rates ranging from 2.875% to 3.0%.

P.L. 111-312, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, was enacted on December 17, 2010. This Act, among other things, authorized continuing 100% Federal funding of extended unemployment benefits to January 4, 2012, and changed the expiration date of the emergency unemployment insurance program to January 3, 2012.

**Effect of Projected Cash Inflows and Outflows on the Accumulated Net Assets of the UTF**

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 and interest rates on UTF investments.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

**Expected Economic Conditions**

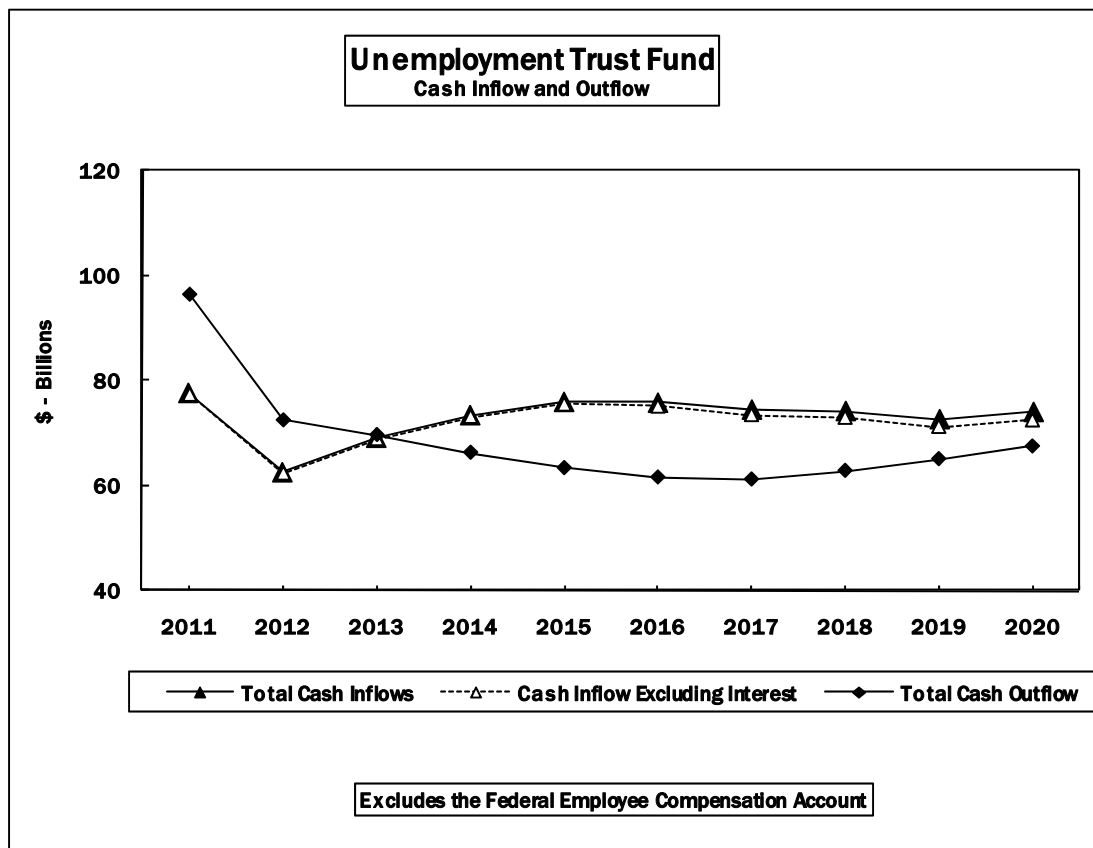
Charts I and II graphically depict the effect of expected economic conditions on the UTF over the next ten years.

Projected Cash Inflows and Outflows Under Expected Economic Conditions

Chart I depicts projected cash inflows and outflows of the UTF 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 9.27% during FY 2011, decreasing steadily to below 6% in FY 2015 and thereafter. Total cash outflows exceed total cash inflows through FY 2013, whereas total cash inflows exceed total cash outflows beginning in FY 2014 and through the end of the projected period. The net outflow decreases from \$18.9 billion in FY 2011 to \$0.5 billion in FY 2013. The net inflow increases from \$7.2 billion in FY 2014 to \$14.3 billion in FY 2016, and ranges between \$13.4 billion to \$6.6 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 decreasing net cash outflow from FY 2011 to FY 2013, then net cash inflows at varied levels through 2020.

Chart I



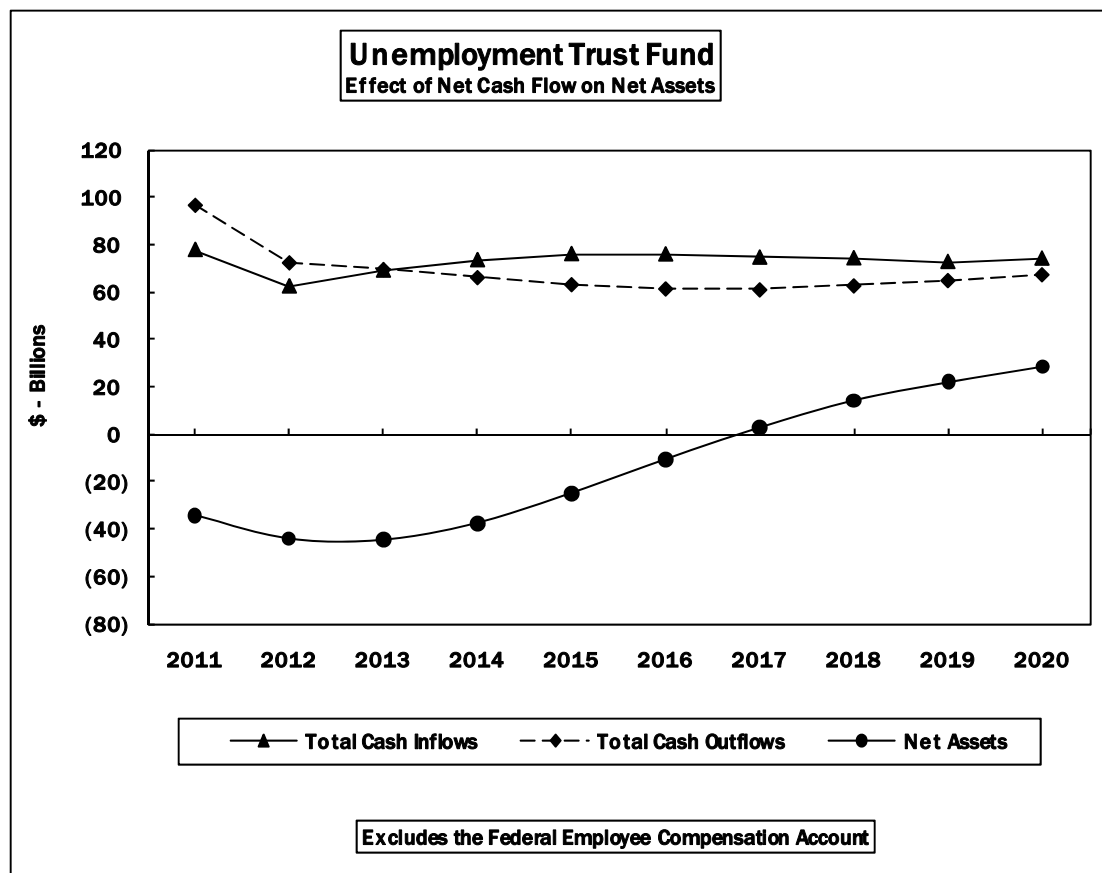
**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

Effect of Expected Cash Flows on UTF Assets

Chart II demonstrates the effect of these expected cash inflows and outflows on the net assets of the UTF over the ten year period ended September 30, 2020. 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 FYs 2011 through 2013 and total cash inflows exceed total cash outflows beginning in FY 2014 and all other years in the projected period. The excess of total cash inflows over total cash outflows peaks in FY 2016. Starting at \$15.4 billion fund balance deficit at the beginning of FY 2011, net UTF assets decrease by \$29.4 billion over the next three years to an \$44.8 billion fund balance deficit by the end of FY 2013 and then increase by \$73.2 billion over the next seven years to a \$28.4 billion fund net assets balance by the end of FY 2020. The fund is in a deficit situation from FY 2011 through FY 2016.

**Chart II**



**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

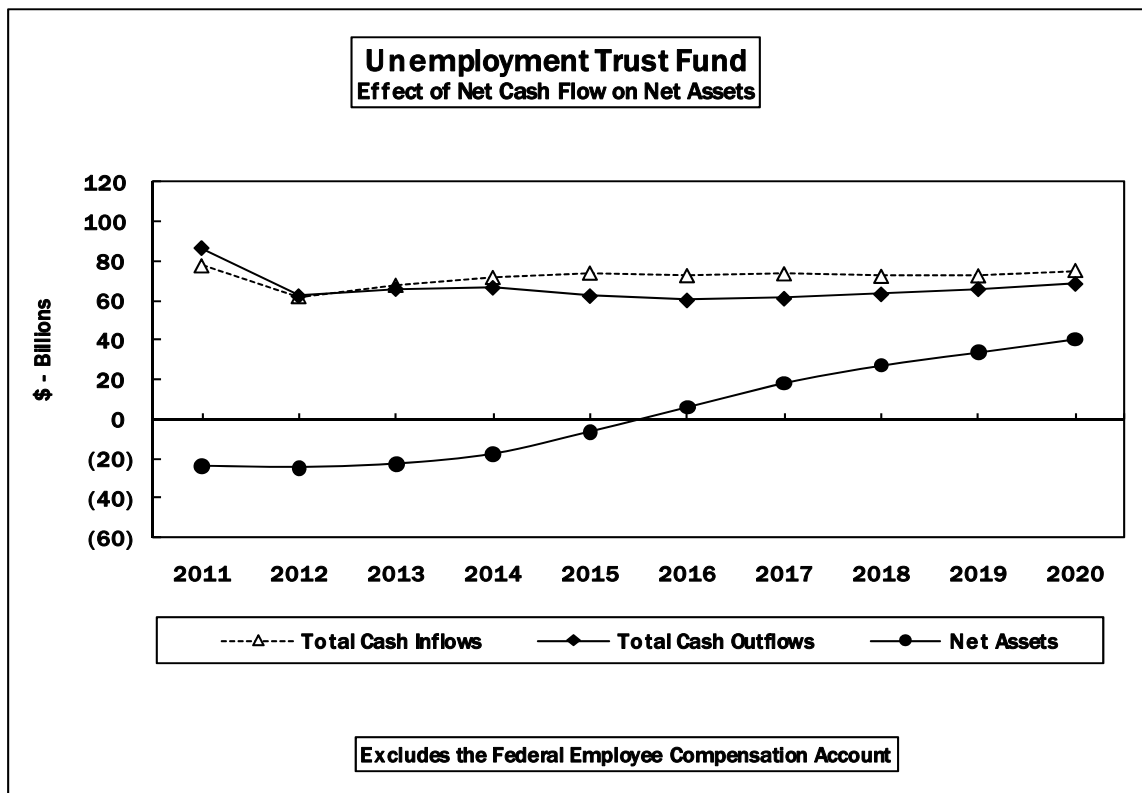
**Recovery Scenarios**

Charts III and IV demonstrate the effect on accumulated UTF assets of projected total cash inflows and cash outflows of the UTF over the ten year period ending September 30, 2020, under two recovery scenarios. Each scenario uses an open group, which includes current and future participants in the UI program. Chart III assumes decreasing rates of unemployment beginning in FY 2011 and Chart IV assumes higher unemployment in FY 2011 and then decreasing rates of unemployment beginning in FY 2012.

Effect on UTF Assets of Recovery Scenario I

The Department projects the effect of decreasing unemployment rates beginning in FY 2011 on the cash inflows and outflows of the UTF. Under this scenario, which utilizes a decreasing unemployment rate of 8.30% beginning in FY 2011, net cash outflows including projected interest earnings and expenses from Federal sources are projected in FY 2011 and FY 2012. Net cash inflows are reestablished in FY 2013 and peak in FY 2017 with a drop in the unemployment rate to 5.2% for FYs 2017 through 2020. Starting at a \$15.4 billion fund balance deficit at the beginning of FY 2011, net UTF assets decrease by \$9.2 billion to a \$24.6 billion fund balance deficit in FY 2012 and then increase by \$65.2 billion over the next eight years to a \$40.6 billion fund net assets balance by the end of FY 2020. The fund is in a deficit situation from FY 2011 to FY 2015.

Chart III

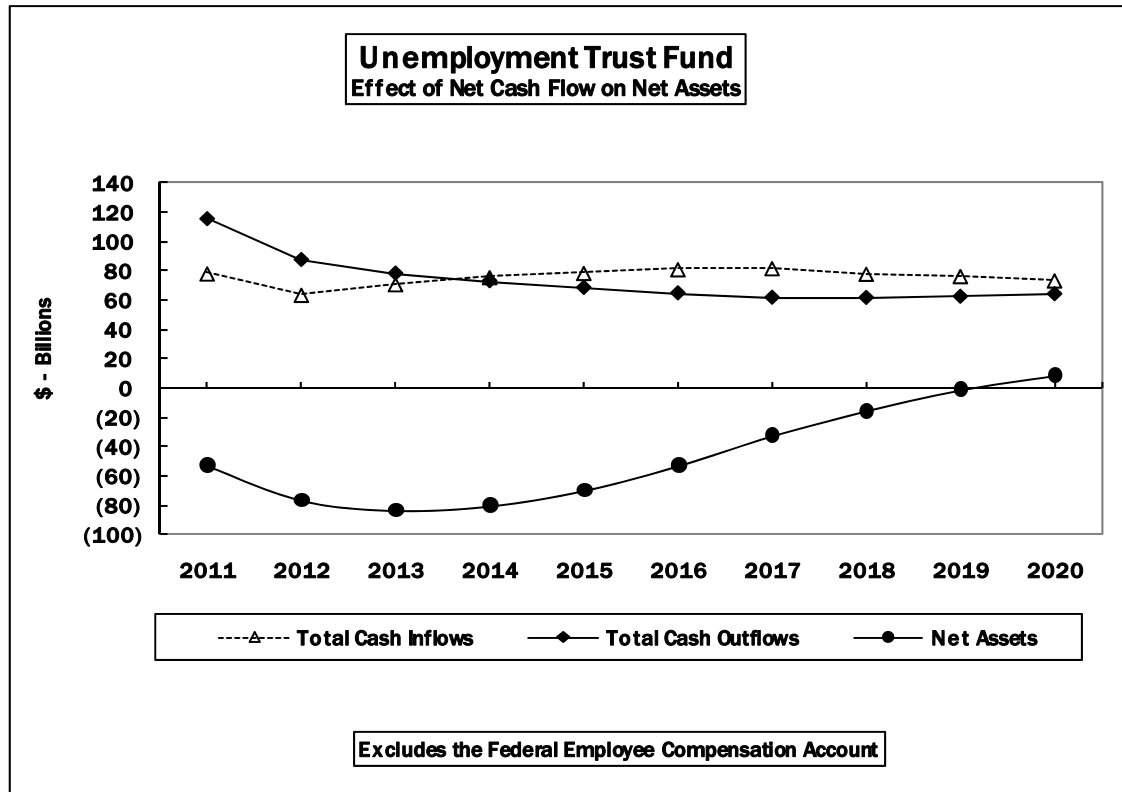


**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

Effect on UTF Assets of Recovery Scenario II

The Department also estimates the effects of an increasing unemployment rate of 10.38% in FY 2011 and decreasing unemployment rates beginning in FY 2012 on the cash inflows and outflows of the UTF. Net cash outflows including projected interest earnings and expenses from Federal sources are projected in FY 2011 through FY 2013, with the fund in a deficit situation from 2011 to 2019. The net assets of the UTF decrease \$68.0 billion from a \$15.4 billion fund balance deficit at the beginning of FY 2011 to an \$83.4 billion fund balance deficit in 2013. Net cash inflows are reestablished in FY 2014 and peak in FY 2017 with a drop in the unemployment rate to 5.3% and then slightly lower rates for FYs 2018 through 2020. By the end of FY 2020, this positive cash flow has increased the UTF fund balance to \$8.6 billion. At the end of the projection period of recovery scenario II, net assets are \$19.8 billion less than under expected economic conditions.

Chart IV



The three examples of expected economic conditions and two recovery scenarios 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 borrow funds from the FUA to meet benefit payment requirements. State borrowing demands 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.)

**SUPPLEMENTARY SOCIAL INSURANCE INFORMATION**  
**CASH INFLOW AND OUTFLOW OF THE**  
**UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT**  
**FOR THE TEN YEAR PERIOD ENDING SEPTEMBER 30, 2020**  
**(1) EXPECTED ECONOMIC CONDITIONS**

| (Dollars in thousands)   | 2011            | 2012            | 2013            | 2014            | 2015            | 2016            | 2017            | 2018          | 2019          | 2020          |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|---------------|---------------|
| <b>Balance, start of year</b>  | \$ (15,430,104) | \$ (34,344,403) | \$ (44,268,606) | \$ (44,794,889) | \$ (37,607,974) | \$ (24,952,472) | \$ (10,639,924) | \$ 2,737,364  | \$ 14,200,655 | \$ 21,840,966 |
| <b>Cash inflow</b>   |                 |                 |                 |                 |                 |                 |                 |               |               |               |
| State unemployment taxes   | 47,183,000      | 52,183,000      | 55,848,000      | 57,481,000      | 57,900,000      | 57,181,000      | 56,402,000      | 55,428,000    | 55,265,000    | 56,001,000    |
| Federal unemployment taxes   | 7,034,000       | 7,687,000       | 10,397,000      | 12,963,000      | 14,934,000      | 15,375,000      | 14,699,000      | 15,359,000    | 13,964,000    | 14,642,000    |
| General revenue appropriation  | 21,555,000      | 3,000           | -               | -               | -               | -               | -               | -             | -             | -             |
| Interest on loans  | 1,376,000       | 2,146,000       | 2,442,000       | 2,594,000       | 2,589,000       | 2,454,000       | 2,237,000       | 2,006,000     | 1,825,000     | 1,691,000     |
| CMIA receipts  | 2,300           | 2,300           | 2,300           | 2,300           | 2,300           | 2,300           | 2,300           | 2,300         | 2,300         | 2,300         |
| Deposits by the Railroad Retirement Board                              | 201,635         | 273,435         | 176,135         | 70,435          | 52,035          | 69,635          | 116,535         | 152,735       | 139,935       | 109,635       |
| Total cash inflow excluding interest                                   | 77,351,935      | 62,294,735      | 68,865,435      | 73,110,735      | 75,477,335      | 75,081,935      | 73,456,835      | 72,948,035    | 71,196,235    | 72,445,935    |
| Interest on Federal securities   | 334,421         | 247,098         | 260,165         | 332,350         | 478,898         | 731,021         | 1,033,760       | 1,288,926     | 1,467,045     | 1,611,432     |
| Total cash inflow  | 77,686,356      | 62,541,833      | 69,125,600      | 73,443,085      | 75,956,233      | 75,812,956      | 74,490,595      | 74,236,961    | 72,663,280    | 74,057,367    |
| <b>Cash outflow</b>  |                 |                 |                 |                 |                 |                 |                 |               |               |               |
| State unemployment benefits  | 90,100,000      | 66,110,000      | 62,929,000      | 59,304,000      | 56,253,000      | 54,568,000      | 54,342,000      | 56,192,000    | 58,536,000    | 61,012,000    |
| State administrative costs   | 4,922,000       | 4,641,000       | 4,689,000       | 4,740,000       | 4,837,000       | 4,952,000       | 5,071,000       | 5,191,000     | 5,318,000     | 5,445,000     |
| Federal administrative costs   | 194,524         | 198,924         | 203,441         | 208,078         | 213,839         | 219,730         | 226,753         | 233,915       | 240,219       | 247,670       |
| Interest on tax refunds  | 2,476           | 2,459           | 3,250           | 4,361           | 5,544           | 6,314           | 6,373           | 6,857         | 6,336         | 6,738         |
| CMIA interest payment  | -               | -               | -               | -               | -               | -               | -               | -             | -             | -             |
| Interest on advances   | 1,250,000       | 1,400,000       | 1,720,000       | 1,890,000       | 1,880,000       | 1,640,000       | 1,350,000       | 1,030,000     | 800,000       | 620,000       |
| Railroad Retirement Board withdrawals                                  | 131,655         | 113,653         | 107,192         | 109,731         | 111,348         | 114,364         | 117,181         | 119,898       | 122,414       | 125,031       |
| Total cash outflow   | 96,600,655      | 72,466,036      | 69,651,883      | 66,256,170      | 63,300,731      | 61,500,408      | 61,113,307      | 62,773,670    | 65,022,969    | 67,456,439    |
| Excess of total cash inflow excluding interest over total cash outflow | (19,248,720)    | (10,171,301)    | (786,448)       | 6,854,565       | 12,176,604      | 13,581,527      | 12,343,528      | 10,174,365    | 6,173,266     | 4,989,496     |
| Excess of total cash inflow over total cash outflow                    | (18,914,299)    | (9,924,203)     | (526,283)       | 7,186,915       | 12,655,502      | 14,312,548      | 13,377,288      | 11,463,291    | 7,640,311     | 6,600,928     |
| <b>Balance, end of year</b>  | \$ (34,344,403) | \$ (44,268,606) | \$ (44,794,889) | \$ (37,607,974) | \$ (24,952,472) | \$ (10,639,924) | \$ 2,737,364    | \$ 14,200,655 | \$ 21,840,966 | \$ 28,441,894 |
| Total unemployment rate  | 9.27%           | 8.32%           | 7.35%           | 6.50%           | 5.85%           | 5.42%           | 5.20%           | 5.20%         | 5.20%         | 5.20%         |



U.S. DEPARTMENT OF LABOR  
 SUPPLEMENTARY SOCIAL INSURANCE INFORMATION  
 CASH INFLOW AND OUTFLOW OF THE  
 UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT  
 FOR THE TEN YEAR PERIOD ENDING SEPTEMBER 30, 2020  
 (2) RECOVERY SCENARIO I UNEMPLOYMENT RATE

| (Dollars in thousands)   | 2011                   | 2012                   | 2013                   | 2014                   | 2015                  | 2016                | 2017                 | 2018                 | 2019                 | 2020                 |
|--|------------------------|------------------------|------------------------|------------------------|-----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Balance, start of year</b>  | \$ (15,430,104)        | \$ (24,037,033)        | \$ (24,593,350)        | \$ (22,861,632)        | \$ (17,758,204)       | \$ (6,345,983)      | \$ 5,898,428         | \$ 18,256,785        | \$ 27,152,508        | \$ 33,825,170        |
| <b>Cash inflow</b>   |                        |                        |                        |                        |                       |                     |                      |                      |                      |                      |
| State unemployment taxes   | 47,450,000             | 51,866,000             | 54,879,000             | 56,435,000             | 56,462,000            | 56,340,000          | 56,177,000           | 55,653,000           | 54,989,000           | 56,813,000           |
| Federal unemployment taxes   | 7,109,000              | 7,797,000              | 10,508,000             | 12,807,000             | 14,765,000            | 13,359,000          | 14,248,000           | 13,372,000           | 14,259,000           | 15,173,000           |
| General revenue appropriation  | 21,211,000             | -                      | -                      | -                      | -                     | -                   | -                    | -                    | -                    | -                    |
| Interest on loans  | 1,263,000              | 1,752,000              | 1,888,000              | 2,050,000              | 2,122,000             | 2,082,000           | 1,934,000            | 1,785,000            | 1,673,000            | 1,580,000            |
| CMIA receipts  | 2,300                  | 2,300                  | 2,300                  | 2,300                  | 2,300                 | 2,300               | 2,300                | 2,300                | 2,300                | 2,300                |
| Deposits by the Railroad Retirement Board                              | 201,635                | 273,435                | 176,135                | 70,435                 | 52,035                | 69,635              | 116,535              | 152,735              | 139,935              | 109,635              |
| <b>Total cash inflow excluding interest</b>                            | <b>77,236,935</b>      | <b>61,690,735</b>      | <b>67,453,435</b>      | <b>71,364,735</b>      | <b>73,403,335</b>     | <b>71,852,935</b>   | <b>72,477,835</b>    | <b>70,965,035</b>    | <b>71,063,235</b>    | <b>73,677,935</b>    |
| Interest on Federal securities   | 465,967                | 323,169                | 348,401                | 421,011                | 594,705               | 856,106             | 1,154,084            | 1,385,871            | 1,548,230            | 1,658,985            |
| <b>Total cash inflow</b>   | <b>77,702,902</b>      | <b>62,013,904</b>      | <b>67,801,836</b>      | <b>71,785,746</b>      | <b>73,998,040</b>     | <b>72,709,041</b>   | <b>73,631,919</b>    | <b>72,350,906</b>    | <b>72,611,465</b>    | <b>75,336,920</b>    |
| <b>Cash outflow</b>  |                        |                        |                        |                        |                       |                     |                      |                      |                      |                      |
| State unemployment benefits  | 80,061,000             | 56,779,000             | 59,994,000             | 60,359,000             | 56,124,000            | 54,018,000          | 54,894,000           | 57,170,000           | 59,685,000           | 62,317,000           |
| State administrative costs   | 4,760,150              | 4,456,150              | 4,602,200              | 4,731,200              | 4,821,150             | 4,927,050           | 5,059,450            | 5,185,400            | 5,314,700            | 5,443,700            |
| Federal administrative costs   | 194,524                | 198,924                | 203,441                | 208,078                | 213,839               | 219,730             | 226,753              | 233,915              | 240,219              | 247,670              |
| Interest on tax refunds  | 2,502                  | 2,494                  | 3,285                  | 4,309                  | 5,482                 | 5,486               | 6,178                | 5,970                | 6,470                | 6,982                |
| CMIA interest payment  | -                      | -                      | -                      | -                      | -                     | -                   | -                    | -                    | -                    | -                    |
| Interest on advances   | 1,160,000              | 1,020,000              | 1,160,000              | 1,270,000              | 1,310,000             | 1,180,000           | 970,000              | 740,000              | 570,000              | 430,000              |
| Railroad Retirement Board withdrawals                                  | 131,655                | 113,653                | 107,192                | 109,731                | 111,348               | 114,364             | 117,181              | 119,898              | 122,414              | 125,031              |
| <b>Total cash outflow</b>  | <b>86,309,831</b>      | <b>62,570,221</b>      | <b>66,070,118</b>      | <b>66,682,318</b>      | <b>62,585,819</b>     | <b>60,464,630</b>   | <b>61,273,562</b>    | <b>63,455,183</b>    | <b>65,938,803</b>    | <b>68,570,383</b>    |
| Excess of total cash inflow excluding interest over total cash outflow | (9,072,896)            | (879,486)              | 1,383,317              | 4,682,417              | 10,817,516            | 11,388,305          | 11,204,273           | 7,509,852            | 5,124,432            | 5,107,552            |
| Excess of total cash inflow over total cash outflow                    | (8,606,929)            | (556,317)              | 1,731,718              | 5,103,428              | 11,412,221            | 12,244,411          | 12,358,357           | 8,895,723            | 6,672,662            | 6,766,537            |
| <b>Balance, end of year</b>  | <b>\$ (24,037,033)</b> | <b>\$ (24,593,350)</b> | <b>\$ (22,861,632)</b> | <b>\$ (17,758,204)</b> | <b>\$ (6,345,983)</b> | <b>\$ 5,898,428</b> | <b>\$ 18,256,785</b> | <b>\$ 27,152,508</b> | <b>\$ 33,825,170</b> | <b>\$ 40,591,707</b> |
| Total unemployment rate  | 8.30%                  | 7.32%                  | 7.11%                  | 6.67%                  | 5.76%                 | 5.31%               | 5.20%                | 5.20%                | 5.20%                | 5.20%                |

U.S. DEPARTMENT OF LABOR  
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION  
CASH INFLOW AND OUTFLOW OF THE  
UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT  
FOR THE TEN YEAR PERIOD ENDING SEPTEMBER 30, 2020  
(3) RECOVERY SCENARIO II UNEMPLOYMENT RATE

| (Dollars in thousands)   | 2011                   | 2012                   | 2013                   | 2014                   | 2015                   | 2016                   | 2017                   | 2018                   | 2019                  | 2020                |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------------|---------------------|
| <b>Balance, start of year</b>  | \$ (15,430,104)        | \$ (52,679,345)        | \$ (76,373,129)        | \$ (83,395,370)        | \$ (80,405,025)        | \$ (69,890,869)        | \$ (53,055,154)        | \$ (32,488,358)        | \$ (15,572,690)       | \$ (1,116,939)      |
| <b>Cash inflow</b>   |                        |                        |                        |                        |                        |                        |                        |                        |                       |                     |
| State unemployment taxes   | 47,238,000             | 52,946,000             | 56,973,000             | 58,745,000             | 59,038,000             | 58,990,000             | 58,543,000             | 56,634,000             | 55,162,000            | 54,447,000          |
| Federal unemployment taxes   | 6,960,000              | 7,572,000              | 10,285,000             | 12,888,000             | 15,107,000             | 17,515,000             | 18,692,000             | 16,930,000             | 17,051,000            | 15,085,000          |
| General revenue appropriation  | 22,116,000             | 9,000                  | -                      | -                      | -                      | -                      | -                      | -                      | -                     | -                   |
| Interest on loans  | 1,585,000              | 2,789,000              | 3,402,000              | 3,839,000              | 4,093,000              | 3,964,000              | 3,574,000              | 3,111,000              | 2,692,000             | 2,386,000           |
| CMIA receipts  | 2,300                  | 2,300                  | 2,300                  | 2,300                  | 2,300                  | 2,300                  | 2,300                  | 2,300                  | 2,300                 | 2,300               |
| Deposits by the Railroad Retirement Board                              | 201,635                | 273,435                | 176,135                | 70,435                 | 52,035                 | 69,635                 | 116,535                | 152,735                | 139,935               | 109,635             |
| <b>Total cash inflow excluding interest</b>                            | <b>78,102,935</b>      | <b>63,591,735</b>      | <b>70,838,435</b>      | <b>75,544,735</b>      | <b>78,292,335</b>      | <b>80,540,935</b>      | <b>80,927,835</b>      | <b>76,830,035</b>      | <b>75,047,235</b>     | <b>72,029,935</b>   |
| Interest on Federal securities   | 310,553                | 228,680                | 246,372                | 321,855                | 470,417                | 774,317                | 1,111,150              | 1,396,604              | 1,551,986             | 1,635,851           |
| <b>Total cash inflow</b>   | <b>78,413,488</b>      | <b>63,820,415</b>      | <b>71,084,807</b>      | <b>75,866,590</b>      | <b>78,762,752</b>      | <b>81,315,252</b>      | <b>82,038,985</b>      | <b>78,226,639</b>      | <b>76,599,221</b>     | <b>73,665,786</b>   |
| <b>Cash outflow</b>  |                        |                        |                        |                        |                        |                        |                        |                        |                       |                     |
| State unemployment benefits  | 108,614,000            | 80,227,000             | 70,198,000             | 64,513,000             | 59,522,000             | 55,812,000             | 53,155,000             | 53,391,000             | 54,593,000            | 56,583,000          |
| State administrative costs   | 5,240,100              | 4,952,200              | 4,895,200              | 4,901,100              | 4,965,800              | 5,046,250              | 5,125,150              | 5,218,600              | 5,330,100             | 5,452,450           |
| Federal administrative costs   | 194,524                | 198,924                | 203,441                | 208,078                | 213,839                | 219,730                | 226,753                | 233,915                | 240,219               | 247,670             |
| Interest on tax refunds  | 2,450                  | 2,422                  | 3,215                  | 4,336                  | 5,609                  | 7,193                  | 8,105                  | 7,558                  | 7,737                 | 6,942               |
| CMIA interest payment  | -                      | -                      | -                      | -                      | -                      | -                      | -                      | -                      | -                     | -                   |
| Interest on advances   | 1,480,000              | 2,020,000              | 2,700,000              | 3,140,000              | 3,430,000              | 3,280,000              | 2,840,000              | 2,340,000              | 1,850,000             | 1,490,000           |
| Railroad Retirement Board withdrawals                                  | 131,655                | 113,653                | 107,192                | 109,731                | 111,348                | 114,364                | 117,181                | 119,898                | 122,414               | 125,031             |
| <b>Total cash outflow</b>  | <b>115,662,729</b>     | <b>87,514,199</b>      | <b>78,107,048</b>      | <b>72,876,245</b>      | <b>68,248,596</b>      | <b>64,479,537</b>      | <b>61,472,189</b>      | <b>61,310,971</b>      | <b>62,143,470</b>     | <b>63,905,093</b>   |
| Excess of total cash inflow excluding interest over total cash outflow | (37,559,794)           | (23,922,464)           | (7,268,613)            | 2,668,490              | 10,043,739             | 16,061,398             | 19,455,646             | 15,519,064             | 12,903,765            | 8,124,842           |
| Excess of total cash inflow over total cash outflow                    | (37,249,241)           | (23,693,784)           | (7,022,241)            | 2,990,345              | 10,514,156             | 16,835,715             | 20,566,796             | 16,915,668             | 14,455,751            | 9,760,693           |
| <b>Balance, end of year</b>  | <b>\$ (52,679,345)</b> | <b>\$ (76,373,129)</b> | <b>\$ (83,395,370)</b> | <b>\$ (80,405,025)</b> | <b>\$ (69,890,869)</b> | <b>\$ (53,055,154)</b> | <b>\$ (32,488,358)</b> | <b>\$ (15,572,690)</b> | <b>\$ (1,116,939)</b> | <b>\$ 8,643,754</b> |
| <b>Total unemployment rate</b>   | <b>10.38%</b>          | <b>9.42%</b>           | <b>8.25%</b>           | <b>7.20%</b>           | <b>6.35%</b>           | <b>5.72%</b>           | <b>5.30%</b>           | <b>5.20%</b>           | <b>5.20%</b>          | <b>5.20%</b>        |

**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 1.0 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.

Chart V presents the State by State results of this analysis at September 30, 2010 in descending order by ratio. As the table below illustrates, 44 state funds were below the minimal solvency ratio of 1.00 at September 30, 2010.

Chart V

| Minimally Solvent    |       | Not Minimally Solvent |       | Not Minimally Solvent |       |
|----------------------|-------|-----------------------|-------|-----------------------|-------|
| State                | Ratio | State                 | Ratio | State                 | Ratio |
| Louisiana            | 1.79  | Utah                  | 0.97  | Colorado              | 0.00  |
| Nebraska             | 1.40  | Montana               | 0.85  | Rhode Island          | 0.00  |
| Mississippi          | 1.39  | Oregon                | 0.81  | Idaho                 | 0.00  |
| Wyoming              | 1.30  | Puerto Rico           | 0.79  | Texas                 | 0.00  |
| District of Columbia | 1.15  | Oklahoma              | 0.79  | Minnesota             | 0.00  |
| Washington           | 1.12  | New Mexico            | 0.61  | New Jersey            | 0.00  |
| Alaska               | 1.08  | South Dakota          | 0.59  | New York              | 0.00  |
| Maine                | 1.05  | Iowa                  | 0.58  | Arkansas              | 0.00  |
| North Dakota         | 1.02  | West Virginia         | 0.33  | Virgin Islands        | 0.00  |
|                      |       | Maryland              | 0.28  | Illinois              | 0.00  |
|                      |       | Tennessee             | 0.25  | Florida               | 0.00  |
|                      |       | Massachusetts         | 0.06  | Pennsylvania          | 0.00  |
|                      |       | Kansas                | 0.05  | Nevada                | 0.00  |
|                      |       | Hawaii                | 0.05  | Missouri              | 0.00  |
|                      |       | New Hampshire         | 0.03  | Wisconsin             | 0.00  |
|                      |       | Delaware              | 0.00  | California            | 0.00  |
|                      |       | Arizona               | 0.00  | Kentucky              | 0.00  |
|                      |       | Vermont               | 0.00  | Ohio                  | 0.00  |
|                      |       | Virginia              | 0.00  | South Carolina        | 0.00  |
|                      |       | Georgia               | 0.00  | Michigan              | 0.00  |
|                      |       | Alabama               | 0.00  | North Carolina        | 0.00  |
|                      |       | Connecticut           | 0.00  | Indiana               | 0.00  |

**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

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**Black Lung Disability Benefit Program**

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 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 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 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 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.

**Program Finances and Sustainability**

At September 30, 2010, total liabilities of the BLDTF exceeded assets by \$6.2 billion. This deficit fund balance represents the accumulated shortfall of excise taxes necessary to meet benefit payments, administrative costs, and interest expense incurred prior 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, 2010 was \$6.3 billion, bearing interest rates ranging from 0.267% to 4.556%. Excise tax revenues of \$594.8 million, benefit payment expense of \$221.0 million and interest expense of \$223.9 million were recognized for the year ended September 30, 2010. 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, 2010, the BLDTF issued debt in the amount of \$60.0 million, bearing interest at 0.267% and maturing on September 30, 2011. At September 30, 2010, there were 31 debt instruments with staggered maturities of September 30 for years 2011 through 2040, with a total carrying

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

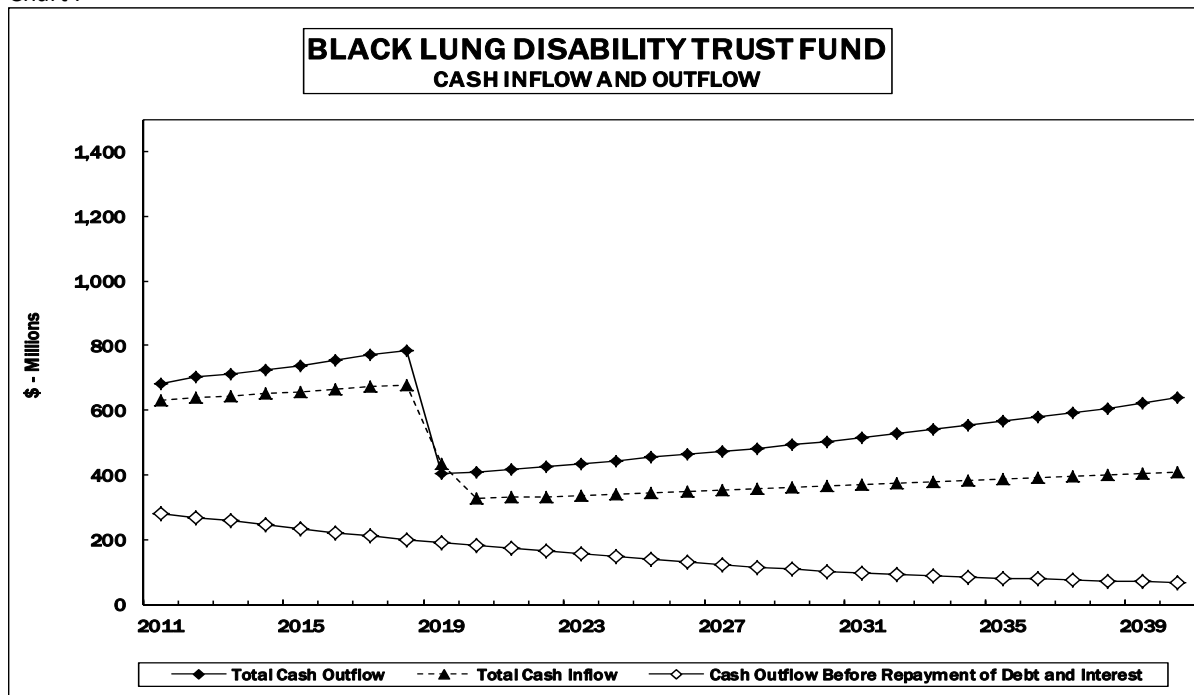
value of \$6,289.8 million and a total face value at maturity of \$10,776.8 million. Of these 31 debt instruments, 30 are from the October 2008 refinancing and one debt instrument was issued on September 30, 2010.

As discussed in Note 1.K.3, DOL recognized a liability for disability benefits to the extent of unpaid benefits applicable to the current period. Accrued disability benefits payable at September 30, 2010 were \$16.9 million. Although no liability was recognized for future payments to be made to present and future program participants beyond the due and payable amounts accrued at year end, future estimated cash inflows and outflows of the BLDTF are tracked by the Department for budgetary purposes. The significant assumptions used in the projections are coal excise tax revenue estimates, number of beneficiaries, life expectancy, medical cost inflation, Federal civilian pay raises, and the interest rate on new debt issued by the BLDTF. These projections are sensitive to changes in the tax rate and changes in interest rates on debt issued by the BLDTF.

These projections, made over the thirty 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 \$13.3 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 turns negative in 2011 and each of the subsequent periods included in the projections. Net cash outflows after payments on maturing debt are projected to reach \$17.0 billion by the end of the year 2040, resulting in a projected deficit of \$4.1 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, 2010, 2009, 2008, 2007, and 2006 are presented in the Statement of Social Insurance. Yearly cash inflows and outflows are presented in the table on the following page. The table presentation has been changed to (1) identify the maturity of obligations and reduction of debt as the debt that was refinanced in October 2008 and (2) include interest on annual borrowing.

Chart I



**U.S. DEPARTMENT OF LABOR  
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION  
CASH INFLOW AND OUTFLOW OF THE BLACK LUNG DISABILITY TRUST FUND  
FOR THE THIRTY-ONE YEAR PERIOD ENDING SEPTEMBER 30, 2040**

| (Dollars in thousands)   | 2011           | 2012           | 2013           | 2014           | 2015           | 2016 - 2040    | Total          |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Balance, start of year</b>  | \$ (6,238,612) | \$ (5,910,338) | \$ (5,579,036) | \$ (5,249,566) | \$ (4,926,832) | \$ (4,610,748) | \$ (6,238,612) |
| <b>Cash inflow</b>   |                |                |                |                |                |                |                |
| Excise taxes   | 629,000        | 638,000        | 645,000        | 650,000        | 658,000        | 10,107,084     | 13,327,084     |
| <b>Total cash inflow</b>   | 629,000        | 638,000        | 645,000        | 650,000        | 658,000        | 10,107,084     | 13,327,084     |
| <b>Cash outflow</b>  |                |                |                |                |                |                |                |
| Disabled coal miners benefits  | 219,795        | 207,737        | 195,377        | 183,328        | 171,662        | 2,117,864      | 3,095,763      |
| Administrative costs   | 59,152         | 61,150         | 61,150         | 61,150         | 61,150         | 1,041,189      | 1,344,941      |
| Cash outflows before repayment of<br>debt and interest                 | 278,947        | 268,887        | 256,527        | 244,478        | 232,812        | 3,159,053      | 4,440,704      |
| Cash inflow over cash outflow<br>before repayment of debt and interest | 350,053        | 369,113        | 388,473        | 405,522        | 425,188        | 6,948,031      | 8,886,380      |
| Maturity of obligations refinanced October 2008                        | 400,905        | 431,486        | 452,439        | 472,849        | 492,609        | 8,466,535      | 10,716,823     |
| Interest on annual borrowings  | 160            | 612            | 2,967          | 7,322          | 12,264         | 1,816,796      | 1,840,121      |
| <b>Total cash outflow</b>  | 680,012        | 700,985        | 711,933        | 724,649        | 737,685        | 13,442,384     | 16,997,648     |
| <b>Total cash outflow over total cash inflow</b>                       | (51,012)       | (62,985)       | (66,933)       | (74,649)       | (79,685)       | (3,335,300)    | (3,670,564)    |
| Reduction of debt refinanced October 2008                              | 379,286        | 394,287        | 396,403        | 397,383        | 395,769        | 3,841,692      | 5,804,820      |
| <b>Balance, end of year</b>  | \$ (5,910,338) | \$ (5,579,036) | \$ (5,249,566) | \$ (4,926,832) | \$ (4,610,748) | \$ (4,104,356) | \$ (4,104,356) |

**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

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The preceding discussion of the Black Lung Disability Benefit Program does not reflect the effects of the subsequent event described below.

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. (See Note 23)

**STATEMENT OF BUDGETARY RESOURCES**

The principal Statement of Budgetary Resources combines the availability, status and outlay of DOL's budgetary resources during FY 2010 and 2009. Presented on the following pages is the disaggregation of this combined information for each of the Department's major budget accounts.

## REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

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

| <b>(Dollars in thousands)</b>  | <b>Employment<br/>and Training<br/>Administration</b> | <b>Employment<br/>Standards<br/>Administration</b> | <b>Office<br/>of<br/>Job Corps</b> |
|--|---|--|------------------------------------|
| <b>BUDGETARY RESOURCES</b>   |   |  |                                    |
| 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)                           |
| <b>Total budgetary resources</b>   | <b>\$ 252,437,771</b>                                 | <b>\$ 6,178,170</b>                                | <b>\$ 2,502,368</b>                |
| <b>STATUS OF BUDGETARY RESOURCES</b>   |   |  |                                    |
| 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                             |
| <b>Total status of budgetary resources</b>   | <b>\$ 252,437,771</b>                                 | <b>\$ 6,178,170</b>                                | <b>\$ 2,502,368</b>                |
| <b>CHANGE IN OBLIGATED BALANCE</b>   |   |  |                                    |
| Obligated balance, net   |   |  |                                    |
| Unpaid obligations, brought forward, October 1   | \$ 16,643,118   | \$ 269,839   | \$ 582,354                         |
| Less uncollected customer payments from Federal sources,<br>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                                     | <b>\$ 15,064,661</b>                                  | <b>\$ 300,435</b>                                  | <b>\$ 454,841</b>                  |
| <b>NET OUTLAYS</b>   |   |  |                                    |
| 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  | <b>\$ 188,290,919</b>                                 | <b>\$ (17,794,115)</b>                             | <b>\$ 1,836,865</b>                |



**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

| <u>Occupational<br/>Safety and Health<br/>Administration</u> | <u>Bureau of<br/>Labor<br/>Statistics</u> | <u>Mine Safety<br/>and Health<br/>Administration</u> | <u>Employee Benefits<br/>Security<br/>Administration</u> | <u>Veterans'<br/>Employment<br/>and Training</u> | <u>Other<br/>Departmental<br/>Programs</u> | <u>Total</u>          |
|--|---|--|--|--|--|-----------------------|
| \$ 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)           |
| <u>\$ 592,140</u>  | <u>\$ 627,327</u>                         | <u>\$ 369,096</u>                                    | <u>\$ 174,959</u>  | <u>\$ 260,196</u>                                | <u>\$ 825,997</u>                          | <u>\$ 263,968,024</u> |
| \$ 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               |
| <u>\$ 592,140</u>  | <u>\$ 627,327</u>                         | <u>\$ 369,096</u>                                    | <u>\$ 174,959</u>  | <u>\$ 260,196</u>                                | <u>\$ 825,997</u>                          | <u>\$ 263,968,024</u> |
| \$ 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)           |
| <u>\$ 102,156</u>  | <u>\$ 113,807</u>                         | <u>\$ 37,810</u>                                     | <u>\$ 46,436</u>   | <u>\$ 72,850</u>                                 | <u>\$ 343,543</u>                          | <u>\$ 16,536,539</u>  |
| \$ 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)          |
| <u>\$ 532,355</u>  | <u>\$ 515,696</u>                         | <u>\$ 354,109</u>                                    | <u>\$ 84,263</u>   | <u>\$ 39,135</u>                                 | <u>\$ 427,194</u>                          | <u>\$ 174,286,421</u> |

## REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
**For the Year Ended September 30, 2009**

| <u>(Dollars in thousands)</u>  | <u>Employment<br/>and Training<br/>Administration</u> | <u>Employment<br/>Standards<br/>Administration</u> | <u>Office<br/>of<br/>Job Corps</u> |
|--|---|--|------------------------------------|
| <b>BUDGETARY RESOURCES</b>   |   |  |                                    |
| Unobligated balance, brought forward, October 1  | \$ 1,582,993  | \$ 1,981,758                                       | \$ 535,878                         |
| Recoveries of prior year unpaid obligations  | 151,234   | 17,170   | 25,095                             |
| Budget authority   |   |  |                                    |
| Appropriations received  | 154,078,690   | 9,473,825  | 1,851,962                          |
| Borrowing authority  | 7,950,000   | 6,495,717  | -                                  |
| Spending authority from offsetting collections   |   |  |                                    |
| Earned   |   |  |                                    |
| Collected  | 47,728  | 1,585,050  | 8,435                              |
| Change in receivables from Federal sources   | 387   | (1)  | -                                  |
| Change in unfilled customer orders   |   |  |                                    |
| Advance received   | -   | (52,706)   | -                                  |
| Expenditure transfers from trust funds   | 5,002,885   | 34,409   | -                                  |
| Total budget authority   | 167,079,690   | 17,536,294   | 1,860,397                          |
| Nonexpenditure transfers, net  | (109,057)   | 16,064   | 96,530                             |
| Temporarily not available pursuant to Public Law                                       | -   | (35,130)   | -                                  |
| Permanently not available  |   |  |                                    |
| Redemption of debt   | -   | (10,483,557)                                       | -                                  |
| All other  | (616,062)   | (436,890)  | (5,740)                            |
| <b>Total budgetary resources</b>   | <b>\$ 168,088,798</b>                                 | <b>\$ 8,595,709</b>                                | <b>\$ 2,512,160</b>                |
| <b>STATUS OF BUDGETARY RESOURCES</b>   |   |  |                                    |
| Obligations incurred   |   |  |                                    |
| Direct   | \$ 165,772,186  | \$ 4,845,083                                       | \$ 1,754,939                       |
| Reimbursable   | 27,930  | 2,793,010  | 593                                |
| Total obligations incurred   | 165,800,116   | 7,638,093  | 1,755,532                          |
| Unobligated balances available   |   |  |                                    |
| Apportioned  | 1,779,084   | 642,118  | 745,105                            |
| Exempt from apportionment  | -   | 301,542  | -                                  |
| Total unobligated balances available   | 1,779,084   | 943,660  | 745,105                            |
| Unobligated balances not available   | 509,598   | 13,956   | 11,523                             |
| <b>Total status of budgetary resources</b>   | <b>\$ 168,088,798</b>                                 | <b>\$ 8,595,709</b>                                | <b>\$ 2,512,160</b>                |
| <b>CHANGE IN OBLIGATED BALANCE</b>   |   |  |                                    |
| Obligated balance, net   |   |  |                                    |
| Unpaid obligations, brought forward, October 1   | \$ 8,154,190  | \$ 291,054   | \$ 256,014                         |
| Less uncollected customer payments from Federal sources,<br>brought forward, October 1 | (1,176,445)   | (183)  | -                                  |
| Total unpaid obligated balance, net  | 6,977,745   | 290,871  | 256,014                            |
| Obligations incurred, net  | 165,800,116   | 7,638,093  | 1,755,532                          |
| Less gross outlays   | (156,949,874)   | (7,642,138)  | (1,614,768)                        |
| Other  | (128,496)   | -  | 128,496                            |
| Less recoveries of prior year unpaid obligations, actual                               | (151,234)   | (17,170)   | (25,095)                           |
| Change in uncollected customer payments from Federal sources                           | (1,107,686)   | 1  | -                                  |
| Obligated balance, net, end of period  |   |  |                                    |
| Unpaid obligations   | 16,724,702  | 269,839  | 500,179                            |
| Less uncollected customer payments from Federal sources                                | (2,284,131)   | (182)  | -                                  |
| Total unpaid obligated balance, net, end of period                                     | <b>\$ 14,440,571</b>                                  | <b>\$ 269,657</b>                                  | <b>\$ 500,179</b>                  |
| <b>NET OUTLAYS</b>   |   |  |                                    |
| Gross outlays  | \$ 156,949,874  | \$ 7,642,138                                       | \$ 1,614,768                       |
| Less offsetting collections  | (3,943,314)   | (1,566,752)  | (8,435)                            |
| Less distributed offsetting receipts   | (18,096,067)  | (6,502,766)  | (350)                              |
| Net outlays  | <b>\$ 134,910,493</b>                                 | <b>\$ (427,380)</b>                                | <b>\$ 1,605,983</b>                |

## REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

| Occupational<br>Safety and Health<br>Administration | Bureau of<br>Labor<br>Statistics | Mine Safety<br>and Health<br>Administration | Employee Benefits<br>Security<br>Administration | Veterans'<br>Employment<br>and Training | Other<br>Departmental<br>Programs | Total                 |
|---|----------------------------------|---|---|---|-----------------------------------|-----------------------|
| \$ 14,009   | \$ 9,431                         | \$ 1,466                                    | \$ 3,000  | \$ 3,779                                | \$ 25,114                         | \$ 4,157,428          |
| 10,854  | 6,366                            | 2,209                                       | 1,794   | 5,067                                   | 42,280                            | 262,069               |
| 513,042   | 518,918                          | 347,003                                     | 143,419   | 26,330                                  | 510,517                           | 167,463,706           |
| -   | -                                | -   | -   | -                                       | -                                 | 14,445,717            |
| 2,004   | 8,434                            | 1,518                                       | 13,170  | 141                                     | 194,474                           | 1,860,954             |
| -   | -                                | -   | -   | -                                       | 4,750                             | 5,136                 |
| -   | -                                | -   | -   | -                                       | 29,575                            | (23,131)              |
| -   | 77,406                           | -   | -   | 202,469                                 | 31,161                            | 5,348,330             |
| 515,046   | 604,758                          | 348,521                                     | 156,589   | 228,940                                 | 770,477                           | 189,100,712           |
| 5,945   | (537)                            | (30)  | 5,552   | -                                       | (16,170)                          | (1,703)               |
| -   | -                                | -   | -   | -                                       | -                                 | (35,130)              |
| -   | -                                | -   | -   | -                                       | -                                 | (10,483,557)          |
| (8,109)   | (1,222)                          | (149)                                       | (1,919)   | (630)                                   | (9,738)                           | (1,080,459)           |
| <u>\$ 537,745</u>                                   | <u>\$ 618,796</u>                | <u>\$ 352,017</u>                           | <u>\$ 165,016</u>                               | <u>\$ 237,156</u>                       | <u>\$ 811,963</u>                 | <u>\$ 181,919,360</u> |
| \$ 520,698  | \$ 601,599                       | \$ 348,465                                  | \$ 146,590                                      | \$ 232,001                              | \$ 498,129                        | \$ 174,719,690        |
| 1,235   | 8,580                            | 1,241                                       | 12,534  | -                                       | 229,912                           | 3,075,035             |
| 521,933   | 610,179                          | 349,706                                     | 159,124   | 232,001                                 | 728,041                           | 177,794,725           |
| 2,909   | -                                | 69  | 3,953   | -                                       | 59,395                            | 3,232,633             |
| -   | -                                | -   | -   | -                                       | 91                                | 301,633               |
| 2,909   | -                                | 69  | 3,953   | -                                       | 59,486                            | 3,534,266             |
| 12,903  | 8,617                            | 2,242                                       | 1,939   | 5,155                                   | 24,436                            | 590,369               |
| <u>\$ 537,745</u>                                   | <u>\$ 618,796</u>                | <u>\$ 352,017</u>                           | <u>\$ 165,016</u>                               | <u>\$ 237,156</u>                       | <u>\$ 811,963</u>                 | <u>\$ 181,919,360</u> |
| \$ 86,938   | \$ 73,947                        | \$ 34,378                                   | \$ 50,627                                       | \$ 61,596                               | \$ 354,455                        | \$ 9,363,199          |
| (8,113)   | -                                | -   | -   | -                                       | 1,390                             | (1,183,351)           |
| 78,825  | 73,947                           | 34,378                                      | 50,627  | 61,596                                  | 355,845                           | 8,179,848             |
| 521,933   | 610,179                          | 349,706                                     | 159,124   | 232,001                                 | 728,041                           | 177,794,725           |
| (506,538)   | (575,458)                        | (349,277)                                   | (161,684)                                       | (221,765)                               | (657,418)                         | (168,678,920)         |
| -   | -                                | -   | -   | -                                       | -                                 | -                     |
| (10,854)  | (6,366)                          | (2,209)                                     | (1,794)   | (5,067)                                 | (42,280)                          | (262,069)             |
| -   | -                                | -   | -   | -                                       | (40,739)                          | (1,148,424)           |
| 91,479  | 102,302                          | 32,598                                      | 46,273  | 66,765                                  | 382,798                           | 18,216,935            |
| (8,113)   | -                                | -   | -   | -                                       | (39,349)                          | (2,331,775)           |
| <u>\$ 83,366</u>                                    | <u>\$ 102,302</u>                | <u>\$ 32,598</u>                            | <u>\$ 46,273</u>                                | <u>\$ 66,765</u>                        | <u>\$ 343,449</u>                 | <u>\$ 15,885,160</u>  |
| \$ 506,538  | \$ 575,458                       | \$ 349,277                                  | \$ 161,684                                      | \$ 221,765                              | \$ 657,418                        | \$ 168,678,920        |
| (2,004)   | (85,840)                         | (1,518)                                     | (13,170)  | (202,610)                               | (255,210)                         | (6,078,853)           |
| -   | -                                | (73)  | (25,036)  | -                                       | (1,141)                           | (24,625,433)          |
| <u>\$ 504,534</u>                                   | <u>\$ 489,618</u>                | <u>\$ 347,686</u>                           | <u>\$ 123,478</u>                               | <u>\$ 19,155</u>                        | <u>\$ 401,067</u>                 | <u>\$ 137,974,634</u> |



# Other Accompanying Information





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## 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.

### **2010 Top Management Challenges Facing the Department of Labor**

For 2010, the OIG considers the following as the most serious management and performance challenges facing the Department:

- Achieving the Goals and Protecting the Investment Provided by the American Recovery and Reinvestment Act
- 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
- Securing Information Technology Systems and Protecting Related Information Assets
- Ensuring the Security of Employee Benefit Plan Assets
- Ensuring DOL's New Core Financial Management System Produces Reliable, Accurate, and Timely Financial Information

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. The data and information contained in the Top Management Challenges report is as of November 15, 2010.

### **CHALLENGE: Achieving the Goals and Protecting the Investment Provided by the American Recovery and Reinvestment Act**

#### **OVERVIEW:**

The American Recovery and Reinvestment Act (Recovery Act) was enacted on February 17, 2009, to create new jobs and save existing ones, spur economic activity, invest in long-term growth, and foster accountability and transparency in government spending. As of August 19, 2010, the Department received nearly \$71 billion in Recovery Act funds. DOL has three key roles in the Recovery Act effort: providing worker training for these jobs, easing the burden of the recession on workers and employers by providing for extensions and expansions of unemployment benefits, and assisting and educating unemployed workers regarding expanded access to continued health benefits. The Employment and Training Administration (ETA) is responsible for virtually all of the Recovery Act funds provided to the Department. The mission of ETA is to contribute to the more efficient functioning of the U.S. labor market by providing high-quality job training, employment, labor market information, and unemployment insurance services primarily through state and local workforce development systems.

#### **CHALLENGE FOR THE DEPARTMENT:**

Ensuring program effectiveness and meeting Recovery Act requirements to stimulate the economy is a significant challenge for the Department. However, in several DOL programs, large amounts of Recovery Act funds remain

unspent. We reviewed DOL Recovery Act programs on the Health Care Tax Credit (HCTC), Unemployment Insurance (UI) Modernization, and Job Corps Leasing, and we identified large amounts of unspent Recovery Act funds and questionable expenditures of other such funds. Our March 2010 audit of the HCTC National Emergency Grants found that just \$8 million of the \$150 million designated for the program had been awarded to states since the Recovery Act was signed into law on February 17, 2009. Similarly, as part of our September 2010 audit of UI modernization grants, nine states indicated in response to an OIG survey that they were unlikely to apply for \$1.3 billion of UI modernization benefits.

Conversely, the need to spend funds quickly to meet Recovery Act requirements can lead to awards that may not be in the government's best interest. For example, Job Corps' largest single expenditure of Recovery Act funds was a 20-year lease totaling \$82 million with the YWCA of Greater Los Angeles, Inc. for the construction of a new facility to house the Los Angeles Job Corps Center. Job Corps also agreed to pay 60% of fair market value at the end of the lease term if it opts to purchase the facility. The Recovery Act included provisions that specifically allowed Job Corps to use the multi-year lease option and advance payments to lease real property as long as construction began within 120 days of the Recovery Act's enactment. To meet the 120-day requirement of the Act, OASAM issued a Request for Proposals that closed on April 2, 2009, and required construction to begin on or before June 16, 2009. This timetable gave the potential awardee less than 3 months to begin construction. Job Corps only received one proposal, which was from the existing center operator. While Job Corps did negotiate the proposed cost of the multi-year lease down from \$105 million to \$82 million, it did not perform a cost benefit analysis, claiming it was not required to do so. Through our analysis, we estimate that Government construction of the facility may have cost \$31 million less than the \$82 million multi-year lease. As a result, Job Corps may have lost the opportunity to put at least \$31 million of Recovery Act funds to better use.

#### **DEPARTMENT'S PROGRESS:**

In last year's top management challenges, the OIG stated that ETA would be challenged to demonstrate that Recovery Act grants were properly awarded. Our audit work over the past year found that ETA has announced, evaluated, and issued Recovery Act grants in accordance with relevant criteria. Also, monitoring guidelines and procedures were comprehensive, and grant agreements informed grantees of their responsibilities for Recovery Act reporting. However, funds provided by the Act for monitoring Recovery Act grants have expired as of September 30, 2010, which impacts ETA's ability to execute its Recovery Act grantee monitoring and oversight responsibilities and may increase the risk that a portion of the \$717 million in Recovery Act grant funds may not be spent for their intended purposes. ETA has asked for funding to support an increase in grant monitoring staff as part of its FY 2011 budget request.

Regarding unused Recovery Act funds, Congress has rescinded \$110 million of the \$150 million appropriated for HCTC National Emergency Grants. According to ETA, approximately \$14 million of the original \$150 million has been obligated, leaving about \$26 million available for future grants.

#### **WHAT REMAINS TO BE DONE:**

ETA needs to continue its efforts to identify and prioritize workloads and funding levels to ensure Recovery Act grants are adequately monitored, grant funds are spent properly, and grants achieve their intended purpose. Over the next two years, 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 also needs to consider whether unused Recovery Act funds should and could be put to better use. For the remaining \$26 million available for HCTC National Emergency Grants, ETA should obtain estimates of the amount of HCTC National Emergency Grant funds needed by each state, an action ETA believes would be more prudent to pursue after January 1, 2011, when the status of the Trade Adjustment Assistance program (which is pending reauthorization) is clearer.



Regarding the lease with YWCA, management objected to the audit report's estimate of potential savings that might have accrued from a direct land or building purchase as speculative, given that no other offeror came forward to offer a suitable building or parcel of land. Management also stated that a cost benefit analysis was not required because OMB waived certain budgetary reporting of the lease. We did not concur that this relieved the Department of conducting a sound cost/benefit analysis. ETA needs to work with contracting officials in OASAM to demonstrate that the multi-year lease with the YWCA to acquire a new facility at the LAJCC was the least expensive option to the Government, and if appropriate, renegotiate the multi-year lease agreement.

## **CHALLENGE: Protecting the Safety and Health of Workers**

### **OVERVIEW:**

The Department administers the Occupational Safety and Health Act of 1970 (OSH Act) and the Federal Mine Safety and Health Act of 1977 (Mine Act), as amended by the Mine Improvement and New Emergency Response Act of 2006. DOL's effective enforcement of these laws is critical toward ensuring the workplace safety of our nation's workers.

The two DOL agencies primarily responsible for enforcing these laws are the Occupational Safety and Health Administration (OSHA) and the Mine Safety and Health Administration (MSHA). OSHA is responsible for ensuring safe and healthful working conditions for 130 million workers at more than seven million establishments. MSHA is responsible for the safety and health of more than 350,000 miners who work at more than 14,500 mines.

### **CHALLENGE FOR THE DEPARTMENT:**

Enforcement plays an important part in OSHA's efforts to reduce workplace injuries, illnesses, and fatalities. With 4,340 fatal workplace injuries reported by the Bureau of Labor Statistics in 2009, OSHA's challenges are how to best target its resources and how to measure the impact of its efforts. OSHA carries out its enforcement responsibilities through a combination of directed and complaint investigations, but can reach only a fraction of the seven million entities it regulates. Consequently, OSHA must strive to target the most egregious and persistent violators while protecting the most vulnerable worker populations. OSHA must also evaluate the success of its enforcement strategies. For example, when unsafe conditions are identified, OSHA inspectors issue citations with penalties. While the OSH Act requires OSHA to consider certain factors, such as the size of the company in finalizing penalty amounts, specific reductions are not mandated. OSHA policies establish reductions as an incentive to abate violations voluntarily. However, a recent OIG audit found that OSHA has not effectively evaluated the impact of hundreds of millions of dollars in penalty reductions as incentives to reducing workplace hazards.

Regarding MSHA, the OIG's reviews over the past several years revealed a pattern of weak oversight, inadequate policies, and a lack of accountability on the part of MSHA, which were exacerbated by years of resource shortages. MSHA's challenge involves effectively managing existing resources and utilizing existing authorities to maximize its enforcement efforts while fulfilling other important duties.

Historically, MSHA's resource shortage negatively impacted its ability to meet statutory requirements to conduct inspections at the nation's coal mines. In recent years, after Congress allocated supplemental funding to MSHA to hire additional mine inspectors, MSHA has emphasized completing 100% of its mandatory mine inspections. However, this has resulted in backlogs in other areas, such as the review of mine plans.

Recruiting and maintaining a properly trained cadre of mine inspectors is also a challenge for MSHA. A recent OIG audit found that journeyman MSHA inspectors were not being provided required periodic training. In addition, retirements and other attritions make maintaining a sufficient number of trained mine inspectors an ongoing challenge. By 2014, 41% of MSHA's enforcement personnel will be eligible to retire, and 25% are estimated to do

so. Consequently, MSHA must recruit and train the right personnel, as well as enough of them, to accomplish all of its critical statutory responsibilities.

MSHA has also struggled to consistently and proactively utilize its authority to identify mine operators with the worst compliance records. In 1977, with the passage of the Mine Act, MSHA was given the authority to take enhanced enforcement actions when a mine operator demonstrates recurring safety violations. This Pattern of Violations (POV) authority is an important tool for MSHA's enforcement activities; however, a recent OIG audit found that MSHA had not successfully used its POV authority in 32 years. Another challenge for MSHA's enforcement activities is the large volume of citations contested by mine operators and the resulting backlog of cases currently before the Federal Mine Safety and Health Review Commission.

Lastly, studies show that the incidence of Black Lung disease is rising and the disease is being found in younger miners. MSHA faces a challenge to reverse this trend through measures to reduce coal dust exposure.

#### **DEPARTMENT'S PROGRESS:**

OSHA has established a new program, the Severe Violator Enforcement Program (SVEP), which is designed to concentrate resources on inspecting employers who repeatedly violate the OSH Act. SVEP includes a requirement for mandatory follow-up inspections. As an example, for follow-up inspections of construction companies, which frequently move from location to location, SVEP requires that at least one other worksite of the cited employer be inspected if the initial worksite is closed. The Department has also 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.

MSHA continues to identify and hire mine inspector candidates within authorized personnel levels, and began examining and implementing faster, more efficient methods of delivering training using online technologies. Temporary resource reallocations and procedural changes have reduced the number of overdue mine plan reviews by two-thirds since 2008. MSHA indicates it has continued to work with the Federal Mine Safety and Health Commission to identify ways to reduce the backlog of challenged citations. Enacted in July 2010, the Supplemental Appropriations Act, 2010 (Public Law 111-212) provided an appropriation of \$18.2 million to the Department of Labor for the purpose of reducing existing case backlog before the Commission, and for other purposes. Of that amount, the Department has transferred \$4.451 million to MSHA for backlog reduction project expenses. MSHA continues to revamp the process and criteria for identifying mines with POV. In addition, MSHA is working with Congress to receive additional enforcement authorities through legislative changes. Through its "End Black Lung – Act NOW" initiative, MSHA has conducted public informational events, produced and distributed new educational materials, and co-sponsored one-day workshops with National Institute for Occupational Safety and Health (NIOSH). MSHA's rulemaking agenda includes work on a final rule regarding personal coal dust monitors and possible adjustments to coal dust exposure levels.

#### **WHAT REMAINS TO BE DONE:**

OSHA needs to monitor and evaluate the SVEP to ensure the program is being implemented as intended and is resulting in the identification and abatement of hazards having the desired results. As part of the Department's new approach to measuring the success of enforcement strategies, OSHA needs to evaluate the impact of penalty reductions on comprehensive improvements to workplace safety and health. OSHA also needs to implement its planned new information system, replacing its current 35-year-old system, which is subject to errors that hamper OSHA's enforcement efforts. In addition, adjustments to the new information system will likely be needed over the next several years to respond to program changes.

MSHA must formalize the policy and procedural changes of recent years by updating its operational handbooks, implement a human capital strategy that will continue to address expected enforcement personnel losses during the next five years, find ways to further reduce the number of overdue mine plan reviews, reduce the impact of any backlog of challenged citations on the effectiveness of its enforcement program, simplify and make more

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transparent its process and criteria for placing mines on POV status, and monitor and measure efforts to reduce the rise in Black Lung cases.

## **CHALLENGE: Improving Performance Accountability of Workforce Investment Act Grants**

### **OVERVIEW:**

In FY 2009, ETA reported program costs totaling \$3.4 billion for the Workforce Investment Act (WIA) Adult, Dislocated Worker, and Youth programs. WIA adult employment and training programs 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. For example, SWAs are required under WIA to conduct evaluations of their Title IB workforce investment activities (Adult, Dislocated Worker, and Youth programs). A recent OIG audit found that not all SWAs conduct these evaluations, and those who do conduct them, do not always report the identified best practices in their respective WIA Annual Reports to ETA. ETA also did not have a process for analyzing and sharing the results with other SWAs and stakeholders. Without a mechanism for capturing, analyzing, and sharing the evaluations, SWAs and other grantees are missing opportunities to know and learn from other programs which may lead to significant improvements in their own operations.

ETA may face challenges in providing adequate oversight and monitoring for some of the grants it awards. Funds provided by the Recovery Act to ETA and used to monitor discretionary grants expired on September 30, 2010. The reduction in staff resources and funding for travel costs will impact ETA's ability to fully execute its grant monitoring and oversight functions. ETA is also still working to improve the quality of WIA performance data reported by states. Reliable and timely performance data are needed to allow ETA to identify performance problems in time to correct them.

### **DEPARTMENT'S PROGRESS:**

ETA has commissioned independent evaluations of demonstrations and initiatives. In response to an OIG audit, ETA issued policy guidance in September 2010, which clarifies the information states should submit regarding evaluation studies of WIA activities.

With respect to grant monitoring, ETA has requested funding for 48 additional Recovery Act monitoring positions in the FY 2011 budget. In the meantime, it plans to assign the Recovery Act workload to a combination of both Recovery Act-funded and permanent Federal Project Officers. ETA has developed a Workforce Analysis report for each Regional Office on how the Recovery Act grants will be absorbed into ongoing operations. ETA also indicated it has used its remaining Recovery Act administrative funds to secure contract support for administrative tasks related to grants management. ETA stated this will free up permanent staff time for grants monitoring.

### **WHAT REMAINS TO BE DONE:**

ETA needs to develop a process to analyze evaluation results so that it can improve delivery of services nationally and be a proactive clearinghouse to the SWAs for best practices. ETA has indicated it will: 1) develop guidelines for Regional Office staff to initially review SWA evaluations to determine which ones to pass on to its national office for final review; 2) share best practices, tools, and replicable models identified through state evaluations based on

rigorous research practices through its online technical assistance platform ([www.Workforce<sup>3</sup> One.org](http://www.Workforce3 One.org)); and 3) explore opportunities, depending on funding availability, to improve the functionality of the Workforce<sup>3</sup> One.org website. ETA also needs to complete the Data Validation component of its Core Monitoring Guide, provide training to ensure that its Regional Administrators and Federal Project Officers understand how to use the new component, and ensure data validation reviews are being done as part of regional monitoring in FY 2011.

## **CHALLENGE: Ensuring the Effectiveness of the Job Corps Program**

### **OVERVIEW:**

Education, training, and support services are provided to approximately 60,000 students at 124 Job Corps centers located throughout the United States and Puerto Rico. Job Corps centers are operated for DOL by private contractors, and by other Federal Agencies through interagency agreements. The program was appropriated nearly \$1.7 billion in FY 2010.

### **CHALLENGE FOR THE DEPARTMENT:**

*Placement and Recruitment Outcomes* – Job Corps has been challenged to meet its placement and recruitment goals over the past several years. The number of Job Corps graduates placed in jobs, continuing their education, and/or entering the military has declined from 91% for the year ended June 30, 2005, to 76% for the year ended June 30, 2010. In addition, in June 2009, Government Accountability Office (GAO) reported that Job Corps achieved between 95 and 98% of the planned enrollment for male residential students during program years 2005 through 2007, but about 80% or less of the planned enrollment for female residential students. GAO recommended that Job Corps modify its recruiting methods and offer more career training that is both attractive to females and leads to careers that will enable them to become self sufficient.

*Safety and Health Issues* – Ensuring the quality of life at centers, including healthy living conditions and the sense of safety, is a continuing challenge for Job Corps. OIG audits continued to identify unsafe or unhealthy conditions and the lack of required safety inspections at some centers. We 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.

*Performance and Financial Reporting* – Ensuring the integrity of performance and financial data reported by center operators is a challenge for Job Corps. OIG audits have found that weak controls at centers have resulted in the overstatement of performance results, as well as unallowable costs charged to Job Corps. This is a particular challenge for Job Corps as 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, there is a risk that contractors will overstate performance results. Regarding financial activity, examples of problems identified by OIG audits include questioned costs of \$1.8 million related to a contractor's indirect costs, and \$65,553 that another contractor charged for the Center Director's personal housing and travel expenses.

### **DEPARTMENT'S PROGRESS:**

In FY 2010, Job Corps stated it developed new female-oriented marketing and recruitment materials and increased its career technical training offerings to attract females, including high-growth industries such as health care and green jobs. Job Corps also created and distributed new materials and DVDs to assist with recruitment efforts.

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.

Job Corps stated that it added “Improving Data Integrity” to Regional Directors’ performance standards, and conducted data integrity audits concurrently with onsite compliance/quality assessments.

**WHAT REMAINS TO BE DONE:**

Job Corps needs to evaluate the drop in graduate placements and identify strategies to reverse this trend. Job Corps stated it is closely examining ways to improve the graduate placement rate but noted that the economic climate is a factor in employment results. Job Corps also needs to evaluate the success of its newly developed training programs and its efforts to attract female students, and make adjustments where needed. 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, Job Corps needs to provide proactive, consistent, and rigorous oversight of contractors at all centers.

**CHALLENGE: Safeguarding Unemployment Insurance**

**OVERVIEW:**

ETA partners with the states to administer unemployment benefit 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 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. In addition, the SWAs are required to have disaster contingency plans in place to enable them to administer benefits in the aftermath of a disaster.

**CHALLENGE FOR THE DEPARTMENT:**

The current economic downturn has made controlling overpayments more difficult, as the number of claims filed has greatly increased and new programs had to be implemented quickly, which ETA stated caused states to shift resources from detecting improper payments to processing claims. For the 2010 Improper Payment and Information Act (IPIA) reporting period (July 2009 to June 2010), ETA reported a total overpayment rate of 10.59%, which equates to more than \$15.2 billion in UI overpayments – an increase from the \$11.4 billion reported for the 2009 IPIA period. ETA estimates that about \$3.4 billion of these overpayments are attributable to fraud – an increase of \$600 million from the \$2.8 billion reported in FY 2009. OIG investigations continue to uncover UI fraud committed by individuals, as well as identity theft schemes designed to illegally obtain UI benefits. OIG’s review of ETA’s compliance with Executive Order 13520 and its required Report on UI Improper Payments identified improvements needed to measure and to mitigate UI improper payments.

ETA is also challenged to ensure that SWAs have adequate information technology (IT) contingency plans in place that provide for the continuation of services in the aftermath of disasters. Our prior audit found that ETA had not ensured that SWA partners had established and maintained adequate IT contingency plans. Specifically, 50 out of 51 plans lacked critical elements needed to ensure the continued availability of the UI systems.

**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. In May 2010, the Unemployment Compensation Program Integrity Act draft

legislation was delivered to Congress, and if enacted, the legislation would permit states to use up to 5% of recovered unemployment compensation overpayments to deter and detect benefit overpayments. The legislation would also give employers incentive to provide timely, accurate, and complete information about why their former employees no longer work for them – information critical for states to determine eligibility. In addition, three more SWAs began using the National Directory of New Hires (NDNH) to identify persons who continued to collect UI payments after obtaining employment. ETA also agreed to conduct annual verification of SWAs' IT contingency plans to verify both plan existence and reliability. ETA stated they provided funding to assist states to develop or update UI IT contingency plans. Thirty-one states were provided funding totaling more than \$4 million for this initiative.

#### **WHAT REMAINS TO BE DONE:**

ETA can further improve its oversight of the states' detection and prevention of UI, extended benefits, and Disaster Unemployment Assistance overpayments by fully implementing SIDES; increasing the frequency of SWA on-site reviews; and ensuring that California implements NDNH (California is the only state not to have done so, and it alone represents 13% of the UI overpayments nationally). ETA stated that California will implement NDNH by September 2011. ETA is continuing to pursue legislation to define the "Date of Hire" and mandate its reporting by employers; 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, more detailed information on its efforts to reduce improper payments in its next Report on UI Improper Payments. Finally, in FY 2011, ETA needs to continue working with the states on their development of well-documented IT contingency plans.

### **CHALLENGE: Improving the Management of Workers' Compensation Programs**

#### **OVERVIEW:**

The Department has responsibility for managing the Energy Employees Occupational Illness Compensation Act Program (Energy workers' program) and the Federal Employees' Compensation Act (FECA) Program. Both of these programs are within DOL's Office of Workers' Compensation Programs (OWCP).

The Energy workers' program was created to provide monetary compensation and/or 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 and through August 26, 2010, DOL reports it has paid more than \$6 billion in compensation and medical benefits to more than 61,400 claimants nationwide.

The FECA 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. This program is administered by the Department, impacting all Federal agencies' budgets and employees. In FY 2010, Federal employees filed 127,526 new injury claims and 19,861 claims for loss compensation. FECA benefit expenditures totaled nearly \$2.8 billion for wage-loss compensation and medical treatment to more than 250,000 beneficiaries in FY 2010. Most of these costs were charged back to individual agencies for reimbursement to OWCP's Federal Employees' Compensation Fund.

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**CHALLENGE FOR THE DEPARTMENT:**

The overall challenge for the Energy workers' program centers on the timeliness of its claim decisions. For the FECA program, minimizing improper payments and fraud continues to be its primary challenge. FECA fraud opportunities continue to exist, and certain ones are made more likely by FECA's inability to match FECA compensation recipients against social security wage records.

The Energy Workers Compensation program, though administered by the DOL, requires the pre-adjudication input, assistance, and determinations of three other major Federal agencies and a Federal advisory board. Complex regulatory requirements 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 NIOSH must prepare a complicated and time consuming dose reconstruction of the amount of radiation to which an employee with cancer was exposed. The Department has no regulatory authority to control the completion time of the NIOSH process.

The FECA program must ensure it makes proper payments, while also being responsive and timely to eligible claimants. The challenges facing the FECA program include moving claimants off the periodic rolls when they can return to work or their eligibility ceases, preventing ineligible recipients from receiving benefits, and preventing fraud by service providers and by individuals who receive FECA benefits while working. The OIG recognizes that it is difficult to identify and address improper payments and/or fraud in the FECA program, and we have previously reported OWCP does not have the legal authority to match FECA compensation recipients against Social Security wage records. Currently, OWCP must obtain written permission each time from each individual claimant in order to check records. Having direct authority to perform the match would enable OWCP to identify individuals who are collecting FECA benefits while working and collecting wages.

**DEPARTMENT'S PROGRESS:**

The Division of Energy Employees Occupational Illness Compensation indicates it has implemented new procedures to reduce the time it takes to develop impairment claims and it is revamping its procedural guidance. In addition, the Department has set up procedures to measure its timeliness of performance starting from the point of application to the final decision and payment. Furthermore, DOL now publishes graphs on its Web site that show processing times for various types of cases, including those sent to NIOSH for completion of a dose reconstruction. DOL has sponsored town hall meetings to inform workers and their survivors about available program benefits, and its Traveling Resource Center goes out monthly to assist individuals with the filing of their claims. DEEOIC continues to work with pre-decisional components to streamline and improve the issuance of final decisions.

The Department completed the rollout of its FECA benefit payment system, the Integrated Federal Employee Compensation System. This system is designed to track due dates of medical evaluations, revalidate eligibility for continued benefits, use data mining to prevent improper payments, boost efficiency, and improve customer satisfaction. The Department has sought legislative authority to allow it access to Social Security Administration wage records. In addition, the OIG continued to provide training to DOL and to other Federal agencies in the detection and prevention of fraud against the FECA program.

**WHAT REMAINS TO BE DONE:**

The Department needs to continue its efforts to further reduce case processing times. While average processing times in the Energy Workers program have improved over the past several years, it still takes more than 18 months to reach a final decision on a Part B case. Part B covers current or former workers who have been diagnosed with cancers, beryllium disease, or silicosis, and whose illness was caused by exposure to radiation, beryllium, or silica.

In addition to the need for access to SSA wage records, the Department needs to continue to seek legislative reforms to the FECA program to enhance incentives for employees who have recovered 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, the Department estimates savings to the government over 10 years to be \$437 million.

## **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 under terms and conditions that do not adversely affect U.S. workers. The permanent labor certification program allows an employer to hire a foreign worker to work permanently in the United States, if a qualified U.S. worker is unavailable and the employment of the foreign worker will not adversely affect the wages and working conditions of similarly employed U.S. workers. The H-1B program allows the Department to certify employers' applications to hire temporary foreign workers in specialty occupations such as medicine, biotechnology, and business. The H-2B program permits employers to hire foreign workers to come temporarily to the United States and perform temporary non-agricultural labor on a one-time, seasonal, peak load, or intermittent basis. To obtain certification, employers must show that there are insufficient qualified U. S. workers available and willing to perform the work at the prevailing wage paid for the occupation. In addition, employers are required to pay any foreign worker the wage rate that prevails in the area of employment for the occupation and to comply with all laws governing such employment.

### **CHALLENGE FOR THE DEPARTMENT:**

ETA is challenged in ensuring the integrity of the FLC programs it administers. OIG investigations (initiated on referrals from ETA and other law and non-law enforcement entities, as well as pro-active OIG efforts) continue to uncover schemes carried out by immigration attorneys, labor brokers, and transnational organized crime groups, some with possible national security implications. OIG investigations have repeatedly revealed schemes involving fraudulent applications filed with DOL on behalf of fictitious companies, and those 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.

Additional challenges ETA faces in maintaining the integrity of its foreign labor certification programs include statutory limits on its authority in the H-1B program, 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 Department's authority to debar individuals or entities.

### **DEPARTMENT'S PROGRESS:**

ETA's Office of Foreign Labor Certification (OFLC), Fraud Detection and Prevention Unit, which targets application fraud by reviewing applications for inconsistencies, errors, and omissions, continues to work closely with the OIG to identify and reduce fraud in the FLC process.

### **WHAT REMAINS TO BE DONE:**

The Department needs to continue working with OIG to identify and reduce fraud, ensure appropriate training is provided to OFLC staff, and evaluate the results of its certification processes to assess their effectiveness. The Department needs to make adjustments to enhance integrity of its iCert H-1B Labor Condition Application processing system to incorporate missing electronic controls. Additionally, the Department should ensure debarments are considered, and decisions documented, for anyone convicted of FLC violations, and FLC debarments are reported to appropriate DOL personnel for inclusion in the government-wide exclusion system. To this end, ETA needs to work with the Office of the Solicitor to resolve this matter.



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## **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 worker safety and health, pension, and welfare benefits, job training services, and other worker benefits. The Congress and the public have voiced concerns over the ability of government agencies to provide effective information security and to protect critical data. The administration has called upon federal agencies to bring about greater use of technology to consolidate data center operations, use cloud computing infrastructures and services, and make use of Web 2.0 technologies, including blogs and social-networking services.

### **CHALLENGE FOR THE DEPARTMENT:**

Overall, management of IT systems is a continuing challenge for DOL. Keeping up with new threats, IT developments, providing assurances that IT systems will function reliably, and safeguarding information assets will continue to challenge the Department today and in the future. 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.

The FY 2010 Federal Information Security Management Act (FISMA) audit identified access controls, inventory of sensitive IT assets, oversight of third-party systems, and remediation of known vulnerabilities as significant deficiencies. The OIG has reported on access control weaknesses over the Department's major information systems since FY 2001. These weaknesses represent a significant deficiency over access to key systems and may permit unauthorized users to obtain or alter sensitive information, including unauthorized access to financial records. Furthermore, the security of sensitive information that can be accessed remotely or stored on mobile computers/devices is a continuing challenge to the Department and in the Federal government overall. Management of these areas will likely become more challenging in the future as cloud computing is implemented. Consolidating data centers and moving mission critical systems to the cloud increases the risk of exposing personal identifiable information (PII) and unauthorized information exchanges, including critical and sensitive pre-decisional budget and policy information. While acknowledging the ongoing opportunity to improve controls, management has expressed its disagreement with these FISMA audit findings, in particular the seriousness of the issues identified by the OIG.

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. While the Administration has moved to establish a separate CIO and Chief Technology Officer, DOL continues to manage its IT systems with a CIO who must balance IT with other important responsibilities, such as serving as the Chief Acquisition Officer (CAO) and Privacy Officer. The administration has clearly signaled that to be effective in meeting its objectives and goals going forward, such as implementing an open and transparent government, it will take a greater level of dedication to IT management and governance than in the past.

### **DEPARTMENT'S PROGRESS:**

The Department is participating on several Federal Councils, Committees and Forums (e.g., Federal Chief Information Officer Council, Information Security and Identity Management Committee, the Chief Information Security Officer Forum) to assist in the development and implementation of policies, procedures, and standards that will address these challenges. In FY 2010, the Department focused its continuous monitoring program on the implementation of NIST 800-53 Rev 2 minimum security controls and on testing and evaluating access control and configuration management policies and procedures. Additionally, the Department established a Social Media Governance Work group that developed a Social Media policy and Handbook.

### **WHAT REMAINS TO BE DONE:**

The Department needs to establish an independent CIO to provide exclusive oversight of all issues affecting the IT capabilities of the Department. DOL management recognizes the challenges associated with protecting the Department's information and information systems and is committed to strengthening its security posture. As such, the Department currently has plans in place to improve upon its security controls testing and evaluation process by performing agency specific customized testing that will focus on the agencies' high-risk vulnerabilities and control weaknesses and to pursue a technical solution for logging computer readable data extracts. Additionally, the Department will continue its current enterprise IT efforts to strengthen DOL's operating environment to include: infrastructure optimization, trusted internet connection, logical access control system, and a DOL risk management and compliance profile program. Social networking technologies will require the Department to develop new approaches to continuous monitoring of computer usage and providing information security assurance as the Department and its agencies begin taking advantage of Web 2.0, including blogging, Wiki, Facebook, MySpace, and Twitter as part of replacing old ways of communicating.

### **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. EBSA oversees benefit security for an estimated 708,000 private retirement plans, 2.8 million health plans, and similar numbers of other welfare benefit plans, such as those providing life or disability insurance. Benefits under EBSA's jurisdiction consist of approximately \$5 trillion in assets covering more than 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).

#### **CHALLENGE FOR THE DEPARTMENT:**

Protecting benefits and benefit plan assets generally against fraud, misconduct, and negligence remains an ongoing challenge for the Department. OIG investigations have shown that benefit plan assets remain vulnerable to labor racketeering and/or organized crime influence. These pension plans, health plans, and welfare benefit plans comprise trillions of dollars in assets covering more than 150 million American workers. Dishonest benefit plan service providers, including accountants, investment advisors, and plan administrators, continue to be a strong focus of OIG investigations, as well as corrupt union officials and/or organized crime members.

*EBSA Has Limited Authority to Oversee Plan Audits* – Employee benefit plan audits by independent public accountants (IPAs) must provide a first-line defense for plan participants against financial loss. Ensuring that audits by IPAs meet quality standards adds to the Department's challenge because the Department's authority to require plan audits to meet standards remains limited. 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.

*EBSA Lacks Ability to Assess Enforcement Program Effectiveness* – EBSA lacks the ability to assess the effectiveness of its civil enforcement programs. Our 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 that workers will lose benefits. We also found that EBSA could not clearly demonstrate it was directing resources to the enforcement areas with the most impact on its mission to deter and correct ERISA violations. Each EBSA regional office differed in its interpretation of its enforcement program impact and desired outcomes. As a result,

the allocation of resources differed among the regional offices, and agency resources may not have been directed at areas with the most impact.

*Multiple Challenges Stem from Implementing the Patient Protection and Affordable Care Act (Health Care Reform Act)* –The broad changes required by the Health Care Reform Act will challenge the Department to develop in excess of thirty new health plan regulations and provide ongoing technical assistance, incorporate new requirements into employee benefit enforcement programs, institute new statutorily mandated research and health plan surveys, and broaden assistance and educational programs for employee benefit plan participants and beneficiaries. These new and extensive health care requirements will pose major challenges for the Department.

#### **DEPARTMENT’S PROGRESS:**

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. EBSA is working on new approaches to these issues and developing possible legislative language. In an effort to address inadequate assessments of the effectiveness of its enforcement program, EBSA, as part of the Department’s FY 2011- 2016 Strategic Plan, will be implementing a Sample Investigation Program in 2011, which will review randomly selected employee benefit plans for compliance with ERISA. EBSA has also published eight interim final regulations under the Health Care Reform Act, as well as other sub-regulatory guidance documents and model notices.

#### **WHAT REMAINS TO BE DONE:**

EBSA needs to continue work to obtain legislative change to address deficient benefit plan audits, to ensure that auditors with poor records do not perform any additional plan audits, and to repeal the limited scope audit exception. EBSA will need to evaluate the results of the Sample Investigation Program to determine what changes are needed to improve program effectiveness, and continue its efforts to develop guidance to support its implementation of the Health Care Reform Act.

### **CHALLENGE: Ensuring DOL’s New Core Financial Management System Produces Reliable, Accurate, and Timely Financial Information**

#### **OVERVIEW:**

From FY 1989 to FY 2010, the DOL has relied upon the Department of Labor Accounting and Related Systems (DOLAR\$) as the financial system of record for the department. DOLAR\$ was implemented prior to all of the modern-day laws and regulations that drive Federal accounting, financial management, financial reporting, and information security. As a result, DOLAR\$ was enhanced and extended numerous times to meet the Department’s internal and external reporting requirements; however, DOLAR\$ antiquated technology did not allow DOL to efficiently and effectively meet its current and future financial and accounting needs. In July 2008, the Department awarded a contract for the development of the New Core Financial Management System (NCFMS). NCFMS was planned to be fully implemented and operational by mid-October 2009, but migration of data from DOLAR\$ to NCFMS did not occur until January 2010.

#### **CHALLENGE FOR THE DEPARTMENT:**

The implementation of NCFMS has presented the Department with several challenges. The number of actual users is significantly higher than planned. Initial estimates were 500 total users, but as of October 2010, the count is more than 2,600. It remains a challenge to support this larger than expected user base.

The Department is currently unable to produce auditable financial statements on schedule. The Department is challenged to clean up inaccurate financial data from DOLAR\$ and interfacing systems. Until these actions are completed, the system will continue to provide incorrect financial and budgetary information.

While many of the problems the Department has encountered with NCFMS can be attributed to the migration of data from DOLAR\$, new problems have been introduced due to the significant change in business processes and the users' lack of understanding of the new system. In NCFMS, certain key processes are performed differently than they were in DOLAR\$, because NCFMS incorporates the various OMB, Treasury and other Federal financial requirements, processes and controls.

#### **DEPARTMENT'S PROGRESS:**

The Department has indicated that NCFMS is now providing all of DOL with day-to-day financial transaction processing, budget execution, and reporting. Initially, integration and data migration issues required some manual workarounds to release grants and procurements. Additional data migration activities have substantially improved processing of these transactions, and the issuance of grants, travel payments and procurements is being consistently performed accurately and timely by NCFMS.

Initial NCFMS training was started in the summer of 2009; and based on feedback from attendees, the training was reformatted and given again with an agency focus in the fall of 2009. Computer Based Training and Quick Reference Guides were available in January 2010 prior to the NCFMS go-live, and continue to be used.

DOL stated it has been working with its service provider to scale the hardware, software, help desk, training, operations, and onsite support staff. According to DOL, this surge in support has resulted in the reduction of transaction backlogs, the lowering of late payment penalties and the increase in the accuracy of the data as transactions are getting processed more timely.

#### **WHAT REMAINS TO BE DONE:**

DOL needs to continue to work closely with OMB, Treasury and the OIG to address data quality and accuracy of reporting. The Department needs to enhance training materials on NCFMS and continue to train the NCFMS user community on its full capabilities. In addition, standard operating procedures and other such tools for NCFMS should be reviewed and revised on an ongoing basis to ensure that newly hired personnel have references on how to use the system. The first 9 months saw substantial increases in the number of late payment penalties as staff adjusted to the new business process. While DOL states it has nearly reached pre-implementation late payment rates, DOL needs to improve operational efficiencies in 2011 beyond the benchmarks of the previous system.

#### **Changes from Last Year**

Changes to the Top Management Challenges from FY 2009 include the addition of the challenge related to the implementation of the Department's NCFMS.

Improving Procurement Integrity was previously discussed in our FY 2009 Top Management Challenges. While the enactment of the Recovery Act greatly increased the amount of acquisition activity in the Department, our audit work found that, overall, the awards were announced, evaluated, and selected in accordance with relevant criteria. Additionally, Job Corps has addressed concerns expressed in previous audits regarding the lack of adequate segregation of duties between its Regional Director and Contracting Officer responsibilities by placing those functions in two different reporting structures.

While we have removed procurement integrity from the FY 2010 Top Management Challenges, we remain concerned that the Department has decided against appointing a CAO whose primary duty is acquisition management, as required by the Services Acquisition Reform Act of 2003. Audits of the Department's procurement activities will remain a priority for the OIG.

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## Management's Response to the 2010 Top Management Challenges

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.

We have 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, management understands that ongoing improvements in many of the areas identified by the Office of Inspector General (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. OIG has fairly represented the Department's views on these challenges, and as such the Department has no specific additional comments. OIG has recognized the Department's progress in the last year in each of the ten identified areas and 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.

The Department appreciates OIG's recognition of procurement improvements that have resulted in that item's removal from the Top Management Challenges list. The Department also recognizes that issues resulting from the deployment and transition to the New Core Financial Management System have resulted in a new management challenge in FY 2010. Management remains committed to sound financial management and will make every effort to address OIG's concerns and ensure the ongoing reliability of the Department's financial data.

As we move into FY 2011, the Department will continue to institute changes and improvements with OIG's Top Management Challenges in mind as it works toward fulfilling the Secretary's vision of good jobs for everyone.

## Summary of Financial Statement Audit and Management Assurances

The following tables provide a summary of the Department's FY 2010 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              |
| Lack of Adequate Controls over Access to Key Financial and Support Systems |                   | 1        |          |              | 1              |
| <b>Total Material Weaknesses</b>   | <b>0</b>          | <b>4</b> | <b>0</b> | <b>0</b>     | <b>4</b>       |

| Summary of Management Assurances   |   |          |          |              |            |                |
|--|---|----------|----------|--------------|------------|----------------|
| Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)                                   |   |          |          |              |            |                |
| Statement of Assurance   | Qualified   |          |          |              |            |                |
| Material Weaknesses  | Beginning Balance   | New      | Resolved | Consolidated | Reassessed | Ending Balance |
| Weaknesses over Financial Reporting  |   | 1        |          |              |            | 1              |
| Weaknesses over Preparation and Review of Journal Vouchers   |   | 1        |          |              |            | 1              |
| Weaknesses over Budgetary Accounts Reconciliation  |   | 1        |          |              |            | 1              |
| <b>Total Material Weaknesses</b>   | <b>0</b>  | <b>3</b> | <b>0</b> | <b>0</b>     | <b>0</b>   | <b>3</b>       |
| Effectiveness of Internal Control over Operations (FMFIA § 2)  |   |          |          |              |            |                |
| Statement of Assurance   | Unqualified   |          |          |              |            |                |
| Material Weaknesses  | Beginning Balance   | New      | Resolved | Consolidated | Reassessed | Ending Balance |
| <b>Total Material Weaknesses</b>   | <b>0</b>  | <b>0</b> | <b>0</b> | <b>0</b>     | <b>0</b>   | <b>0</b>       |
| Conformance with financial management system requirements (FMFIA § 4)                                    |   |          |          |              |            |                |
| Statement of Assurance   | Financial management systems do not substantially conform |          |          |              |            |                |
| Non-Conformances   | Beginning Balance   | New      | Resolved | Consolidated | Reassessed | Ending Balance |
| Federal Financial Management System Requirements, Internal Controls, Preparation of Financial Statements |   | 1        |          |              |            | 1              |
| <b>Total non-conformances</b>  | <b>0</b>  | <b>1</b> | <b>0</b> | <b>0</b>     | <b>0</b>   | <b>1</b>       |
| Compliance with Federal Financial Management Improvement Act (FFMIA)                                     |   |          |          |              |            |                |
|  | Agency  |          |          | Auditor      |            |                |
| Overall Substantial Compliance   | No  |          |          | No           |            |                |
| 1. System Requirements   | No  |          |          | No           |            |                |
| 2. Accounting Standards  | No  |          |          | No           |            |                |
| 3. USSGL at Transaction Level  | No  |          |          | No           |            |                |

## Improper Payments Information Act Reporting Details

The Improper Payments Information Act (IPIA) of 2002, as implemented by 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, identify programs that may be susceptible to significant improper payments, perform testing of programs considered high risk, and develop and implement corrective action plans for high risk programs.

The Department's review for FY 2010 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). One additional program, the Workforce Investment Act (WIA) grant program, is classified as high risk in OMB's Circular A-123, Appendix C, due to its level of expenditures, although the Department's risk assessment does not support such a high risk designation.

In FY 2010, 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 target UI improper payments error rate for FY 2010 was 9.9%, whereas the actual error rate is 11.2%. 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 cause, and claimants who failed to meet active work search requirements. These 3 causes accounted for 64% of overpayments in FY 2009 and 65% of overpayments in FY 2010 and represent approximately 70% of the increase in the overpayment rate. Corrective actions to address these causes are described in Section III. The higher actual error rate for WIA in FY 2010 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.

*Target and Actual Improper Payments Rates for the Department's At-Risk Programs*

| DOL Program              | FY 2008 |        | FY 2009 |        | FY 2010 |        | FY 2011 |
|--------------------------|---------|--------|---------|--------|---------|--------|---------|
|                          | Target  | Actual | Target  | Actual | Target  | Actual | Target  |
| Unemployment Insurance   | 11.5%   | 10.0%  | 10.0%   | 10.3%  | 9.9%    | 11.2%  | 9.8%    |
| Workforce Investment Act | 0.19%   | 0.07%  | 0.07%   | 0.2%   | 0.07%   | 0.2%   | 0.07%   |

### I. Risk Assessment

The Department's FY 2010 risk assessment of its various programs included the following:

- Reviewed prior three year's results of IPIA risk assessments and detailed tests. In addition to testing the two programs (UI and WIA) designated as high risk, DOL performed detailed testing on all its other significant programs in the last 3 years. These programs included Black Lung Disability Trust Fund, Federal Employees' Compensation Act, Energy Employees Occupational Illness Compensation Program, State Unemployment Insurance and Employment Service Operations, Payroll Costs and Non Payroll Costs. The results of this detailed testing showed that these programs were low risk.
- Reviewed DOL OIG and Government Accountability Office (GAO) audit reports issued for DOL programs to determine whether the reports indicate that control weaknesses or other issues could potentially impact the amount of improper payments for DOL programs.

- Reviewed 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.
- Reviewed DOL programs' funding levels for FY 2010 for significant changes in program funding that may impact the amount of improper payments.

Outlays for 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) increased sharply in FY 2009 and FY 2010 to an estimated \$119 billion and \$156 billion, respectively, compared with just over \$42 billion in FY 2008, reflecting the adverse labor market conditions. FY 2009 and FY 2010 UI outlays include approximately \$24.9 billion and \$32.7 billion provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act) for benefit payments to unemployed individuals by extending the period of eligibility for benefits and providing additional weekly benefits. For WIA, the Recovery Act provided additional resources primarily for formula grants to states and for other discretionary grants; the Recovery Act outlays in FY 2009 and FY 2010 include approximately \$0.8 billion and \$2.2 billion, respectively.

The additional funds are disbursed/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 Recovery Act programs, including the following:

- Issued specific guidance on the use of the funds distributed through the Recovery Act programs.
- Conducted outreach to states and other eligible grant applicants to communicate policies and guidelines and is 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.
- Trained grantees on Federal grant requirements, performance expectations, fiscal and program requirements, and allowable use of funds.
- Closely monitor the draw-down of UI Recovery Act funds from the specific accounts and has systems in place for reporting information required for monitoring and evaluating the operations of these programs.
- Conduct program reviews to ensure that the various activities included in the Recovery Act are properly implemented, including the use of these funds according to various operating instructions/guidance provided to the states.

## II. Statistical Sampling

The following sampling was performed for the two programs designated as high 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<sup>4</sup>, UCFE, and UCX. The Department reports two overpayment rates -- the Annual Report rate and the Operational rate, as well as an underpayment rate. 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 those fraud and nonfraud 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

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<sup>4</sup> 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.



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 (<http://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 2010 shown in the Improper Payment Reduction Outlook Table are for the period July 1, 2009, to June 30, 2010. 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, 2009, to June 30, 2010, state agencies completed audits for 22,093 paid claims cases, a completion rate of 99.8 %. Additional information about the BAM methodology can be found at: <http://www.oui.doleta.gov/unemploy/bam/2009/bam-cy2009.pdf>

### Workforce Investment Act

*Sampling Process:* For FY 2010, the Department used a separate methodology (similar to its previous measurements) to estimate the improper payments rate in the WIA grant program because grant programs are administered differently than benefit programs. Unlike the benefit programs, data are not readily available to allow the Department to directly sample grant payments to develop a statistically valid estimate of improper payments. This is because 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<sup>5</sup>) 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, these Single Audit Act Reports, along with other data in FY 2010, were utilized to determine the improper payment rate for the WIA grant program.

The Department reviewed FY 2008 (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 grants 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 procedures to assess the level of improper payments which included a review of (1) the results of the monitoring work performed by the ETA staff who are responsible for managing the WIA program and (2) the Government Accountability Office (GAO) and DOL Office of Inspector General (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 2010 rate) was applied to the WIA program outlays for FY 2010 to determine the estimated improper payment amount

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<sup>5</sup> 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.

for FY 2010. The Department is performing additional procedures to assess the risk of improper payments and to determine if a new measurement methodology could be developed and used for future reporting on WIA improper payments.

### **III. Corrective Actions**

#### Unemployment Insurance

Many errors in the UI program are due to eligibility errors that can be prevented or detected early through state use of third-party verification resources, such as matching claimant records with new hire and Social Security data. 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 27 % of all overpayments in FY 2010 -- allows agencies to stop payments sooner and to recover these overpayments more readily. Matching the Social Security Numbers (SSNs) of UI claimants with the National Directory of New Hires (NDNH) and State Directory of New Hires (SDNH) databases is the most effective tool in identifying these improper payments. For the period July 2009 to June 2010, Benefit Payment Control (BPC) operations reported using new hire matching to detect and establish for recovery \$155 million in overpayments. During the same period, BAM identified an estimated \$319 million in overpayments through matching with the NDNH or SDNH. The Department is developing standard operating procedures for state BPC operations to ensure that states are effectively utilizing the NDNH as part of their integrity activities. The recently enacted Claims Resolution Act of 2010 (P.L. 111-29) included a provision that requires employers to report the first day of earnings for new hires to the NDNH. This additional information will facilitate the more timely identification of claimants who have returned to work and continue to claim UI benefits.

The second largest cause of overpayments is errors in handling separation issues, which represented 20 % of all overpayments in FY 2010. To reduce improper payments due to separation issues, the Department is working with the state agencies to facilitate their participation in the State Information Data Exchange System (SIDES) -- an automated employer response system to standardize the collection of information on employee separations from employers and third-party administrators (TPAs) to improve the accuracy of claimant eligibility determinations. The Department is aggressively promoting state planning a phased implementation of state participation in SIDES. The development and testing of SIDES is complete, and SIDES became operational in February, 2010. Currently, Colorado, Georgia, Ohio, and Utah and a third party administrator (TPA), Automated Data Processing, Inc., are participating in this initiative. A total of 18 other states are in varying phases of implementation.

The Department continues outreach activities to promote the use of SIDES and provide technical assistance for SIDES implementation to the states. ETA, in conjunction with the National Association of State Workforce Agencies (NASWA) and the Information Technology Support Center (ITSC), conducted a training session in June, 2010. Participants from 12 states and 4 TPAs (AZ, CT, IA, KS, MD, MI, MS, NC, NY, RI, TX, UT, VA, Barnette Associates, Paychex, UCTA, and Corporate Cost Control) attended the training session. Pending the availability of resources, the Department will provide Supplemental Budget Request opportunities to states that have not yet committed to SIDES implementation.

Most of the improper UI payments not caused by benefit year earnings or separation errors are due to the claimant not meeting one or more of the continued eligibility requirements, such as conducting an active work search, registering with the state employment service, and being able and available for work. The Department has been focused on new strategies designed to get at the most prevalent root causes of improper payments: 1) claimants continuing to claim benefits after returning to work; 2) incomplete and/or untimely employment separation information from employers or their third party administrators; and failure to register claimants with the state's employment service as required by the state's law. The strategies include a new state performance measure focused on improper payment prevention, enhanced use of the National Directory of New Hires, development of a claimant messaging campaign and intensive technical assistance to high impact states.

The Department In FY 20 has been providing SBRs to states to support state technology investments related to UI integrity. In FY 2010 \$10.7 million were provided to states for technology based integrity activities to improve the prevention, detection, and collection of UI overpayments. These activities, when implemented, can result in significant reduction in overpayments and increased recovery of those made. Additionally, In FY 2005, the Department began providing states funds to conduct Reemployment and Eligibility Assessment (REAs) with UI beneficiaries to reduce improper payments both by speeding claimants' return to work and by detecting and preventing eligibility violations. During FY 2010, the Department provided \$50 million in funding to support REA activities in 33 states and the District of Columbia. A total of 40 states have received funding to implement REA programs.

### Workforce Investment Act

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, unallowable costs and insufficient documentation for participant and vendor 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 resolution 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 FY 2009– FY 2013 (\$ in millions)**

| Program                          | FY 2009   |      |          | FY 2010   |       |          | FY 2011     |       |         | FY 2012     |       |         | FY 2013     |       |         |
|----------------------------------|-----------|------|----------|-----------|-------|----------|-------------|-------|---------|-------------|-------|---------|-------------|-------|---------|
|                                  | Outlays   | IP % | IP \$    | Outlays   | IP%   | IP\$     | Est Outlays | IP %  | IP \$   | Est Outlays | IP %  | IP \$   | Est Outlays | IP %  | IP \$   |
| <b>Unemployment Insurance</b>    | \$119,249 |      |          | \$156,000 |       |          | \$90,977    |       |         | \$66,780    |       |         | \$63,859    |       |         |
| Operational Rate                 |           | 5.2% | \$6,201  |           | 5.7%  | \$8,892  |             | 5.1%  | \$4,640 |             | 5.1%  | \$3,406 |             | 5.1%  | \$3,257 |
| Annual Report Rate Over- payment |           | 9.6% | \$11,448 |           | 10.6% | \$16,536 |             | 9.05% | \$8,233 |             | 8.95% | \$5,977 |             | 8.85% | \$5,652 |
| Underpayment                     |           | 0.7% | \$835    |           | 0.6%  | \$936    |             | 0.71% | \$646   |             | 0.71% | \$474   |             | 0.71% | \$453   |
| <b>Workforce Investment Act</b>  | \$4,300   | 0.2% | \$8.6    | \$5,875   | 0.2%  | \$11.8   | \$4,496     | 0.07% | \$3.1   | \$3,723     | 0.07% | \$2.6   | \$3,700     | 0.07% | \$2.6   |

Notes:

Actual UI outlays in FY 2009 and FY 2010 include approximately \$24.9 and \$32.7 billion, respectively, of Recovery Act benefit payments under the EB, FAC and EUC08 programs. Recovery Act UI modernization incentive and administrative cost payments to states are not included. For WIA, the FY 2009 to 2011 outlays include \$0.8, \$2.2 and \$0.8 billion, respectively, of Recovery Act grants.

The rates were determined as described in the preceding pages 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 7 % of total outlays in FY 2009 and 2010), 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 are currently under review by DOL to resolve BAM coding and methodology issues.

Only an estimated 2.31 % and 2.37 % of UI benefits were overpaid due to fraud in FY 2009 and FY 2010, 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 crossmatching 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. 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 Office of Inspector General (OIG) program audits. From FY 2004 through FY 2010 approximately \$4,456 million has been recovered for the UI and the WIA programs.

**V. Recovery Auditing**

Recovery auditing is a control technique to identify improper contractor payments and initiate recovery actions where appropriate. Recovery auditing involves data analysis and detailed reviews of the documentation supporting contract payments, including purchase orders, invoices, vendor statements/correspondence, procurement records, contracts, contract modifications, payment transaction records, etc.

Prior to FY 2008 the Department performed statistical sampling of non-payroll costs consisting of department expenses, including contract payments, related to the operation and administration of programs' and headquarters' activities. Such testing found these costs to be at low risk for improper payments. In FY 2008, the Department

performed a recovery audit of the contract payments made in FY 2007 and 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. The work was performed by a contractor together with DOL staff. The recovery audit procedures included analysis of the payment database and review of supporting documentation for various selected payments. Excluded from the review were payments to other Federal departments and payments for travel reimbursements to and on behalf of employees.

Recovery Audit Results (in millions)

| Agency | Amount Subject to Review for FY 2010 Reporting | Actual Amount Reviewed and Reported in FY 2010 | Amounts Identified for Recovery in FY 2010 | Amounts Recovered in FY 2010 | Amount Identified for Recovery in Prior Years | Amounts Recovered in Prior Years |
|--------|--|--|--|------------------------------|---|----------------------------------|
| DOL    | \$4,087  | \$4,087  | \$5.9                                      | \$5.6                        | \$0   | \$0                              |

## VI. Management Accountability

The Employment and Training Administration (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. In FY 2010, ETA will continue 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. These data are derived from investigations of a statistically valid sample of payments using Federally prescribed procedures. ETA reviews these data for validity, analyzes data for each state, and makes the data available publicly on the ETA Web site – <http://www.oui.doleta.gov/unemploy/bam/2009/bam-cy2009.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. 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 an evaluation factor in OUI managers’ performance plans. ETA is developing an additional performance measure that will require states to reduce by 50 percent those overpayments attributable to individuals who continue to claim multiple weeks of UI benefits after they return to work.
- 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. A few of the most noteworthy are:
  - *National Directory of New Hires*: The Department’s activities with respect to facilitating state implementation of the NDNH crossmatch to address the largest cause of UI improper payments -- earnings while benefits are being paid -- are discussed in Section III (Corrective Actions).
  - *Separation Information Data Exchange System*: This initiative will improve the accuracy of claimant eligibility determinations, which is the second largest cause of improper payments by enabling state agencies to obtain more timely and complete information regarding the reasons that UI applicants were separated from work. The Department’s activities are discussed in Section III (Corrective Actions).
  - *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 recently enacted Claims Resolution Act of 2010 (P.L. 111-29) includes provisions that expand the use of TOP to recover nonfraud overpayments if the UC debt is due to failure to report earnings. The Department issued Unemployment Insurance Program Letter (UIPL) No. 11-11 on March 8, 2011, to notify states of these changes.

The Department continues to work with Department of Treasury officials to develop program requirements and procedures for state access to TOP. On January 28, 2011, Treasury published the interim rule concerning the use of TOP to collect covered UC debt in the *Federal Register* at 76 Fed. Reg. 5070. UIPL No. 02-09, Change 1, informed the state workforce agencies of the due process and TOP system access requirements, including the completion of a certification agreement, security, and connectivity issues. The Department will issue Change 2 to UIPL No. 02-09, which will inform 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. New York and Wisconsin have begun accessing TOP. Additional states are expected to participate in TOP during FY 2011.

- *UI Integrity Legislation* - The Department has prepared legislation, which is currently under review, to allow states to redirect a small percentage of recovered overpayments to fund integrity activities and will require employers to report rehired employees, in addition to new hires, as part of their NDNH submission. Specific provisions of the proposed legislation are discussed in section VIII - Statutory or Regulatory Barriers.
- *Claimant Messaging Campaign to Deter Continued Claims Filing After Return to Work* - ETA is working with the ITSC to secure contractor support to: 1) inventory current state practices; 2) develop messaging tools and products for state use; and 3) disseminate tools and products and provide technical assistance to communicate to claimants that their eligibility for UI ends when they have returned to work.
- *Work Collaboratively with the Partnership Fund for Integrity Innovation to Explore More Timely Data Sources Indicating Claimant's Return to Work* - ETA will explore data available through Early Warning Services, a proprietary service administered by a bank consortium, that could help detect when payroll checks are deposited in bank accounts, indicating a claimant has returned to work.
- *Aggressive and Targeted Technical Assistance and Monitoring of States with the Highest Percentage of ES Registration Improper Payments* - ETA will inform targeted states by letter of plans for ETA to work with them aggressively to lower this portion of their improper payment rate. Targeted states will be contacted personally by the UI Administrator and ETA Regional Administrator to examine state specific causes for the problem and to request a formal plan from the state to address it.
- *Federal/State Workgroup to Identify State Improper Payment Prevention Strategies* - Working with the NASWA, ETA has convened a workgroup to develop recommendations for new innovative options to reduce improper payments. The workgroup held its initial meeting in December 2010 and will conclude its work by September 30, 2011.
- *Enhance the State Quality Service Planning (SQSP) Process To Incorporate New Elements Related to Prevention of Improper Payments*- ETA has drafted a new section of the SQSP requiring states to identify state specific root causes and to provide strategies for addressing them. The new performance measure focused on the prevention of benefit year earnings overpayments (discussed above) will be incorporated into the FY 2013 SQSP process by requiring states to provide corrective action plans if they fail to meet the performance standard.
- *National Integrity Conference*: In order to provide a forum for disseminating successful practices for preventing, detecting and recovering UI overpayments, the Department hosted a National Unemployment Insurance Integrity Professional Development Conference in April 2010. The next conference is scheduled for 2012.
- In order to improve the adjudication on non-monetary eligibility issues, the Department conducted three sessions of Nonmonetary Determinations Benefits, Timeliness and Quality Training over the past fiscal year. One session was an in-person session with over 30 trainees in the Philadelphia Region.

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There were also two sessions of the Nonmonetary Benefits, Timeliness and Quality E-learning Course with 20 trainees in each session. An on-line adjudication course has also been developed, and is currently available for interested staff.

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 set by the Office of Management and Budget. However, it should be noted that these strategies require the cooperation and implementation by individual states, including 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.

ETA has revised and expanded its training for grant managers and is currently implementing an expansion of GEMS to include all WIA grants. GEMS tracks the grant managers' grant review actions and provides the grant manager 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. Information Systems and Infrastructure**

### Unemployment Insurance

State and Federal information systems and infrastructure were upgraded to accommodate the additional Federal compensation programs and extensions to other unemployment compensation programs included in the Recovery Act.

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, which is 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 EBSS (Enterprise Business Support System), with GEMS. EBSS is the Enterprise Business Support System, 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, customizable, 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 technology project has recently been undertaken to provide for a report writing module and the cataloging of the Core Monitoring Guide and supplements. This will allow ETA staff to customize and target their oversight efforts.

## **VIII. Statutory or Regulatory Barriers**

### Unemployment Insurance

The UI program has several statutory barriers to reducing improper payments. First, States administer the UI program and set operational priorities. The Department has limited authority to ensure they pursue improper

payment reduction activities. Second, the "immediate deposit" requirement (Sec. 3304(a)(3), Federal Unemployment Tax Act (FUTA) and Sec 303(a)(4), Social Security Act (SSA)) and the "withdrawal standard" (Sec. 3304(a)(4), FUTA and Sec 303(a)(5), SSA) preclude the use of recovery auditing techniques and affect recovery efforts.

Unemployment Compensation (UC) integrity legislation is under review and will be submitted to the Congress. The draft legislation, if enacted, will help states reduce improper benefit payments. This will ensure that benefits are available for eligible UI claimants, thus contributing to the DOL strategic goal to "Ensure income support when work is impossible or unavailable."

The key provisions of the Integrity Act 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 misclassification of employees, to augment administrative funding for activities related to these purposes.
- 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.

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.



## Acronyms

|                |  |               |   |
|----------------|--|---------------|---|
| <b>ACSI</b>    | American Customer Satisfaction Index               | <b>MSHA</b>   | Mine Safety and Health Administration                               |
| <b>BLS</b>     | Bureau of Labor Statistics                         | <b>NCFMS</b>  | New Core Financial Management System                                |
| <b>CAM</b>     | Cost Analysis Manager                              | <b>OASAM</b>  | Office of the Assistant Secretary for Administration and Management |
| <b>CFO</b>     | Chief Financial Officer                            | <b>OASP</b>   | Office of the Assistant Secretary for Policy                        |
| <b>DOL</b>     | U.S. Department of Labor                           | <b>OCFO</b>   | Office of the Chief Financial Officer                               |
| <b>DOLAR\$</b> | Department of Labor Accounting and Related Systems | <b>OCIA</b>   | Office of Congressional and Intergovernmental Affairs               |
| <b>DVOP</b>    | Disabled Veterans' Outreach Program                | <b>ODEP</b>   | Office of Disability Employment Policy                              |
| <b>EBSA</b>    | Employee Benefits Security Administration          | <b>OFCCP</b>  | Office of Federal Contract Compliance Programs                      |
| <b>ERISA</b>   | Employee Retirement Income Security Act            | <b>OFCLC</b>  | Office of Foreign Labor Certification                               |
| <b>ESA</b>     | Employment Standards Administration                | <b>OIG</b>    | Office of Inspector General   |
| <b>ETA</b>     | Employment and Training Administration             | <b>OLMS</b>   | Office of Labor-Management Standards                                |
| <b>FASAB</b>   | Federal Accounting Standards Advisory Board        | <b>OMB</b>    | Office of Management and Budget                                     |
| <b>FECA</b>    | Federal Employees' Compensation Act                | <b>OPA</b>    | Office of Public Affairs  |
| <b>FFMIA</b>   | Federal Financial Management Improvement Act       | <b>OSHA</b>   | Occupational Safety and Health Administration                       |
| <b>FMFIA</b>   | Federal Managers' Financial Integrity Act          | <b>OWCP</b>   | Office of Workers' Compensation Programs                            |
| <b>FLSA</b>    | Fair Labor Standards Act                           | <b>PBGC</b>   | Pension Benefit Guaranty Corporation                                |
| <b>FTE</b>     | Full Time Equivalent                               | <b>PMA</b>    | President's Management Agenda                                       |
| <b>FUTA</b>    | Federal Unemployment Tax Act                       | <b>PPI</b>    | Producer Price Index  |
| <b>FY</b>      | Fiscal Year  | <b>PY</b>     | Program Year  |
| <b>GAO</b>     | U.S. Government Accountability Office              | <b>RAPIDS</b> | Registered Apprenticeship Partners Information Data System          |
| <b>GPRA</b>    | Government Performance and Results Act             | <b>RECA</b>   | Radiation Exposure Compensation Act                                 |
| <b>GSA</b>     | General Services Administration                    | <b>SOL</b>    | Office of the Solicitor   |
| <b>HVRP</b>    | Homeless Veterans' Reintegration Program           | <b>SSA</b>    | Social Security Administration                                      |
| <b>ILAB</b>    | Bureau of International Labor Affairs              | <b>SWA</b>    | State Workforce Agencies  |
| <b>IPIA</b>    | Improper Payments Information Act                  | <b>TAA</b>    | Trade Adjustment Assistance   |
| <b>IRS</b>     | Internal Revenue Service                           | <b>TAP</b>    | Transition Assistance Program                                       |
| <b>IT</b>      | Information Technology                             | <b>UI</b>     | Unemployment Insurance  |
| <b>LMRDA</b>   | Labor-Management Reporting and Disclosure Act      | <b>USPS</b>   | U.S. Postal Service   |
| <b>LPD</b>     | Lost Production Days                               | <b>UTF</b>    | Unemployment Trust Fund   |
| <b>LVER</b>    | Local Veterans' Employment Representative          | <b>VA</b>     | U.S. Department of Veterans Affairs                                 |
|                |  | <b>VETS</b>   | Veterans' Employment and Training Service                           |
|                |  | <b>WB</b>     | Women's Bureau  |
|                |  | <b>WHD</b>    | Wage and Hour Division  |
|                |  | <b>WIA</b>    | Workforce Investment Act  |





*U.S. Department of Labor*