

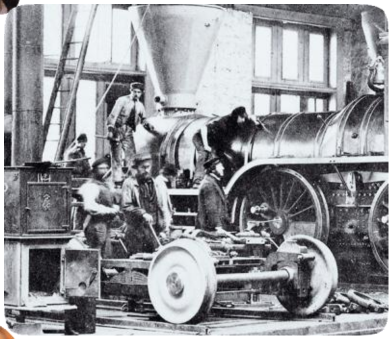
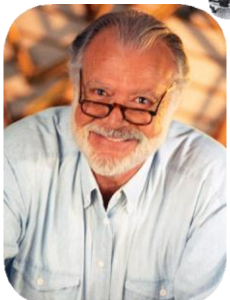


AGENCY FINANCIAL REPORT — Fiscal Year 2013







UNITED STATES
DEPARTMENT
OF LABOR

1913
2013
100 YEARS
THEN NOW NEXT

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Message from the Secretary of Labor

December 16, 2013

I began my tenure as Secretary of Labor in the midst of the Department's celebration of its 100th Anniversary. For 100 years our department has been central to fulfilling one of America's most important and enduring premises: providing opportunity for everyone willing to work for it. That means the opportunity for workers to acquire the skills they need to succeed in the global economy; the opportunity to earn a fair day's pay for a fair day's work in a safe workplace; the opportunity for veterans to thrive in the civilian economy; the opportunity for people with disabilities to become productive members of the workforce; and the opportunity to retire with dignity and peace of mind.

But our goal of expanding opportunity can not be achieved without keeping a laser focus on ensuring that we use our resources in the most efficient and strategic way possible.

That is why I am pleased to present the U.S. Department of Labor's Fiscal Year 2013 Agency Financial Report. This is our annual publication to Congress and the American public about our operational record and financial stewardship of public funds. The information in this report explains how we manage our resources, highlights our major accomplishments and outlines our plans to address the challenges ahead. It is with tremendous pride that I report that we have once again received a "clean" (unmodified) independent opinion on our financial statements.

I am also pleased to provide an unqualified statement of assurance regarding the Department's internal controls, as required by the Federal Managers Financial Integrity Act (FMFIA) of 1982 and Office of Management and Budget Circular No. A-123, *Management's Responsibility for Internal Control*. The results of management's assessment of internal controls and compliance of financial management systems, pursuant to FMFIA and the Federal Financial Management Improvement Act of 1996, is included in the *Management's Discussion and Analysis* section of this report. I am confident that the financial data and summary performance results included in this AFR are complete and reliable in accordance with federal requirements.

In addition to tools like this financial report, we analyze our programs to determine whether we are achieving the best results for the American public. Each DOL agency has an evaluation agenda intended to determine if our current activities and strategies are the most likely to lead to improving performance and outcomes or if evidence suggests that we should alter our activities and strategies. Our extensive work in supporting performance and outcomes is summarized in the "Program Performance Overview" part of *Management Discussion and Analysis*.

As the first Secretary of the Department's second century, I look forward to carrying on the Department's efforts to extend the ladder of opportunity to even more working families across our nation.

/S/
THOMAS E. PEREZ
U.S. Secretary of Labor

MANAGEMENT'S DISCUSSION & ANALYSIS

UNITED STATES DEPARTMENT OF LABOR

1913 2013 100 YEARS

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The Department of Labor's (DOL or the Department) annual Agency Financial Report (AFR) provides fiscal data and summary performance results that enable the President, Congress, and American people to assess the Department's accomplishments for each fiscal year (October 1 through September 30). This report provides an overview of programs, accomplishments, challenges, and management's accountability for the resources entrusted to the Department. The report is prepared in accordance with the requirements of Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

DOL History

March 4, 1913, marked a milestone event in the history of the American workforce. On that day, President William Howard Taft — on his last day in office — signed legislation creating the U.S. Department of Labor and giving workers a direct seat in the President's Cabinet for the first time. In the words of the Organic Act, the Department's mission is "To foster, promote and develop the welfare of working people, to improve their working conditions, and to enhance their opportunities for profitable employment." William B. Wilson was appointed as the first secretary of the new department. Wilson, born in Scotland in 1862, was a champion of jobs for women and minorities, and played an important role in our World War I victory by mobilizing an effective workforce for defense production.

In 1933, President Franklin D. Roosevelt appointed Frances Perkins as the first woman ever to head a U.S. Cabinet agency. Perkins had served as Commissioner of Labor while FDR was governor of New York and developed plans to alleviate unemployment as the Depression deepened. She served until shortly after FDR's death in 1945. DOL's national office in Washington, D.C. – the Frances Perkins Building – is now named after her.

Secretary Perkins played a major role in the design of many New Deal programs, but her main contribution was the enactment of Social Security in 1935. Perkins led a campaign to convince the nation that a pension system would not only be humanitarian, but would help prevent future depressions. The New Deal also led to many of the mainstays of the American workplace, such as Unemployment Insurance, the eight-hour work day, minimum workplace safety and health standards, and the first federal minimum wage, then 25 cents per hour.

In the 1960s, DOL's responsibilities were expanded to address President Lyndon B. Johnson's "Great Society" and the "War on Poverty." One of the most important programs was the Job Corps, which the Labor Department began administering in 1969, providing training for at-risk youth.

In 1970, the movement for a job safety and health law finally succeeded, and the next year the Department established the Occupational Safety and Health Administration (OSHA) to enforce rules to protect against hazards in most of the nation's workplaces. OSHA was joined by a sister agency seven years later – the Mine Safety and Health Administration (MSHA). The Employee Retirement Income Security Act (ERISA) of 1974 gave DOL a major role in protecting and improving the nation's private retirement systems. Steps to promote employment and provide workplace protections for groups such as persons with disabilities, veterans, and migrant workers followed, with the establishment of the Office of Disability Employment Policy (ODEP), the Veterans' Employment and Training Service (VETS), and passage of laws like the Migrant and Seasonal Agricultural Worker Protection Act. President Clinton signed the Family and Medical Leave Act in 1993, protecting the job security of new parents, caretakers of injured or ill relatives, workers with personal health problems, and others.

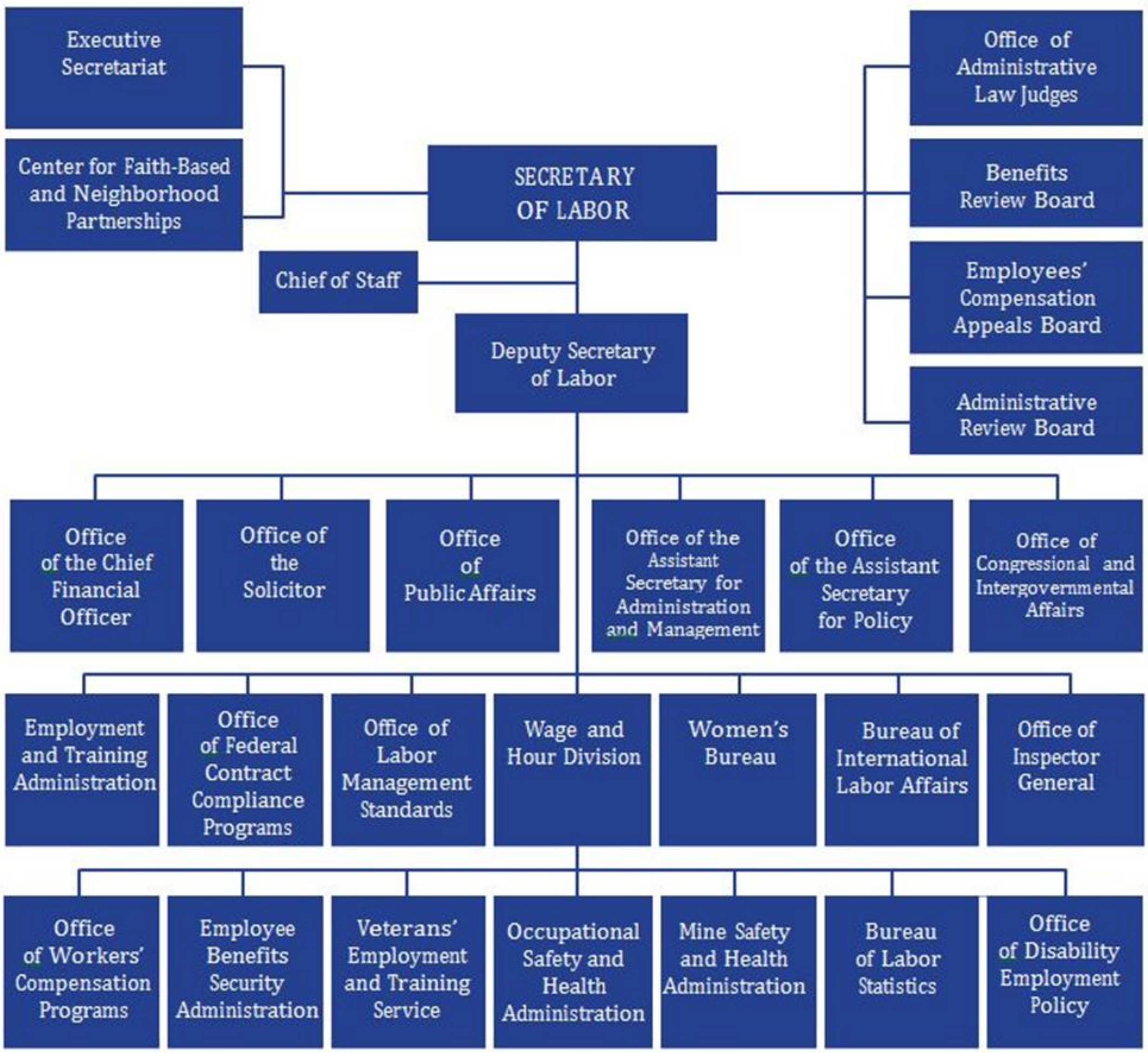
Today, after the economic shock of the 2008 financial crisis and resulting unemployment, the Department of Labor continues to seek out new ways to meet the challenges of a new era and to inspire the next century of progress for the American workforce. As we recognize 100 years of achievement, we also seek opportunities for reinvention and renewal.

Mission Statement and Organizational Structure

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*."

The Department accomplishes this mission through component agencies and offices that administer various statutes and programs. These programs are carried out through a network of regional offices and smaller field, district, and area offices, as well as through grantees and contractors.



Program Performance Overview

The Program Performance Overview presents the Department's performance goals, objectives and results and discusses key performance measures and program priorities. This section includes performance on measures related to spending as reported in the following Financial Section. Outcome data reported under the Government Performance and Results Act are included in the Annual Performance Report, which will be published in February 2014 with the fiscal year (FY) 2015 Congressional Budget Justification. A third report, the *Summary of Performance and Financial Information for Fiscal Year 2013*, will be available on February 15, 2014.

The Department's current five-year Strategic Plan - http://www.dol.gov/_sec/stratplan/ includes five strategic goals and 14 outcome goals that support the Secretary's vision to *promote and protect opportunity* for *all* workers and their employers. These goals are presented in the following table:

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

The goal structure incorporates the Department's commitment to measuring activities that positively impact the day-to-day lives of working families. The results on the corresponding measures allow the Department to track progress in implementation of the strategic goals and objectives.

The table below organizes DOL program agencies into five categories that report FY 2013 performance data. The Department's mission is also supported by administrative, policy, legal, public affairs, and Congressional liaison offices.

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

The following section presents a brief description of the programs administered by each agency, the most recent results for key performance measures, and a brief statement of forward-looking information. The Department tracks performance through over 400 output and outcome measures. The selected measures below are most representative of agency activities based on resource allocation and strategic importance.

In achieving these performance results, the Department faced a challenging budgetary environment in FY 2013, including the impact of sequestration. In FY 2013, the Department had to absorb across the board cuts totaling $3.2 billion, all within the last half of the fiscal year. The Department's discretionary budget was reduced by $646 million. These cuts affected every agency and activity within DOL.

The Department and its agencies underwent a thorough sequestration planning process to assure the continuation of high performance in 2013 for priority activities, while reducing performance for lower priority activities.

EMPLOYMENT & TRAINING

Employment and Training Administration (ETA)

ETA provides employment assistance, labor market information and job training through the administration of programs authorized by the Workforce Investment Act of 1998 (WIA) for adults, youth, dislocated workers and other targeted populations. ETA administers Job Corps; Trade Adjustment Assistance for Workers (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. These programs support the Department's Strategic Goal 1, to *prepare workers for good jobs and ensure fair compensation* and the associated Outcome Goals.

Percent of Initial Risk Assessments Conducted for New Grants Managed by Regional Offices within 45 Days of Award – Federal staff conduct risk assessments of grantee work plans and award documents at the onset of a grant to ensure procedures and performance expectations are clearly outlined and to assess grantees' ability to carry out all tasks. In FY 2012, ETA conducted 98.75% of these assessments within 45 days; in FY 2013, the result was 98.34% – slightly below the FY 2012 result.

Average petition processing time in days for TAA – The TAA program provides benefits and services to workers who become unemployed due to the impact of international trade. This measure represents the average number of days it takes staff to process TAA petitions from initial filing to final determination during the applicable year. ETA continued to improve timeliness by further reducing the average processing time from 52 days in FY 2012 to 50 days in FY 2013.

Measure	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Percent of Initial Risk Assessments Conducted for New Grants Managed by Regional Offices within 45 Days of Award	--	--	--	--	98.75%	98.34%
Average Petition Processing Time (in days)	35	48	140 [r][1]	78 [r]	61 [r]	50

By September 30, 2015, in accordance with DOL's industry-recognized credentials priority goal, ETA aims to increase the percentage of training program completers who attain industry-recognized credentials by 10 percent.

Veterans' Employment and Training Service (VETS)

The Veterans' Employment and Training Service provides training and transition programs that increase the ability of veterans to transition successfully to a civilian workforce. The agency works collaboratively with the Employment and Training Administration to ensure veterans receive enhanced services at one of the nearly 3,000 American Job Centers around the country, and undertakes a series of programs specifically designed to meet the needs of veterans transitioning to the civilian workforce. In addition, VETS 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 in the uniformed services without harm to their civilian employment; and by ensuring that veterans who seek Federal employment obtain the preferential hiring consideration to which they are entitled.

VETS tracks two timeliness measures related to its USERRA program. To provide prompt resolution for both claimants and employers, VETS strives to complete USERRA investigations within 90 days. Upon conclusion of VETS' investigation, a USERRA claimant has the right to ask VETS to refer his or her case to the Department of Justice (if the case involves a non-Federal employer) or to the Office of Special Council (if the case involves a Federal employer), for consideration of legal representation. The Veterans' Benefits Improvement Act of 2008 requires VETS to complete those referrals within 60 days, unless the claimant agrees to an extension of time. The agency was below target for the Percent of USERRA Referrals Completed within 60 Days in FY 2013. Preparing a USERRA referral is resource-intensive and the VETS staff responsible for this task also conduct USERRA investigations and quality reviews. In FY 2014 and beyond, VETS will ensure that USERRA cases are consistently investigated by the agency's most experienced and effective investigators.

Measure	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Percent of USERRA Investigations Completed within 90 Days	78%	86%	84%	87%	89%	89.6%
Percent of USERRA Referrals Completed within 60 Days	--	56%	62%	57%	83%	72.8%

[1] [r] indicates revised result from the FY 2012 AFR.

By September 30, 2015, in accordance with DOL's priority to provide intensive services to veterans, VETS aims to increase the percent of participants who receive intensive services from Disabled Veterans Opportunity Program specialists to 75 percent.

WORKER PROTECTION

Office of Federal Contract Compliance Programs (OFCCP)

The Office of Federal Contract Compliance Programs ensures that nearly 200,000 contractor facilities and locations provide equal employment opportunities leading to a fair and diverse workplace. OFCCP administers and enforces three legal authorities that require equal employment opportunity: Executive Order 11246, as amended; Section 503 of the Rehabilitation Act of 1973, as amended; and the Vietnam Era Veterans' Readjustment Assistance Act (VEVRAA) of 1974, as amended. Together, these laws ban discrimination and require Federal contractors and subcontractors to take affirmative action to ensure that all individuals have an equal opportunity for employment, without regard to race, color, religion, sex, national origin, disability, or status as a protected veteran. OFCCP supports the Department's Strategic Goal 3, *assure fair and high quality work-life environments* and the associated Outcome Goal 3.1*, break down barriers to fair and diverse work places so that every worker's contribution is respected*.

OFCCP's compliance evaluations and investigations play a critical role in measuring Federal contractor compliance with legal obligations under these authorities. FY 2012 was a year of measure development for OFCCP, in which the agency collected data on contextual measures to diagnose and learn from quarterly results, and benchmarked measures for future targets. In FY 2013, OFCCP leveraged what it learned in FY 2012 to increase the number of compliance evaluations and increase the quality of its evaluations. OFCCP provides technical assistance and training to contractors to support compliance, delivering more training in FY 2013 than it had at any time during the previous three years.

Measure	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Compliance Evaluations	4,333	3,917	4,960	4,014	4,017	4,345

OFCCP is working with the Department's Chief Evaluation Office to develop outcome-focused measures of the impact of the agency's enforcement activities on contractor compliance over time. In FY 2014, OFCCP will develop effective and strategic relationships with stakeholders to drive positive workplace change for workers. These stakeholders include community-based organizations, advocacy groups, employee resource groups, job placement providers, unions, and State and local government and intergovernmental agencies.

Occupational Safety and Health Administration (OSHA)

OSHA is authorized by the Occupational Safety and Health Act of 1970 to assure safe and healthful conditions for working men and women by setting and enforcing standards and providing training, outreach, education and technical assistance. OSHA aims to reduce the number of worker illnesses, injuries, and fatalities and contributes to the broader goal to promote competitiveness of our nation's workers. OSHA supports the Department's Strategic Goals 2 and 3, specifically as relates to Outcome Goals 2.1, *secure safe and healthy workplaces, particularly in high-risk industries and* 3.3; *ensure worker voice in the workplace*. The most recent data for key measures of OSHA's activity – the number of safety and health inspections – are presented in the table below.

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

Health inspections are conducted by industrial hygienists and address hazards such as chemical hazards, biological hazards (e.g., bloodborne pathogens and tuberculosis), physical hazards (e.g., noise, radiation, and heat and cold stress), and ergonomic hazards (e.g., patient handling, repetitive motion, excessive force, and awkward postures). Safety and health inspections increased from FY 2008 through FY 2012, but dropped in FY 2013 due to reduced funding.

Measure	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Total Number of Safety Inspections Conducted	33,074	33,221	34,320	33,331 [r]	33,580 [r]	31,948
Total Number of Health Inspections Conducted	5,517	5,783	6,649	7,317 [r]	7,381 [r]	7,280

Wage and Hour Division (WHD)

The WHD is responsible for administering and enforcing laws that establish the minimum standards for wages and working conditions. Collectively, these labor standards cover most private, State, and local government employment. They protect over 135 million workers in more than 7.3 million establishments throughout the U.S. and its territories.

WHD investigators, supervisors, analysts, technicians and administrative employees enforce and administer the minimum wage, overtime and child labor provisions of the Fair Labor Standards Act (FLSA); the prevailing wage requirements and wage determination provisions of the Davis Bacon and Related Acts (DBRA) and Service Contract Act (SCA); the wages and working conditions under the Migrant and Seasonal Agricultural Worker Protection Act (MSPA); and the Employee Polygraph Protection Act (EPPA). WHD also enforces the field sanitation and temporary labor camp standards in agriculture and certain employment standards and worker protections of the Immigration and Nationality Act (INA). WHD's enforcement responsibilities directly contribute to the Department's Strategic Goals 1, 2 and 3 and related Outcome Goals 1.1, *increase workers' incomes and narrow wage and income inequality;* 1.5, *secure wages and overtime*; 2.1, *secure safe and healthy workplaces, particularly in high-risk industries;* 3.2, *provide workplace flexibility for family and personal care giving;* and 3.3, *ensure worker voice in the workplace*.

To be effective in securing compliance, WHD continues to increase the number and percentage of directed investigations focused on new business models characterized by the use of subcontracting, franchising, temporary employment, labor suppliers, independent contracting, and a contingent workforce. These business models, where companies outsource key aspects of their production, often lead to less compliance with wage and hour related statutes. The first measure below is directed investigations as a percentage of all compliance actions conducted. In FY 2013, WHD continued moving resources to directed investigations and prioritizing complaints that point to systemic violations.

The second measure reflects WHD's commitment to maintaining an increased presence in those industries where the misclassification of employees as independent contractors is prevalent, such as the janitorial and residential construction industries.

The investigations WHD planned for FY 2013 included the janitorial and residential construction industries. In FY 2014, WHD will continue to prioritize its presence in those industries where the misclassification of employees as independent contractors is prevalent.

Measure	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Percent of Directed Investigations*	36%	35%	27%	29%	40.63%	44.19%
Percent of Directed Investigations in Industries with a High Prevalence of Employees Misclassified as Independent Contractors	13%	10%	17%	21%	19.98%	19.08%

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

Employee Benefits Security Administration (EBSA)

EBSA protects more than 141 million Americans covered by an estimated 684,000 private retirement plans, 2.4 million health plans, and other welfare benefit plans which together hold more than $7.6 trillion in assets. EBSA protects the most vulnerable populations while ensuring broad compliance with the Employee Retirement Income Security Act of 1974 (ERISA) and related laws. EBSA enforcement programs target the most egregious and persistent violators; protect the most vulnerable populations while assuring broad-based compliance; and regular evaluation of enforcement activities. EBSA provides proactive enforcement, outreach and education programs that protect the most vulnerable populations while ensuring broad compliance with ERISA and related laws. EBSA supports the Department's Strategic Goal 4, to *secure health benefits and, for those not working, provide income security* and the specific Outcome Goal 4.3, *improve health benefits and retirement security for all workers*.

Historical data for two key performance measures, "Number of Criminal Investigations Processed" and "Number of Civil Investigations Processed" are shown in the table below. EBSA's investigation program is designed to deter and correct violations of ERISA. In FY 2013, EBSA focused on national enforcement projects, and began implementing Major Case Enforcement Initiative. EBSA's Major Case Enforcement Initiative concentrates enforcement resources on areas that have the greatest impact on the protection of plan assets and participants' benefits (e.g., professional fiduciaries and service providers with responsibility for large amounts of plan assets and benefits).

Measure	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Number of Criminal Investigations Processed	212	287	281	302	318	320
Number of Civil Investigations Processed	3,570	3,669	3,112	3,472	3,566	3,677

In FY 2014, EBSA will focus on expanding the health investigations as a new health insurance marketplace will become more accessible. EBSA will identify health enforcement issues, and develop the legal framework to address violations relating to group health plans.

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. MSHA focuses on the prevention of death, disease, and injury from mining and on promoting safe and healthful workplaces for the Nation's miners. MSHA supports the Department's Strategic Goal 2, *ensure workplaces are safe and healthy* and Strategic Goal 3, *assure fair and high quality work-life environments,* and related Outcome Goals 2.1, *secure safe and healthy workplaces, particularly in high-risk industries* and 3.3, *ensure worker voice in the workplace*.

MSHA is required to conduct four complete inspections annually at active underground mines and two complete inspections annually at active surface mines. The table below shows the number of inspections for Coal vs. Metal and Nonmetal mine types. Fluctuations in the number of inspections over time reflect variation in the number of mines operating during any given time period.

Measure	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Coal mine inspections	5,385	5,526	5,121	5,139	5,117	4,658
Metal and Nonmetal mine inspections	18,235	17,168	16,127	16,269	16,620	16,624

By September 30, 2015, MSHA aims to reduce worker fatality rates in mining by five percent per year based on a rolling five-year average.

Office of Labor-Management Standards (OLMS)

OLMS protects the rights of American workers by administering the Labor-Management Reporting and Disclosure Act (LMRDA) and related laws, which safeguard union democracy and union financial integrity. OLMS supports the Department's Strategic Goal 3, *assure fair and high quality work-life environments;* and Outcome Goal 3.3, *ensure worker voice in the workplace*.

OLMS focuses audit resources by using advanced targeting techniques to identify the unions most likely to be subject to a violation of the law. The success of audit targeting strategies is measured by "Percent of Audits Resulting in a Criminal Case (Fallout Rate)."

Timely resolution of union election complaints is a paramount goal of the LMRDA, and OLMS gauges its progress against this goal through the "Days to Resolve Union Officer Election Complaints" measure. Since 2008, OLMS has dramatically reduced the average number of elapsed days per case.

OLMS is also making it easier for unions, employers, and consultants to file the financial and activity reports required under the LMRDA, and it tracks its success in these efforts through the "Percent of LMRDA Required Forms Filed Electronically" measure. In the future, OLMS will increase transparency using existing outreach tools (e.g., seminars, compliance assistance incidental to an audit) to introduce and encourage union leaders and other filers to use web-based forms.

Measure	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Percent of Audits Resulting in a Criminal Case (Fallout Rate)	--	--	--	14.9%	13.8%	20.9%
Number of Days to Resolve Union Officer Election Complaints	92	70	81	79	71	71
Percent of LMRDA Reports Filed Electronically	--	--	--	21.4%	37.8%	42.4%

POLICY

Women's Bureau (WB or Bureau)

The mission of the Women's Bureau is to develop policies and standards and conduct 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 is the only Federal office dedicated to serving and promoting the interests of women in the workforce. The Bureau supports the Department's Strategic Goal 1, to *prepare workers for good jobs and ensure fair compensation* and Strategic Goal 3, *assure fair and high quality work-life environments* and their associated Outcome Goals.

The Bureau conducts research to identify and formulate practices and policies that support working women and inform strategic interventions and recommends these practices and policies within DOL and the Federal government, national organizations and local communities. It identifies trends, data gaps, policy and programmatic needs, and promising practices.

Office of Disability Employment Policy (ODEP)

ODEP promotes the employment of people with disabilities by developing, validating, and disseminating policies and effective practices. ODEP provides technical assistance to stakeholders to promote the adoption and implementation of these policies and practices. Through these activities, ODEP contributes to break down barriers to fair and diverse workplaces and narrow income inequality. ODEP supports the Department's Strategic Goal 1, *prepare workers for good jobs and ensure fair compensation* and Strategic Goal 3, *assure fair and high quality work-life environments* and associated Outcome Goals, specifically Outcome Goal 3.1, *break down barriers to fair and diverse work places so that every workers' contribution is respected*.

ODEP develops, evaluates and disseminates policy strategies and effective practices to reduce the employment disparity that exists between people with and without disabilities. ODEP's key measures are the numbers of "Policy Outputs," "Effective Practices" and "Formal Agreements." Policy outputs are recommendations for significant policy change or an interpretation of existing policy related to disability employment – which could be legislation, regulations, policy guidance and executive orders or memoranda. Effective practices are ODEP-developed strategies, models or theories that lead directly to an identified outcome and have a documented record of success or validated effectiveness. Formal agreements are collaborations that are formalized through memoranda of understanding, inter/intra-agency agreements, public private partnership agreements or alliance agreements.

Measure	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Policy Outputs	44	39	35	42	39	54
Effective Practices	27	15	23	44	131	192
Formal Agreements	36	17	30	29	30	103

In FY 2014, ODEP will focus on four priority areas: countering employer's low expectations and negative perceptions of people with disabilities; increasing exposure to role models and access to training, employment and transition services; expanding access to employment supports and accommodations; and ensuring the availability and use of disability data and statistics regarding the characteristic of people with disabilities.

Bureau of International Labor Affairs (ILAB)

In a global economy, opportunities for American workers are shaped by the working conditions and opportunities of workers worldwide. Addressing worker rights and livelihoods overseas has the dual effect of protecting American and foreign workers. Realizing the Secretary's vision of *promoting and protecting opportunity* requires improving working conditions, raising living standards, protecting workers' ability to exercise their rights, and addressing the workplace exploitation of children and other vulnerable populations.

ILAB has three major strategies for achieving its goal: (1) promoting labor standards through an integrated approach; (2) combatting child labor, forced labor and human trafficking through integrated approaches and evidence; and (3) improving workers' rights through targeted labor policy engagement. ILAB supports the Department's Strategic Goals 1 and 3, specifically as they relate to Outcome Goals 1.6, *foster acceptable work conditions and respect for workers' rights in the global economy to provide workers with a fair share of productivity and protect vulnerable people* and 3.3, *ensure worker voice in the workplace*.

ILAB has adopted an integrated approach that combines efforts to amend laws and strengthen enforcement with activities to assist worker organizations, improve industrial relations, effectively engage companies, and raise awareness about worker rights. In FY 2014, ILAB will support current Free Trade Agreements through monitoring and reporting of conditions and engaging in technical assistance projects.

BENEFITS

Office of Workers' Compensation Programs (OWCP)

OWCP is comprised of four separate programs that provide workers' compensation benefits supporting the Department's Strategic Goal 4*, secure health benefits and, for those not working, provide income security,* and Outcome Goals 4.1, *facilitate return to work for workers experiencing workplace injuries or illnesses who are able to work* and 4.2, *ensure income support when work is impossible or unavailable*:

- The ***Federal Employees' Compensation Act (FECA) Program*** provides wage-loss compensation, payment for medical treatment, return to work assistance, and vocational rehabilitation to civilian employees of the Federal Government injured at work and to certain other designated groups. In the event of death, FECA provides ongoing monetary compensation to dependents.
- The ***Longshore and Harbor Workers' Compensation Act (Longshore) Program*** oversees the provision of similar benefits to injured private sector workers engaged in certain maritime and related employment, and by extension to contractors working overseas for the U.S. government under the Defense Base Act.
- The ***Black Lung Benefits Act (Black Lung) Program*** oversees the provision of monetary compensation and medical benefits to coal miners who are totally disabled due to pneumoconiosis arising out of coal mine employment, and monetary benefits to their eligible dependent survivors.
- The ***Energy Employees Occupational Illness Compensation Program Act (Energy) Program*** provides compensation and medical benefits to employees or survivors of employees of the Department of Energy, contractors or subcontractors with DOE, who worked on the Nation's nuclear weapons program and became ill due to exposure to radiation or toxic substances.

Key measures for the FECA Program are Lost Production Day rates (LPD), expressed as days of lost production and wages in the first year following injury per 100 employees in Federal Government agencies, and Return To Work (RTW) rates, expressed as the share of injured workers returned to work within two years of injury. Together, the LPD and RTW rates provide valuable measures of the overall incidence and severity of workplace injuries for Federal employees and the effectiveness of OWCP's and Federal agencies' return to work programs.

The Longshore and Harbor Workers' Compensation Act program focuses on employer performance to ensure that injury reports and first payment of benefits are timely and that disputed claims are resolved as quickly as possible. The Percent of First Payment of Compensation for Defense Base Act cases is a key measure that monitors the improvement of insurance carriers and providers in providing compensation to workers injured on the job. Since FY 2009, the performance of this program has steadily improved and the program expects performance to continue to improve in FY 2014.

The Black Lung Program aims to reduce the average time it takes to process Black Lung claims, monitored through a key measure, Average time to render Proposed Decision and Order (PDO) on Black Lung claims. Two provisions within the Patient Protection and Affordable Care Act (PPACA) of 2010 dramatically increased the workload for the Black Lung Program in FY 2010. Compared to the pre-PPACA level of 4,354 claims filed in FY 2009, claim numbers have increased in each subsequent year: 7,044 claims filed in 2010 (a 62% increase over 2009); 6,181 claims filed in 2011 (a 42% increase over 2009); 5,300 claims filed in 2012 (a 22% increase over 2009); and 6,420 claims filed in 2013 (a 47% increase over 2009). These increases in claims filings caused a backlog of the aged case inventory that has directly impacted results for this performance measure. Average processing time increased from 210 days in FY 2010 to 238 days in FY 2011 and to 262 days in FY 2012. In FY 2013, the average PDO timeliness began to trend back down to 221 days.

The Energy Employees Occupational Illness Compensation Act program has joint measures with the Department of Energy (DOE) and the National Institute for Occupational Safety and Health (NIOSH) that focus on shortening the overall time to make claims decisions and improve program implementation. A priority focus for the program is to reduce the time required to process cases that are sent to NIOSH for dose reconstruction that require an oral hearing. The average number of days between filing date and final decision for cases sent to NIOSH when a hearing was held was 452 days in FY 2013.

Measure	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Government-Wide LPD Rate in Non-Postal Agencies	41.3	35.8	34.6	33.8 [r]	34.8 [r]	34.6
Government-Wide Share of Injured Workers Returned to Work within two years of injury	--	85.8% [r]	89.7%	91.6%	91.5%	91.9%
Percent of First Payment of Compensation issued within 30 days for Defense Base Act cases	--	43%	55%	56%	63%	67%
Average time to render Proposed Decision and Order (PDO) on Black Lung claims (days)	205	201	210	238	262	221
Average number of days between filing date and final decision for cases sent to NIOSH when a hearing is held	--	--	--	619	552	452

In FY 2014, OWCP will continue to chair the Protecting Our Workers and Ensuring Reemployment (POWER) Return to Work Council, consisting of representatives from the 14 Executive Branch agencies; expand the reemployment pathways and opportunities for injured workers; increase the number of injured workers placed in jobs when they cannot be reemployed by their date-of-injury Federal employer; and establish a candidate bank (Labor for America) of FECA claimants for potential employers in both the public and private sectors.

Federal-State Unemployment Insurance (UI) Program (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 claims volume on program performance during the recession that began in FY 2008. The Total Unemployment Rate, calculated by using Bureau of Labor Statistics data, is the sum of the not seasonally adjusted unemployment level for October through September divided by the sum of the not seasonally adjusted labor force level for October through September.

Measure	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
First Payment Timeliness*	86.8%	82.9% [r]	82.2%	84.0%	83.7%	81.0%
Total Unemployment Rate	5.3%	8.5%	9.7%	9.2%	8.3%	7.6%

*This program operates on a program year, which ends June 30th.

In FY 2014, UI will place a priority on program integrity, especially improper payments, and claimant re-employment.

STATISTICS

Bureau of Labor Statistics (BLS)

In support of the Department's Strategic Goal 5, to *produce timely and accurate data on the economic conditions of workers and their families*, BLS produces accurate, objective, relevant, timely, and accessible 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. In FY 2013, BLS reached 100 percent of the underlying *timeliness*, *accuracy* and *relevance* targets for all of its Principal Federal Economic Indicators (PFEIs). Results for the Labor Force Statistics and the Prices and Living Conditions PFEIs are indicated in the table below.

BLS uses the American Customer Satisfaction Index (ACSI) to measure customer satisfaction with its website, since most users access BLS data through bls.gov, which averages more than 8 million user sessions each month. The ACSI survey prompts users while they are on the website for feedback regarding the extent to which the website meets their needs. BLS uses these results to improve the website to better serve its stakeholders and as a measure of mission achievement.

Measure	FY2009	FY2010	FY2011	FY2012	FY 2013
Percent of timeliness targets achieved for the Labor Force Statistics Principal Federal Economic Indicators (PFEIs)	--	100%	100%	100%	100%
Percent of accuracy targets achieved for the Labor Force Statistics PFEIs	--	100%	100%	100%	100%
Percent of relevance targets achieved for the Labor Force Statistics PFEIs	--	100%	100%	100%	100%
Percent of timeliness targets achieved for the Prices and Living Conditions PFEIs	--	100%	100%	100%	100%
Percent of accuracy targets achieved for the Prices and Living Conditions PFEIs	--	100%	100%	100%	100%
Percent of relevance targets achieved for the Prices and Living Conditions PFEIs	--	100%	100%	83%	100%
Customer Satisfaction with BLS Web Site as measured by the ACSI Score*	75	75	75	77	77

* ACSI Score is calculated on a 100 point scale.

Financial Performance Overview

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

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

In FY 2013 and FY 2012, DOL used managerial cost accounting for costing programs and performance indicator results in accordance with the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 30, *Inter-Entity Cost Implementation*. The statements outline the standards for Federal entities to provide "reliable and timely information on the full cost of Federal programs, their activities, and outputs." This information can be used to allocate resources and evaluate program performance. Managerial cost accounting directly supports the sections of the AFR that address Net Program Cost in the Statement of Net Cost. Total Net Cost of DOL activities was $82.9 billion for FY 2013, and $105.7 billion for FY 2012.

Analysis of Financial Statements and Stewardship Information

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

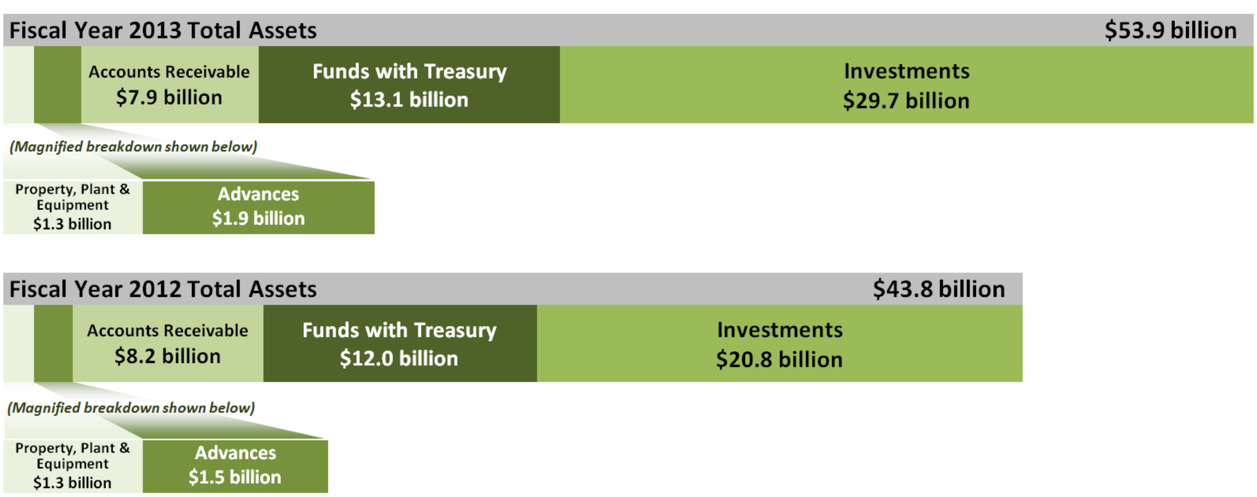
Figure 1: Summary of Selected Financial Data for FY 2013 and 2012

Summary of Selected Financial Data				
			Change	
(Dollars in billions)	2013	2012	Amount	Percent
Financial position				
Total assets	$ 53.9	$ 43.8	$ 10.1	23.1%
Funds with U.S. Treasury	13.1	12.0	1.1	9.2%
Investments	29.7	20.8	8.9	42.8%
Total liabilities	$ 57.5	$ 60.3	$ (2.8)	(4.6)%
Debt	35.7	39.0	(3.3)	(8.5)%
Net cost of operations				
Net cost of operations	$ 82.9	$ 105.7	$ (22.8)	(21.6)%
Income maintenance	73.9	96.3	(22.4)	(23.3)%
Employment and training	6.4	6.7	(0.3)	(4.5)%
Budgetary resources				
Appropriations	$ 102.6	$ 136.2	$ (33.6)	(24.7)%
Borrowing authority	7.7	12.4	(4.7)	(37.9)%
Obligations incurred	118.1	156.3	(38.2)	(24.4)%

Financial Position

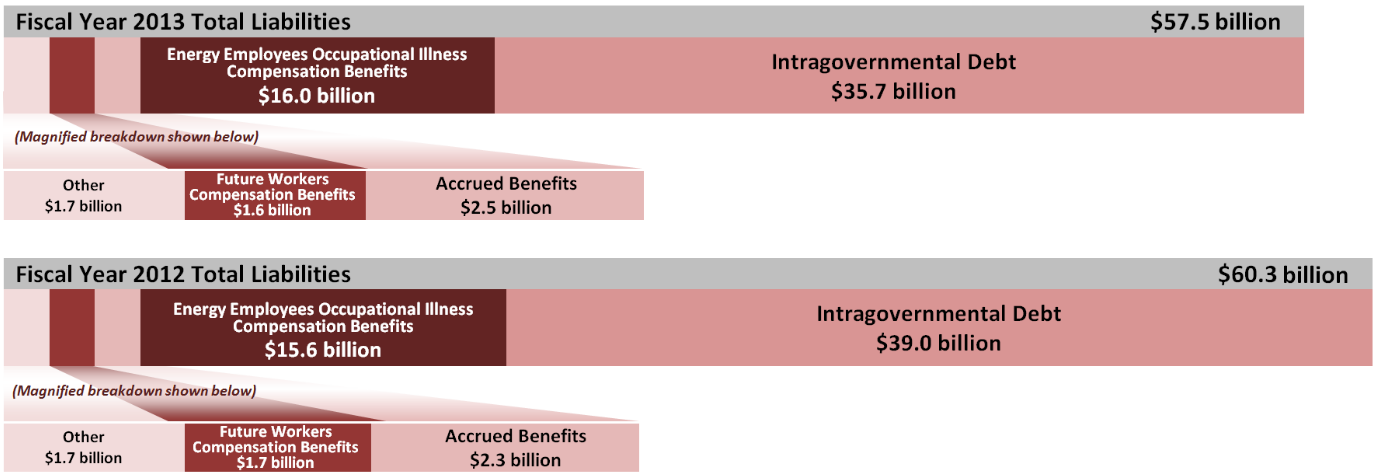
The Department's Balance Sheet presents DOL's financial position through the identification of agency assets, liabilities, and net position, as shown below. The Department's total assets increased from $43.8 billion at the end of FY 2012 to $53.9 billion at the end of FY 2013, an increase of 23.1%, primarily due to an increase in investments. Investments increased primarily due to net inflows in the Unemployment Trust Fund (UTF) in excess of immediate program needs for benefit payments and administrative costs.

Figure 2: Assets by Type for FY 2013 and 2012



Liabilities decreased from $60.3 billion at the end of FY 2012 to $57.5 billion at the end of FY 2013, a decrease of (4.6)%. This decrease was primarily due to a decrease in intra-governmental debt [(8.5)%] due to UTF repayments of borrowings from the General Fund of the Treasury as tax collections by the states exceeded the requirements for benefit payments.

Figure 3: Liabilities by Type for FY 2013 and 2012

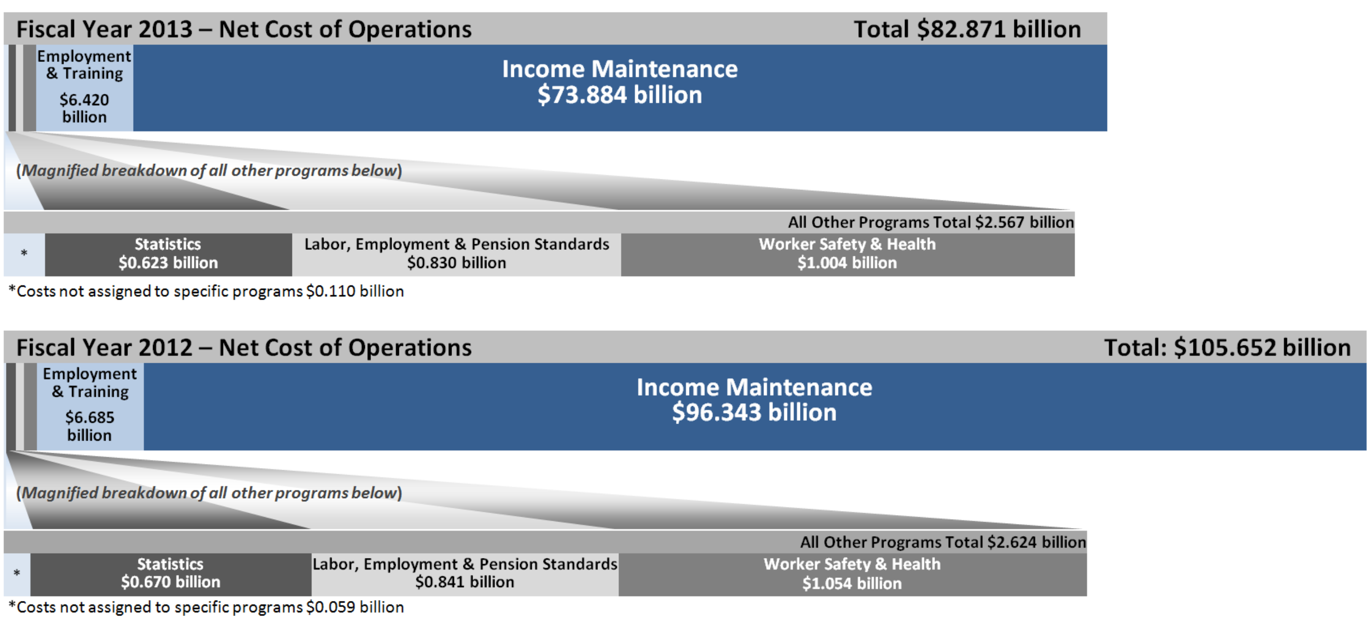


In Figure 3 above, Other also includes accounts payable and accrued leave.

Net Cost of Operations

The Department's net cost of operations for the year ended September 30, 2013, was $82.9 billion, a decrease of $(22.8) billion [(21.6)%] from FY 2012. This decrease was attributable to the decreases in the major programs discussed below:

Figure 4: Net Cost of Operations by Program for FY 2013 and 2012



Note: Net Cost Graphs are shown to three decimal points to provide the proper level of distinction among DOL's relatively smaller programs.

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, and the costs to administer these programs. Income maintenance net costs were $73.9 billion, a decrease of (23.3)% from FY 2012. This decrease was primarily due to decreases in unemployment benefits provided under existing legislation which reduced the length of coverage, and lower levels of unemployment as compared to FY 2012.

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, and make long-term career plans, as well as connect employers to workers with the skills they need. Employment and training costs were $6.4 billion in FY 2013, a decrease of (4.5)% from FY 2012. This decrease was due to reductions in amounts appropriated for the 2012 program year for various programs including the Trade Adjustment Allowance programs.

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 2013 and FY 2012, as well as the status of these resources at the end of each fiscal year. During FY 2013, the Department's appropriations decreased ($33.6) billion [(24.7)%] primarily due to decreases in transfers to the UTF for Emergency Unemployment Compensation; also, the Department's borrowing authority decreased ($4.7) billion [(37.9)%], which is consistent with the lower balance of intra-governmental debt at the end FY 2013. The Department had total obligations incurred of $118.1 billion in FY 2013, a decrease of $(38.2) billion [(24.4)%] from FY 2012. This decrease was primarily due to decreases in total obligations incurred for income maintenance programs as noted above.

Social Insurance and the Black Lung Disability Benefit Program

FASAB has classified the Black Lung Disability Benefit Program as a social insurance program that is required to report a Statement of Social Insurance (SOSI) and a Statement of Changes in Social Insurance Amounts (SCSIA) for the Black Lung Disability Trust Fund (BLDTF).

The SOSI reports for the projection period (which begins on September 30 of the reporting year and ends September 30, 2040), for all current and future participants, the actuarial present value of future benefits and the present value of future administrative costs, less the present value of future coal excise tax income. For FY 2009 through FY 2013 as presented in the SOSI, the present value of the future coal excise tax income has been greater than the sum of the actuarial present value of the future benefits and the present value of future administrative costs. This amount is also called the open and closed group measure.

Figure 5: Black Lung Disability Benefit Program - Table of Key Measures for FY 2013 and 2012

Black Lung Disability Benefit Program – Table of Key Measures

(Dollars in millions)	2013	2012	Change Amount	Change Percent
Financial position				
Total assets	$ 145.8	$ 102.5	$ 43.3	42.2%
Less: total liabilities	(6,040.0)	(6,080.1)	40.1	0.7%
Net position (assets net of liabilities)	$ (5,894.2)	$ (5,977.6)	$ 83.4	1.4%
Costs and changes in net position				
Net cost of operations	$ (403.7)	$ (441.2)	$ 37.5	8.5%
Total financing sources	487.1	562.8	(75.7)	(13.5)%
Net change of cumulative results of operations	$ 83.4	$ 121.6	$ (38.2)	(31.4)%
Social insurance				
Open and closed group measure, beginning of year	$ 4,658.5	$ 4,720.2	$ (61.7)	(1.3)%
Open and closed group measure, end of year	$ 4,620.3	$ 4,658.5	$ (38.2)	(0.8)%

The decrease in the net cost of operations for the year ended September 30, 2013 of $37.5 million [8.5%] from FY 2012 was mainly due to lower benefit costs. FY 2013 total financing sources decreased $(75.7) million [(13.5)%] from FY 2012 mainly due to decreases in taxes. The resulting net change of cumulative results of operations for FY 2013 was $83.4 million, a decrease of $(38.2) million [(31.4)%] from FY 2012.

Total assets increased $43.3 million [42.2%] at the end of FY 2013 primarily due to an increase in the Funds with U.S. Treasury balance. Liabilities decreased $40.1 million [0.7%] at the end of FY 2013 due to repayments of debt. The resulting net position (deficit) decreased $83.4 million at the end of FY 2013.

At the end of FY 2013, the open and closed group measure decreased $(38.2) million [(0.8)%] and at the end of FY 2012 decreased $(61.7) million [(1.3)%]. Reasons for the net decreases in the measures for FY 2013 and FY 2012 include changes in the assumptions, such as:

- Decreases in the projected coal excise tax revenues due to revisions based on current year experience and decreases in future collections;
- Changes in future benefits costs; and
- Changes in the interest rates used to discount cash flows (described as changes in assumptions about interest rates on the SCSIA).

The total of open and closed group measure plus fund assets as of September 30, 2013, of $4,766.1 million represents a projected net positive cash flow that may be used to liquidate the liabilities of the BLDTF, which were $6,040.0 million as of September 30, 2013.

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

Limitations on the Principal Financial Statements

As required by the Government Management Reform Act of 1994 (31 USC 3515(b)), the principal financial statements report the Department's financial position and results of operations. While the statements have been prepared from the Department's books and records in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to 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), as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, and as implemented by OMB Circular No. A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, the Department reviews its programs and activities annually to identify programs that might be susceptible to significant improper payments. For programs and activities deemed risk susceptible, the Department performs testing to estimate the rates and amounts of improper payments, establishes improper payment reduction targets in accordance with OMB guidance, and develops and implements corrective actions.

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

Table 1: Target and Actual Improper Payments Rates for the Department's "At-Risk" Programs

DOL Program	2012		2013		2014	2015	2016
	Target	Actual	Target	Actual	Target	Target	Target
Unemployment Insurance (UI)	9.7%	10.78%[1]	9.23%	9.32%	(See Note)	(See Note)	(See Note)
Workforce Investment Act (WIA)	0.44%	0.22%	0.44%	0.19%	0.44%	0.44%	0.44%

Note: Integrity rate target for 2013 is based on the alternative methodology explained in Other Information at Section II - UI Statistical Sampling. The 2014 - 2016 target will be set pending additional guidance and consultation regarding estimation methodology with OMB. 2012 target is based on the combined overpayment and underpayment rates and is not adjusted for overpayment recoveries.

The 2013 target error rate for UI's improper payments was 9.23%, as compared to the reported error rate of 9.32% (8.82% net overpayment rate plus 0.50% underpayment rate) for the period July 2012 to June 2013, the most recent period for which data were available.

[1] Figure revised from FY2012 AFR reporting. Please see Improper Payments Reporting Details part IV of this report for more information.

With regard to WIA programs, the Department continues to improve accuracy in rate estimation and program integrity. The rate for 2013 is 0.19%, which is less than half of the target of 0.44%.

The Department has implemented various corrective actions to address the causes and to 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 the improper payments 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. A variety of complexities related to administration of the UI program create significant challenges in controlling improper payments as compared to other Federal benefit programs, including state unemployment insurance laws, under which the program is administered; structural impediments such as the Federal requirement to pay UI benefits "when due" causing states to proceed with payment when not all eligibility information has been received and verified; aging information technology (IT) systems; and resource capacity.

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

Financial Management Systems and Strategy

The Department strives to maintain and enhance financial management systems, processes and controls that ensure financial accountability and transparency, provide financial management information to decision makers and comply with Federal laws, regulations and policy. The New Core Financial Management System (NCFMS) is the system of record for the Department.

FY 2013 efforts, in part focused on developing requirements and processes to seamlessly integrate two new major administrative systems coming on line in FY 2014: Acquisition Management System (AMS) and HR-Connect for personnel and payroll processing. The NCFMS interfaces will automatically record the financial activity initiated by these systems.

Additionally, significant work was initiated to develop the groundwork for the re-procurement of the Department's financial management system due in FY 2016 as well as a supporting database of all financial transactions to facilitate the process.

Paperless invoices, introduced in FY 2012, were institutionalized during the year and have become an integral part of the financial system. Emphasis continued on executive-level reporting with the development of a set of financial measures included in the Department's Performance Measurement Plan for all agencies. These metrics are reviewed quarterly with the Deputy Secretary.

Training continued during FY 2013 based on the results of a Department-wide Financial Management Skills Assessment for all finance and budget personnel. Overall, efforts to fully utilize the capabilities of NCFMS continued throughout the year. Business processes continued to be reviewed and modified to enhance the utilization of the system.

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 No. A-123 provides specific requirements for conducting management's assessment of internal control over financial reporting, and also requires the agency head to provide an assurance statement on the effectiveness of internal controls over financial reporting.

Federal Financial Management Improvement Act of 1996 (FFMIA)

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

Federal Managers' Financial Integrity Act

The Department of Labor's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). DOL conducted an assessment of its internal controls over the effectiveness and efficiency of operations and as well as 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 controls over operations are operating effectively and efficiently and are in compliance with applicable laws and regulations as of September 30, 2013. No material weaknesses were found in the design or operation of the internal controls.

In addition, DOL conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, DOL can provide reasonable assurance that its internal controls over financial reporting as of June 30, 2013 were operating effectively. No material weaknesses were found in the design or operation of the internal control over financial reporting. DOL is also in conformance with Section 4 of FMFIA.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. All Department of Labor financial management systems substantially comply with FFMIA as of September 30, 2013.

/s/
Thomas Perez
Secretary of Labor

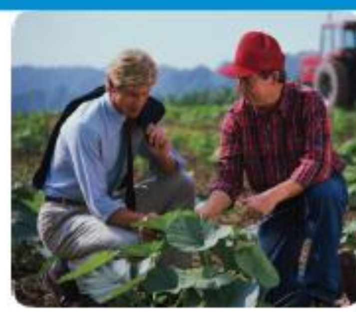
/s/
Seth D. Harris
Deputy Secretary of Labor

/s/
James L. Taylor
Chief Financial Officer

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

December 16, 2013

FINANCIAL SECTION



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Message from the Chief Financial Officer

One of the Department of Labor's (DOL or the Department) top goals is sound financial management, and in our Centennial year, the Department displayed its high standard of financial management by once again receiving an unmodified ("clean") audit opinion on our financial statements. This is the 17th year DOL has achieved a clean opinion and it provides independent confirmation that the Department's financial statements are presented fairly, transparently, and in conformity with U.S. Generally Accepted Accounting Principles (GAAP).

For the second year running, the auditors reported that none of the Department's control deficiencies were considered to be a material weakness. While we celebrate our successes, we also realize we have areas in which we can improve. Please see the "Independent Auditors Report" in the *Financial Section* of this Report for more information regarding these issues and our efforts to address them.

DOL faced a serious challenge when the Office of Job Corps (OJC) recognized a funding shortfall and was temporarily forced to suspend new student enrollment. Jobs Corps concurred with all recommendations made by the Department's Office of Inspector General (OIG) report and has worked with my office to establish criteria for detecting potential financial and program risks, to improve related policies, procedures, and internal controls, and to routinely reconcile accounting systems data. Through lessons learned, the Department has made changes that will prevent similar issues in the future.

The Office of the Chief Financial Officer (OCFO) strives to stay ahead of the curve on Federal financial management and to return greater value on every taxpayer dollar. Throughout fiscal year (FY) 2013 my office has worked with the Department of the Treasury and the Office of Management and Budget (OMB) to improve the government-wide, anti-improper payment program known as the Do Not Pay (DNP) program. Our DNP Team has provided analysis and developed business rules that can be applied government-wide to increase the accuracy of the system and decrease the government's rate of improper payments. Through a robust review and clearance process for conference and travel expenses, we have decreased travel and conference expenses in response to the Administration's goal of a 30% decrease.

Accurate, timely financial information holds the Department accountable to its stakeholders and improves the operational, budget, and policy decision-making processes which are the foundation for the services the Department delivers to the American public. FY 2012 marked the 12th year the Department's Agency Financial Report (AFR) was awarded the Certificate of Excellence in Accountability Reporting by the Association of Government Accountants, clearly demonstrating the quality of our reporting.

I am proud of the Department's financial management accomplishments in FY 2013. These achievements meet the high standards of professionalism demanded by the American people. Our efforts allow DOL to place an emphasis on maximizing outcomes, while delivering an efficient, effective, and accountable government.

/S/
James L. Taylor
Chief Financial Officer
December 16, 2013

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Labor (DOL), which comprise the consolidated balance sheets as of September 30, 2013 and 2012; the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended; the statements of social insurance as of September 30, 2013, 2012, 2011, 2010, and 2009; and the statements of changes in social insurance amounts for the years ended September 30, 2013 and 2012; and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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 Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

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, 2013 and 2012; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance as of September 30, 2013, 2012, 2011, 2010 and 2009; and the changes in its social insurance amounts for the years ended September 30, 2013 and 2012, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Message from the Secretary of Labor, Message from the Chief Financial Officer, and Other Information section is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered DOL's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in Exhibit I that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DOL's consolidated financial statements are free from material misstatement, we performed tests of its 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 financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which DOL's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

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

KPMG

DOL's Responses to Findings

DOL's responses to the findings identified in our audit are described in Exhibit I. DOL's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of DOL's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 16, 2013

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

In fiscal year (FY) 2013, U.S. Department of Labor (DOL) agencies completed corrective action to address certain previously-identified control deficiencies. However, during our FY 2013 testing of significant DOL financial and support systems, we identified new security control deficiencies in addition to certain ones that were reported in prior years across the four DOL agencies responsible for these systems. We have classified the deficiencies identified into the following four categories: account management, system access settings, system audit log reviews, and vulnerability management.

The first two categories summarize the identified deficiencies related to controls that were designed to help prevent unauthorized access to information technology (IT) systems. Control deficiencies related to account management 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. System access setting control deficiencies may be exploited, in either a singular fashion or in combination, by a malicious user, which may affect the confidentiality, integrity, and/or availability of DOL systems and data. The specific deficiencies identified in these two categories were as follows:

Account Management

- User accounts were not timely removed for separated users, and certain separated users had active system accounts;
- Incidents were not timely reported;
- Periodic user account re-certifications were not appropriately performed; and
- Account management controls were not performed, as evidenced by incomplete or missing access requests, non-disclosure agreements, modification forms, and termination forms.

System Access Settings

- Inactive accounts were not disabled in a timely manner;
- Password settings did not comply with the Office of the Chief Information Officer (OCIO) Computer Security Handbook; and
- Inadequate system configurations were in place.

System Audit Logs Reviews

The system audit logs reviews category represents controls designed to detect unauthorized access to IT systems. Although DOL has certain detective controls in place to mitigate the aforementioned account management and system access settings risks, we identified that certain audit logs were not generated, reviewed, or reviewed timely. The lack of effective and timely system audit log reviews may allow for unauthorized or inappropriate activities to go undetected by management for lengthy periods of time.

Vulnerability Management

Controls related to vulnerability management are designed to prevent weaknesses in IT systems from being exploited. Such controls include proactively monitoring system vulnerabilities, timely patching related security issues, and configuring IT systems in compliance with baseline security requirements. During our FY 2013 vulnerability assessments, we identified the following deficiencies:

- Numerous critical and high-risk application and operating system patches were not implemented;
- Numerous servers were not compliant with minimum security baselines; and

- Logical access control weaknesses, such as the ability to obtain the host security identifier for the remote host without credentials, existed.

In addition, we noted that one agency did not implement any corrective actions in FY 2012 or FY 2013 related to patch and configuration management weaknesses we identified in FY 2011 for one of its IT systems. The agency had developed Plans of Action and Milestones to address these weaknesses; however, they were not scheduled for completion until December 31, 2013.

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

Collectively, the aforementioned IT control deficiencies pose a significant risk to the integrity of DOL's data, which could ultimately impact its ability to accurately and timely perform its financial reporting duties. The specific nature of these deficiencies, their causes, and the systems impacted by them have been communicated separately to management. These deficiencies, which were noted across all four agencies selected for testing, were the result of 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 certain IT policies and procedures are operating effectively.

The National Institute of Standards and Technology Special Publication 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, provides federal information systems standards and guidelines for controls that include, but are not limited to, the controls in which deficiencies were identified.

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

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

Management's Response: The Office of the Assistant Secretary for Administration and Management (OASAM) appreciates the importance of adequately managing Information Technology (IT) security risks within DOL's major information systems and is committed to ensuring the Department implements appropriate corrective actions in a timely fashion. The Chief Information Officer continues to enhance its Enterprise Risk Management and Continuous Monitoring efforts and completed the following activities in FY 2013:

- Monitored Agencies progress in mitigating weaknesses found to be contributors to the Department's Significant Weakness via Agency Operating Plans and Departmental Administrative Measures.
- Implemented Enterprise IT Security Performance Metrics enabling a Departmental view into agency compliance progress with respect to achieving vulnerability and configuration management targets, and risk management goals.

- Deployed an enterprise IT security tool enabling a Departmental view and automated monitoring capability of asset inventories, and vulnerability and configuration management of all Departmental systems.

OASAM accepts the OIG's recommendations. Moving forward in FY 2014, the OCIO will increase communication with DOL Agencies to ensure they give priority attention and sufficient resources to prioritize and complete the corrective action required to address the identified account management, vulnerability and configuration control deficiencies. The OCIO will monitor agency progress on addressing these deficiencies, as well as; assess agency progress on achieving the IT Security Performance Metrics on a quarterly basis via Agency dashboards. In FY 2014, the OCIO will also acquire and begin a Department-wide deployment of additional Enterprise IT Security tools as a part of the Department's Continuous Monitoring efforts via the Department of Homeland Security sponsored Continuous Diagnostics and Mitigation program. Further, to ensure we continue to safeguard DOL's financial systems, OASAM will evaluate its current policies and procedures to seek ways we can improve continuous monitoring processes to strengthen the overall security posture of DOL's information systems.

Auditors' Response: We will conduct follow-up procedures in FY 2014 to determine whether corrective actions have been developed and implemented.

2. Lack of Sufficient Controls over Grants

DOL awards numerous formula and discretionary grants to various state and local governments, nonprofit organizations, and other organizations. The Employment and Training Administration (ETA) awards and monitors the majority of these grants. Recipients of DOL grants are required to report their expenses to DOL on a quarterly basis via form ETA 9130, *U.S. DOL ETA Financial Report,* or a SF-425, *Federal Financial Report* (cost reports). During our FY 2013 audit procedures, we identified new deficiencies in certain controls over grants, in addition to certain ones that were reported in prior years, as described below. These deficiencies are grouped into two categories Grant Accrual and Grant Monitoring.

Grant Accrual

Each year, ETA performs a grant accrual accuracy analysis to determine if the methodology used to calculate the previous year's September 30 grant accrual is reasonable, and to develop cost-to-payment ratios for subsequent grant accrual calculations. The accuracy analysis compares the expense amounts accrued at year end to the expenses subsequently reported on the grantees' cost reports. During our FY 2013 testwork over the accuracy analysis for the grant accrual as of September 30, 2012, we identified discrepancies between information in the executive summary and the accompanying tables of ETA's initial analysis documentation, which included evidence of management review of the analysis. However, the review was not adequate enough to detect those discrepancies because sufficiently detailed procedures were not in place to document the review process. If the analysis is not properly reviewed, an increased risk exists that errors in the validity of the data and preparation of the grant accrual accuracy analysis will not be detected and could potentially affect the reliability of the accrual ratios.

During our control test work performed over the ETA grant accrual as of March 31, 2013, we reviewed the draft *Standard Operating Procedures for Grant Accrual and Review* dated March 2013 and the grant accrual summary to determine if the deficiencies previously reported by us were remediated and noted the following continuing issues:

- The draft standard operating procedures were updated to show ETA's assessment over the reasonableness of management's expectations for the grant accrual each period. However, ETA did not consider changes in funding levels or other relevant changes and did not compare historical amounts to actual expenses recorded to evaluate if historical accrual amounts were consistently accurate or if ETA's accrual methodology should be changed to account for any material differences.

- The draft standard operating procedures did not include a requirement to investigate and resolve estimated grant accruals outside the range of management's expectations.

- Procedures requiring individuals performing supervisory reviews to verify the accuracy of the accrual data and calculation had not been developed.

In addition, we noted that at the time of our testing, the standard operating procedures had not been finalized and more than half of the fiscal year had passed.

ETA management believes that its existing policies and procedures are adequate, as they detail how the accrual should be prepared and include comparability of its accrual calculation over a period of years. ETA management notes that, in their opinion, this is a sufficient method to demonstrate reasonableness of the accrual. Therefore, they have not updated the procedures sufficiently to resolve all prior year recommendations.

The lack of sufficient internal controls over the grant accrual increases the risk that gross costs, other liabilities, and advances could be misstated.

Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control,* states:

> Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Appendix A, Section I, states:

> Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions…All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation).

In addition, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (the Standards) states:

> Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.
>
> Managers also need to compare actual performance to planned or expected results throughout the organization and analyze significant differences.

Grant Monitoring

Site Visits

We selected a sample of 45 site visits from the on-site monitoring reviews planned in FY 2013 as of June 30, 2013, by each of the six regions to determine if the on-site monitoring reviews were properly performed and documented in the Grant Electronic Management System (GEMS). Based on our testwork, we identified issues with both the site visit monitoring plans and the site visit monitoring review reports, as follows:

- For 3 items, ETA was unable to provide an on-site visit monitoring review report for FY 2013;
- For 1 item, the on-site monitoring review was not performed as indicated on the monitoring review plan received from the region as of August 2013;
- For 12 items, an on-site monitoring review was performed, but the on-site monitoring review report was not issued within 45 business days of the last day of the on-site review; the reports were issued ranging from 5 to 137 days past the due date;
- For 2 items, inconsistencies existed between findings in the completed on-site monitoring review report and those in GEMS;
- For 5 items, the on-site monitoring review report was not included in GEMS; and
- For 5 items, the on-site monitoring review report was not uploaded in GEMS until after we notified ETA the report was missing during the completion of our testwork.

ETA did not have cohesive policies and procedures in place to ensure region site visit plans were prepared, reviewed, and updated timely throughout the fiscal year. In addition, ETA was unable to provide a current year monitoring report for two site visits because of inaccurate completion and review of site visit plans. Although ETA procedures specified a timeline requirement for completing and filing on-site monitoring review reports, that requirement was not properly monitored. Lastly, ETA did not have policies and procedures in place to monitor the completeness of documentation included in GEMS related to on-site monitoring review reports issued.

Failure to monitor site visit plans increases the risk that proper monitoring is not occurring, which increases the risk of undetected grantee reporting errors and/or violations. In addition, failure to implement proper monitoring controls to ensure compliance with existing policies and procedures increases the risk that policy deviations are not detected and corrected. Specifically, failing to ensure on-site monitoring review reports are completed timely increases the risk that issues identified with grantees are not resolved timely.

If proper documentation is not retained and readily accessible in GEMS, possible findings may not be communicated in the monitoring review reports and tracked for correction. This could ultimately lead to errors in grant expenses not being identified properly by ETA management.

Without adequate controls in the grant monitoring process, grantees may be misusing grant funds without detection by DOL. As a result, grant-related expenses, advances, payables and undelivered orders could be misstated.

The Standards states:

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available or 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.

> For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events.
>
> 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.

The ETA *Core Monitoring Guide* states:

> Subsequent to the review, the results of using the guide in conducting the review are to be entered into GEMS at the objective level for each core activity.

The DOL *Update to the August 30, 2011, Memo for Federal Project Officer (FPO) Grant Management Responsibilities Related to the Grants Electronic Management System (GEMS)* memorandum states:

> Details of the monitoring event, including all findings, observations, and promising practices will be entered into GEMS within 30 working days of issuing the report to the grantee…
>
> The FPO is required to input all reportable compliance findings, observations, promising practices and the grantee's progress to resolution. The FPO must also input questioned cost amounts under the appropriate finding. Details of the monitoring event, including all findings, observations, and promising practices will be entered into GEMS within 30 working days of issuing the formal report to the grantee. A copy of the formal compliance report will be uploaded to the Case File module within 30 working days of issuing the report to the grantee.

The *SES Performance Management; Executive Performance; Agreement Appraisal Cycle [October 1 – September 30]* results 2 section (Measure of Outcomes/Targets) state:

1. Conduct on site monitoring according to plan and issue Monitoring Reports
   a. 80% of all initial written Monitoring Reports issued within 45 days of the exit conference date.
   b. Copies are uploaded to GEMS within 30 days of issuance.

<u>Other Monitoring Procedures</u>

As part of our audit procedures over grant controls as of June 30, 2013, we selected a sample of 45 grants from the population of grant expenses recorded in the New Core Financial Management System (NCFMS) to determine if Federal Project Officers' (FPO) desk reviews were properly performed and documented in GEMS. However, for 1 of the 45 grants selected, the desk review was not completed within the required timeframe, and for 1 of 45 grants selected, adequate documentation did not exist to support the assigned risk factors. ETA management communicated to us that workload management issues existed because of staff turnover and vacancies that created shortages of experienced staff.

We also tested the December 31, 2012, Delinquent Reporting Analysis, and noted that the analysis did not identify all grantees that were delinquent in filing their cost reports. As noted in FY 2012, the analysis only identified those grantees that were delinquent and had cash advance balances over a certain threshold because related procedures were designed in this manner. Based on our testwork as of March 31, 2013, we noted that the deficiency related to the analysis only identifying those grantees that were delinquent and had a cash advance balance over a certain threshold was remediated.

Based on testwork performed as of June 30, 2013 over the Delinquent Reporting Analysis, we noted that all other deficiencies previously reported by us (i.e., inadequate procedures related to the timeliness of the quarterly notification of delinquent filers and deadlines for follow-up on delinquent filers) were resolved but had been present for a majority of the fiscal year. In addition, upon review of the revised policies, we noted a lack of specific requirements related to documentation needed by FPOs to evidence their follow-up with delinquent grantees; ETA management did not deem such specific requirements necessary.

Without adequate grantee monitoring controls, grantees may misreport, intentionally or unintentionally, grant expenses without the misstatement being detected by ETA, or may fail to report grant expenditure details. In addition, the miscoding of grantee risk factors may lead to inappropriate allocation of monitoring resources. As a result, grant-related expenses, advances, payables, and undelivered orders could be misstated.

The DOL *Update to the August 30, 2011, Memo for Federal Project Officer (FPO) Grant Management Responsibilities Related to the Grants Electronic Management System (GEMS)* memorandum states:

> A quarterly desk review is required on all projects in GEMS. Desk reviews must be completed following a review of both the progress and cost reports submitted during the reporting timeframe. Section iii below identifies the due dates for Desk Review completions….
>
> Frontline supervisors are responsible for ensuring the FPOs meet these requirements and timeframes. Supervisors conduct quarterly reviews of the GEMS exception report and notify FPOs of concerns or anomalies regarding completeness or timeliness. Supervisors report their unit's status to their Administrator on a regular basis.

Chapter 75 of Title 31, United States Code (commonly referred to as the *Single Audit Act*), states:

> Each Federal agency shall, in accordance with guidance issued by the Director under section 7505, with regard to Federal awards provided by the agency – (1) monitor non-Federal entity use of Federal awards...

In addition, the Standards states:

> Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes…
>
> 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.

To address the issues noted above, the Acting Assistant Secretary for Employment and Training should:

a) Revise current management review procedures to ensure that all aspects of the grant accrual accuracy analysis are properly reviewed and approved to prevent potential errors in the preparation of the analysis;
b) Update grant accrual review procedures to include assessing and documenting the reasonableness of management's expectations for the grant accrual each period by comparing historical accrual data to actual

recorded grant expenses and taking relevant changes into consideration; estimated grant accruals outside the range of management's expectations should be investigated and resolved;

c) Require individuals performing supervisory reviews to verify the accuracy of the grant accrual data and calculations;
d) Develop and implement a monitoring procedure to ensure changes to original regional site visit plans are appropriate and accurately documented;
e) Update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring;
f) Update written policies and procedures to include specific documentation requirements for GEMS to support the conclusions included in the on-site monitoring review reports;
g) Develop and implement monitoring controls to determine that on-site monitoring review reports are timely issued and uploaded into GEMS with the appropriate documentation;
h) Adhere to existing written policies and procedures for evaluating and documenting grantee risk;
i) Develop and implement monitoring procedures to review FPOs' risk factors quarterly on a sample basis;
j) Develop and implement a staffing contingency plan to address potential future FPO turnover or staff shortages; and
k) Update written policies and procedures to require FPOs to document communication with delinquent grantees in a standardized manner;

Management's Response: ETA does not agree with the auditor's determination of a significant deficiency in controls in the area of grants management. While we recognize room for improvement in some areas, ETA manages its grants in a sound and reliable manner.

Grant Accrual

ETA updated the grant accrual standard operating procedure (SOP) to provide additional clarification of management's expectation of the quarterly grant accrual. Additionally, the SOP was updated to provide procedures for individuals performing supervisory review to verify the reasonableness of the accrual data (e.g. ensuring only grant activity for the current accrual period) and the result of the calculation (as compared to the general ledger). ETA considers historical accrual amounts in establishing management's expectations as well as considering changes in funding levels when needed (e.g. ARRA funding). While we track the historical accrual amounts and assess changes in funding levels, we also compare the estimated accrual to actual costs on an annual basis. Significant differences are analyzed to determine if changes in the grant accrual methodology is needed. Additional analysis and updates to the procedures will be considered in fiscal year 2014.

Onsite Monitoring

The ETA Regional Offices have a corrective action plan in place to ensure better results. This plan was already in place at the time of the audit. ETA Regions continue to have a set of policies and procedures in place including: the Regional Administrator (RA) Performance Standards, that cascade down to managers and staff; a number of policies and procedures in place for monitoring and the issuance of monitoring reports such as the Core Monitoring Guide, the monitoring report template, and the Memo for Federal Project Officer Grant Management Responsibilities related to GEMS.

Other Monitoring Procedures

Since the auditor's testing period, the Delinquent Reporting Analysis has improved significantly. As previously recommended, all grantees that were delinquent are included in the analysis regardless of the advance balance. Additionally, communication between ETA's Accounting, National and Regional offices has increased. Federal Project Officers are followed up with closely to make sure they provide comments to the delinquent ETA 9130 cost reports and take appropriate actions to increase the rate of on-time submissions. The results of this review are communicated back to ETA's accounting office as evidence of follow up with grantees. The results can be in whatever form the FPOs deem sufficient. The methods of such communication are a means to an end. The end result is that ETA wants to reduce the number of delinquent reports. ETA believes that the results of these efforts were evidenced by the decline in the number of delinquent reports from March 31 quarter to June 30 quarter.

ETA will review and consider the auditor's recommendations in all these areas of grants management. ETA will develop corrective action plans to address any control deficiencies.

Auditors' Response: In accordance with auditing standards generally accepted in the United States of America, we considered the grant-related deficiencies identified above in our FY 2013 audit individually and in the aggregate. In our professional judgment, the aggregation of these findings results in a significant deficiency. Although management stated that they do not concur with our categorization of identified deficiencies as a significant deficiency, they plan on taking steps to address the deficiencies identified. We will conduct follow-up procedures in FY 2014 to determine whether corrective actions have been developed and implemented.

Annual Financial Statements

Principal Financial Statements and Notes

Principal Financial Statements Included in This Report

The principal financial statements included in this report have been prepared in accordance with the requirements of the Chief Financial Officers Act of 1990 (P.L. 101-576), the Government Management Reform Act of 1994, and 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 Department. 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 FY 2013 and 2012 consist of the following:

- The **Consolidated Balance Sheet**, which presents as of September 30, 2013 and 2012, 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, 2013 and 2012. DOL's net cost of operations includes the gross costs incurred by DOL less any exchange revenue earned from DOL activities. The classification of gross cost and exchange revenues by major program and major program agency 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, 2013 and September 30, 2012.

- The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to DOL, change in obligated balance, and budget authority and net outlays of budgetary resources for FYs 2013 and 2012; and the status of these resources as of September 30, 2013 and 2012.

- 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 (BLDTF) as of September 30, 2013, 2012, 2011, 2010, and 2009; the net present value of these cash flows is also known as the open and closed group measure. The summary section presents the total of open and closed group measure plus fund assets (Funds with U.S. Treasury and receivables).

- The **Statement of Changes in Social Insurance Amounts**, which presents the net change in the open and closed group measure of the BLDTF for the years ended September 30, 2013 and 2012, and provides information about the change.

CONSOLIDATED BALANCE SHEET
As of September 30, 2013 and September 30, 2012
(Dollars in Thousands)

	2013	2012
ASSETS		
Intra-governmental		
Funds with U.S. Treasury (Note 1-C and 2)	$ 13,110,719	$ 12,023,183
Investments (Note 1-D and 3)	29,684,278	20,840,571
Accounts receivable (Note 1-E and 4)	5,824,506	5,982,460
Advances (Note 1-G and 6)	1,928	3,128
Total intra-governmental	48,621,431	38,849,342
Accounts receivable, net of allowance (Note 1-E and 4)	2,090,927	2,258,276
Property, plant and equipment, net of accumulated depreciation (Note 1-F and 5)	1,269,915	1,280,338
Advances (Note 1-G and 6)	1,925,678	1,456,500
Total assets	$ 53,907,951	$ 43,844,456
LIABILITIES AND NET POSITION		
Liabilities (Note 1-I and 12)		
Intra-governmental		
Accounts payable	$ 28,086	$ 33,524
Debt (Note 1-J and 8)	35,722,273	38,997,340
Other liabilities (Note 9)	312,778	278,638
Total intra-governmental	36,063,137	39,309,502
Accounts payable	282,751	308,932
Accrued benefits (Note 1-K and 10)	2,517,122	2,289,602
Future workers' compensation benefits (Note 1-L and 11)	1,613,335	1,677,985
Energy employees occupational illness compensation benefits (Note 1-M)	16,016,729	15,631,188
Accrued leave (Note 1-N)	121,677	121,716
Other liabilities (Note 9)	917,682	1,004,299
Total liabilities	57,532,433	60,343,224
Contingencies (Note 13)		
Net position (Note 1-R)		
Funds from dedicated collections		
Cumulative results of operations (Note 21)	(5,038,568)	(18,333,071)
All other funds		
Unexpended appropriations	9,346,932	10,476,263
Cumulative results of operations	(7,932,846)	(8,641,960)
Total net position - all other funds	1,414,086	1,834,303
Total net position	(3,624,482)	(16,498,768)
Total liabilities and net position	$ 53,907,951	$ 43,844,456

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2013 and 2012
(Dollars in Thousands)

	2013	2012
NET COST OF OPERATIONS (Note 1-S and 15)		
CROSSCUTTING PROGRAMS		
Income maintenance		
Gross cost	$ 77,921,579	$ 100,682,210
Less earned revenue	(4,037,710)	(4,338,716)
Net program cost	73,883,869	96,343,494
Employment and training		
Gross cost	6,432,749	6,695,330
Less earned revenue	(12,408)	(10,606)
Net program cost	6,420,341	6,684,724
Labor, employment and pension standards		
Gross cost	839,964	851,197
Less earned revenue	(10,357)	(10,059)
Net program cost	829,607	841,138
Worker safety and health		
Gross cost	1,009,235	1,058,194
Less earned revenue	(5,305)	(4,282)
Net program cost	1,003,930	1,053,912
OTHER PROGRAMS		
Statistics		
Gross cost	635,763	682,894
Less earned revenue	(12,083)	(13,286)
Net program cost	623,680	669,608
COSTS NOT ASSIGNED TO PROGRAMS		
Gross cost	110,672	81,176
Less earned revenue not attributed to programs	(816)	(22,166)
Net cost not assigned to programs	109,856	59,010
Net cost of operations	$ 82,871,283	$ 105,651,886

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2013 and 2012

(Dollars in Thousands)

	2013 Consolidated			2012 Consolidated		
	Funds from Dedicated Collections	All Other Funds	Total	Funds from Dedicated Collections	All Other Funds	Total
Cumulative results of operations, beginning	$ (18,333,071)	$ (8,641,960)	$ (26,975,031)	$ (33,466,525)	$ (8,471,933)	$ (41,938,458)
Budgetary financing sources (Note 1-T)						
Appropriations used	-	38,260,332	38,260,332	-	51,574,836	51,574,836
Non-exchange revenue (Note 16)						
Employer taxes	54,494,335	-	54,494,335	63,653,314	-	63,653,314
Interest	1,272,176	-	1,272,176	1,586,958	3,996	1,590,954
Reimbursement of unemployment benefits and other	2,509,745	22,716	2,532,461	3,457,681	(9,110)	3,448,571
Total non-exchange revenue	58,276,256	22,716	58,298,972	68,697,953	(5,114)	68,692,839
Transfers without reimbursement (Note 17)	22,153,422	(21,953,782)	199,640	35,770,127	(35,545,276)	224,851
Other financing sources (Note 1-U)						
Imputed financing from costs absorbed by others	2,992	109,937	112,929	3,462	121,680	125,142
Transfers without reimbursement (Note 17)	-	4,764	4,764	-	966	966
Other	-	(1,737)	(1,737)	-	(3,321)	(3,321)
Total financing sources	80,432,670	16,442,230	96,874,900	104,471,542	16,143,771	120,615,313
Net cost of operations	(67,138,167)	(15,733,116)	(82,871,283)	(89,338,088)	(16,313,798)	(105,651,886)
Net change	13,294,503	709,114	14,003,617	15,133,454	(170,027)	14,963,427
Cumulative results of operations, end of year	(5,038,568)	(7,932,846)	(12,971,414)	(18,333,071)	(8,641,960)	(26,975,031)
Unexpended appropriations, beginning	-	10,476,263	10,476,263	-	9,210,647	9,210,647
Budgetary financing sources (Note 1-T)						
Appropriations received (Note 18-F)	-	43,105,275	43,105,275	-	62,229,387	62,229,387
Appropriations used	-	(38,260,332)	(38,260,332)	-	(51,574,836)	(51,574,836)
Appropriations transferred	-	3,202	3,202	-	(4,505)	(4,505)
Other adjustments	-	(5,977,476)	(5,977,476)	-	(9,384,430)	(9,384,430)
Subtotal	-	(1,129,331)	(1,129,331)	-	1,265,616	1,265,616
Unexpended appropriations, end of year	-	9,346,932	9,346,932	-	10,476,263	10,476,263
Net position	$ (5,038,568)	$ 1,414,086	$ (3,624,482)	$ (18,333,071)	$ 1,834,303	$ (16,498,768)

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2013 and 2012

(Dollars in Thousands)

(Note 1-Z and 18)	2013	2012
BUDGETARY RESOURCES		
Unobligated balance brought forward, October 1	$ 4,391,699	$ 3,376,261
Recoveries of prior year unpaid obligations	461,549	369,860
Other changes in unobligated balance	(221,903)	(128,341)
Unobligated balance from prior year budget authority, net	4,631,345	3,617,780
Appropriations (discretionary and mandatory)	102,609,040	136,219,806
Borrowing authority (discretionary and mandatory)	7,700,000	12,378,421
Spending authority from offsetting collections (discretionary and mandatory)	7,826,120	8,460,059
Total budgetary resources	$ 122,766,505	$ 160,676,066
STATUS OF BUDGETARY RESOURCES		
Obligations incurred	$ 118,111,427	$ 156,284,367
Unobligated balance, end of year		
Apportioned	3,071,003	1,764,188
Exempt from apportionment	54,279	56,721
Unapportioned	1,529,796	2,570,790
Total unobligated balance, end of year	4,655,078	4,391,699
Total budgetary resources	$ 122,766,505	$ 160,676,066
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1	$ 15,529,168	$ 15,787,223
Obligations incurred	118,111,427	156,284,367
Less: outlays (gross)	(118,186,925)	(156,172,562)
Less: recoveries of prior year unpaid obligations	(461,549)	(369,860)
Unpaid obligations, end of year	14,992,121	15,529,168
Uncollected Payments:		
Uncollected payments, Federal sources, brought forward, October 1	(2,324,892)	(1,968,497)
Change in uncollected payments, Federal sources	378,835	(356,395)
Uncollected payments, Federal sources, end of year	(1,946,057)	(2,324,892)
Obligated balance, start of year	$ 13,204,276	$ 13,818,726
Obligated balance, end of year	$ 13,046,064	$ 13,204,276
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (discretionary and mandatory)	$ 118,135,160	$ 157,058,286
Less: actual offsetting collections (discretionary and mandatory)	(8,204,955)	(8,103,665)
Less: change in uncollected customer payments from Federal sources (discretionary and mandatory)	378,835	(356,395)
Budgetary authority, net (discretionary and mandatory)	$ 110,309,040	$ 148,598,226
Outlays, gross (discretionary and mandatory)	$ 118,186,925	$ 156,172,562
Actual offsetting collections (discretionary and mandatory)	(8,204,955)	(8,103,665)
Outlays, net (discretionary and mandatory)	109,981,970	148,068,897
Distributed offsetting receipts	(28,189,684)	(43,234,920)
Agency outlays, net (discretionary and mandatory)	$ 81,792,286	$ 104,833,977

The accompanying notes are an integral part of these statements.

STATEMENT OF SOCIAL INSURANCE
As of September 30, 2013, 2012, 2011, 2010, and 2009
(Dollars in Thousands)

	For the Projection Period Ending September 30, 2040				
	2013	2012	2011	2010	2009
BLACK LUNG DISABILITY BENEFIT PROGRAM (Note 1-W)					
Actuarial present value of future benefit payments during the projection period to disabled coal miners and dependent survivors	$ 1,953,763	$ 2,181,654	$ 1,951,755	$ 2,125,231	$ 2,170,943
Present value of estimated future administrative costs during the projection period	920,740	963,995	935,444	881,311	984,996
Actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants	2,874,503	3,145,649	2,887,199	3,006,542	3,155,939
Less the present value of estimated future excise tax income during the projection period	7,494,800	7,804,178	7,607,428	8,457,022	8,876,813
Excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants (open and closed group measure)	$ 4,620,297	$ 4,658,529	$ 4,720,229	$ 5,450,480	$ 5,720,874
Trust fund net position deficit at start of projection period (Note 1-W and 21)	$ (5,894,222)	$ (5,977,619)	$ (6,099,261)	$ (6,238,612)	$ (6,320,321)
Summary Section					
Open and closed group measure	$ 4,620,297	$ 4,658,529	$ 4,720,229	$ 5,450,480	$ 5,720,874
Add: Funds with U.S. Treasury and receivables from benefit overpayments (Note 21)	145,794	102,498	63,814	68,028	67,598
Total of open and closed group measure plus fund assets (Note 1-W)	$ 4,766,091	$ 4,761,027	$ 4,784,043	$ 5,518,508	$ 5,788,472

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN SOCIAL INSURANCE AMOUNTS
For the Years Ended September 30, 2013 and 2012
(Dollars in Thousands)

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

	2013	2012
Excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants (open and closed group measure), beginning of year	$ 4,658,529	$ 4,720,229
Reasons for changes in the open and closed group measure during the year:		
Changes in the assumptions about beneficiaries, including costs, number, type, age and life expectancy	203,710	(81,839)
Changes in assumptions about coal excise tax revenues	(141,062)	(307,494)
Changes in assumptions about Federal civilian pay raises for income benefits	13,254	(22,337)
Changes in assumptions about medical cost inflation for medical benefits	1,004	(1,601)
Changes in assumptions about administrative costs	33,575	31,516
Changes in assumptions about interest rates	(148,713)	320,055
Net change in open and closed group measure	(38,232)	(61,700)
Open and closed group measure, end of year	$ 4,620,297	$ 4,658,529

The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

DOL, 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 wage earners, job seekers 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 under four major budget functions: (i) education, training, employment, and social services; (ii) health (occupational health and safety); (iii) income security; and (iv) veterans benefits and services (veterans education and training). DOL is organized into major program agencies, which administer the various statutes and programs for which the Department is responsible. DOL's major program agencies and the major programs in which they operate are shown below.

1. Major program agencies

- Employment and Training Administration (ETA)
  - *Office of Job Corps*
- Office of Workers' Compensation Programs (OWCP)
- Occupational Safety and Health Administration (OSHA)
- Bureau of Labor Statistics (BLS)
- Mine Safety and Health Administration (MSHA)
- Employee Benefits Security Administration (EBSA)
- Veterans' Employment and Training Service (VETS)
- Wage and Hour Division (WHD)
- Office of Federal Contract Compliance Programs (OFCCP)
- Office of Labor-Management Standards (OLMS)
- Departmental Management
  - *Office of the Secretary*
  - *Office of the Assistant Secretary for Administration and Management*
  - *Office of the Assistant Secretary for Policy*
  - *Office of Congressional and Intergovernmental Affairs*
  - *Women's Bureau*
  - *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*
  - *Bureau of International Labor Affairs*

The Pension Benefit Guaranty Corporation (PBGC), wholly owned by the Federal government and whose Board of Directors is chaired by 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

2. Major programs

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

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

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

3. Fund accounting structure

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

Funds from dedicated collections

Funds from dedicated collections 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 funds from dedicated collections are disclosed in Note 21 and are discussed below:

Unemployment Trust Fund (UTF) 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 (FUTA), 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3. Fund accounting structure - continued

Funds from dedicated collections - continued

Black Lung Disability Trust Fund was established under Part C of the Black Lung Benefits Act, to provide compensation and medical benefits to coal miners who suffer total 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.)

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

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

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.

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.

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 engaged in certain maritime and other employment covered by extensions such as the Defense Base Act. The Act authorizes the Department to assess insurance carriers on behalf of these beneficiaries.

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

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 training programs and other services for the economically disadvantaged and others, designed to lead to permanent gains in employment, through grants to states and Federal programs, authorized by the Workforce Investment Act (WIA) and the Job Training Partnership Act.

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.

State Unemployment Insurance and Employment Service Operations (SUIESO) includes grants to states for administering the Unemployment Compensation (UC) and Employment Service (ES) programs. UC Programs provide administrative grants to state agencies which pay unemployment benefits to eligible individuals and collect state unemployment taxes from employers. The ES Program is a nationwide system providing no-fee ES to individuals seeking employment and to employers seeking workers. ES funding allotments for state activities are determined upon 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 UTF to pay EUC benefits and the related administrative costs. This account is currently used to provide general fund financing for EUC benefits and administrative costs under the Supplemental Appropriations Act of 2008, as extended by the Recovery Act and other authorizing legislation.

Advances to the Unemployment Trust Fund and Other Funds provides advances to other accounts within the UTF to pay UC 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 Benefits and Allowances account to pay the cost of benefits and services under the Trade Adjustment Assistance (TAA) for Workers program; and provides loans to the BLDTF to make disability payments whenever the fund balance proves insufficient.

Federal Unemployment Benefits and Allowances provides for payment of benefits, training, job search, relocation allowances, and employment and case management services (and state administrative expenses for all benefits other than trade readjustment allowances, reemployment adjustment assistance, and alternative TAA) as authorized by the Trade Act of 1974.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A. Reporting Entity - Continued

3. Fund accounting structure - continued

All other funds - continued

Short-Time Compensation provides grants to states to implement or improve short-term compensation programs as authorized by the Middle Class Tax Relief and Job Creation Act. Short-term compensation programs allow employers to voluntarily reduce the number of hours worked by employees in lieu of layoffs and permits employees to collect a pro rata portion of the UC which would otherwise be payable to the employee if the employee was unemployed.

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

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 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 and the District of Columbia Workmen's Compensation Act authorized payments from the Special Benefit fund for 50% of the annual increase in benefits for compensation and certain related benefits.

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 (EEOICPA) of 2000. The Act authorizes compensation 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 Social Security Administration (SSA), after which time DOL began processing new claims as part of the BLDTF (known as Part C claims). SSA continued to administer Part B claims until DOL permanently assumed responsibility effective October 1, 2003.

Working Capital Fund (WCF) 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 cover the full cost of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3. Fund accounting structure - continued

All other funds - continued

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

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

4. Inter-departmental relationships

DOL and Treasury are jointly responsible for the operations of the UTF and the BLDTF. 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 UTF and the BLDTF into these financial statements.

B. Basis of Accounting and Presentation

These financial statements present the financial position, net cost of operations, changes in net position and budgetary resources of DOL, and estimated and actuarial projections, and changes therein, for the Department's Black Lung social insurance program, in accordance with U.S. GAAP and the form and content requirements of OMB Circular No. A-136. To ensure that the Department's financial statements are meaningful, other liabilities as defined by OMB Circular No. A-136 have been disaggregated on the balance sheet. These include energy employees occupational illness compensation benefits, accrued leave, and other liabilities. Except as described in the following paragraphs, the financial statements 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 delegations by one department of its authority to obligate budget authority and outlay funds to another agency as prescribed by law. OMB Circular No. A-136 requires the parent to report all budgetary and proprietary activity in its financial statements. DOL (parent entity) allocates appropriations to the U.S. Department of Agriculture and the U.S. Department of the Interior (child entities) to provide funds for youth training programs. Accordingly, all activity for these allocation accounts is included in the DOL financial statements. DOL (child entity) receives allocated appropriations from the U.S. Department of State to support international HIV/AIDS relief efforts and the Executive Office of the President of United States to support an unemployment insurance (UI) financial data access project (parent entities). Accordingly, activity for these allocation accounts is excluded from the DOL financial statements and reported by the parent agencies.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Basis of Accounting and Presentation - Continued

The Department implemented Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 43, “Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds,” in FY 2013. For FY 2013, SFFAS No. 43 amended, among other things, the definition, terminology, presentation, and disclosure of Funds from Dedicated Collections (formerly called Earmarked Funds).

U.S. GAAP encompasses both accrual and budgetary transactions. Under accrual accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred. Budgetary accounting facilitates compliance with legal constraints on, and controls over, the use of Federal funds. These financial statements are different from the financial reports, also prepared by DOL pursuant to OMB directives, used to monitor DOL’s use of budgetary resources.

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

C. Funds with U.S. Treasury

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

D. Investments

Funds from Dedicated Collections

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with DOL’s funds from dedicated collections. The cash receipts collected from the public for funds from dedicated collections are deposited in the U.S. Treasury, which uses the cash for general government purposes. Interest earning Treasury securities are issued to DOL’s funds from dedicated collections 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 UTF are invested in non-marketable, special issue Treasury securities (certificates of indebtedness and bonds) available for purchase exclusively by Federal government agencies and trust funds. Special issues are purchased and redeemed at face value (cost), which is equivalent to their net carrying value on the Consolidated Balance Sheet. Interest rates and maturity dates vary. The UTF special issue Treasury bonds may be redeemed, in whole or in part, prior to their maturity date and continue to accrue interest until fully redeemed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Investments - Continued

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. (See Note 3)

All Other Funds

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

E. Accounts Receivable, Net of Allowance

Accounts receivable consists of intra-governmental amounts due to DOL, as well as amounts due from the public. (See Notes 4 and 23)

1. Intra-governmental accounts receivable

The Federal Employees Compensation (FEC) account within the UTF provides unemployment compensation to eligible Federal employees (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 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 other 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, WHD, and EBSA and for amounts due from grantees and contractors for grant and contract costs disallowed by ETA.

3. Allowance for uncollectible 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

DOL's capitalization thresholds for assets with a useful life of 2 years or longer, and the related depreciable life are displayed in the following table.

	Capitalization Threshold	Years
Structures, facilities and improvements	$500,000	20 - 50
Furniture and equipment	$50,000	2 - 36
Internal use software and software in development	$500,000	2 - 15
Construction-in-progress	$500,000	-
Land	$500,000	-

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 and facilities and depreciated over their estimated useful lives. Structures and facilities also includes DOL's only asset under capital lease. Leasehold improvements made at Job Corps centers and DOL facilities leased from the General Services Administration (GSA) are capitalized as construction-in-progress until completed. Upon completion, they are reclassified as improvements to leased facilities, 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 in development until the development stage has been completed and successfully tested. Upon completion and testing, they are reclassified as internal use software and amortized over their estimated useful lives. (See Note 5)

G. Advances

DOL advances consist primarily of payments made to state employment security agencies (SESA) 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 expenditures are recorded by DOL. (See Note 6)

H. Non-entity Assets

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. Liabilities

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

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

J. Debt

DOL's debt consisted of the following:

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

The Energy Improvement and Extension Act of 2008 (P.L. 110-343, section 113), enacted October 3, 2008, authorized restructuring of the 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 the Fiscal Service and a one-time appropriation. Pursuant to this authority, in FY 2009, the BLDTF borrowed from Treasury $6.496 billion which was structured into 32 discounted instruments with sequential annual September 30th maturities over the 32-year period 2009 through 2040, bearing interest rates ranging from 1.412% to 4.556%. Interest on each instrument accrues until its September 30th maturity date or the instrument's prepayment, whichever occurs first. These debt payments are to be made from the excise taxes assessed on mined coal. In the event that the BLDTF cannot repay a discounted instrument when it matures, or make benefit payments or other authorized expenditures, the Act authorizes the issuance of one-year discounted instruments to finance these activities. The BLDTF issued additional debt on September 30, 2012 (due September 30, 2013) bearing an interest rate of 0.174%, and on September 30, 2013 (due September 30, 2014) bearing an interest rate of 0.098%. (See Note 8)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Debt - Continued

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

UTF advances from U.S. Treasury outstanding as of September 30, 2013, and September 30, 2012, 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 five continuing resolutions with P.L. 112-74 (125 Stat. 1056) and P.L. 112-175, and P.L. 113-6 to pay unemployment benefits, when amounts in the UTF are insufficient to fund these benefits. These repayable advances bear interest rates ranging between 2.375% and 3.250%, which 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 or upon the repayment of an advance. Advances are repaid by transfers from the UTF to the General Fund of the U.S. Treasury when the Secretary of the Treasury, in consultation with the Secretary of Labor, has determined that the balances in the UTF 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 UTF provides benefits to unemployed workers who meet state and Federal eligibility requirements. Regular and extended unemployment benefits are paid from state accounts within the UTF, 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 UTF, financed by a Federal unemployment tax on employer payrolls. The Recovery Act provided for a 100% Federal funding of Extended Benefits (EB) through December 2009. This 100% Federal funding provision has been extended several times, with phase out through December 31, 2013.

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 were entitled under state law to otherwise receive any type of UC. FAUC benefits were extended several times, with phase-out of benefit eligibility by December 2010. Although the vast majority of FAUC activity has ceased, states are still reporting residual transactions related to the program on monthly reports.

EUC benefits, also paid from EUCA, were first authorized by the Supplemental Appropriations Act of 2008. These benefits were extended by the Recovery Act and other authorizing legislation through January 1, 2014, and are currently funded entirely from General Fund appropriations.

Unemployment benefits to unemployed Federal workers are paid from the FEC account within the UTF, which is then reimbursed by the responsible Federal agency.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

K. Accrued Benefits - Continued

1. Unemployment benefits payable - continued

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

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

The FECA 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 BLDTF and Special Benefits for Disabled Coal Miners provide compensation and medical benefits for eligible coal miners who are totally 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 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.

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 FECA 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 future 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 COLA) and medical inflation factors

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L. Future Workers' Compensation Benefits - Continued

(consumer price index-medical or CPIM) to the calculation of projected benefits. The COLAs and CPIMs used in the projections for FY 2013 and FY 2012 were as follows:

	COLA		CPIM	
FY	2013	2012	2013	2012
2013	N/A	2.83%	N/A	3.65%
2014	1.67 %	2.03%	3.46 %	3.66%
2015	1.80 %	1.93%	3.82 %	3.72%
2016	2.20 %	2.00%	3.83 %	3.73%
2017	2.20 %	2.03%	3.82 %	3.80%
2018+	2.20 %	2.03%	3.82 %	3.80%

In FY 2013, DOL refined the approach for selecting the interest rate assumptions and enhanced matching between the timing of cash flows and interest rates. For FY 2013, projected annual payments were discounted to present value based on OMB's interest rate assumptions which were interpolated to reflect the average duration for income payments of 14.7 years and medical payments of 9.6 years. For FY 2012, projected annual payments were discounted to present value based on OMB's interest rate assumptions for ten-year Treasury notes. For FY 2013, interest rate assumptions were 2.727% in year one and 3.127% in year two and thereafter for income payments and 2.334% in year one and 2.869% in year two for medical payments. For FY 2012, interest rate assumptions were 2.293% in year one and 3.138% in year two and thereafter for both income payments and medical payments.

M. Energy Employees Occupational Illness Compensation Benefits

The Energy Employees Occupational Illness Compensation Fund, established under the authority of the 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, subsequent 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. The amended program grants workers' compensation benefits to covered employees and their families for illness and death arising from exposure to toxic 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.

In FY 2013, DOL refined the approach for selecting the interest rate assumptions and enhanced matching between the timing of cash flows and interest rates. For FY 2013, projected payments were discounted to present value based on OMB's interest rate assumptions which were interpolated to reflect the average duration for compensation payments of 9.2 years and medical payments of 17.3 years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

M. Energy Employees Occupational Illness Compensation Benefits - Continued

DOL has recognized a $16.0 billion and $15.6 billion actuarial liability for estimated future benefits payable by DOL as of September 30, 2013 and 2012, respectively, to eligible individuals under the EEOICPA. As of September 30, 2013, the undiscounted liability is $23.0 billion discounted to a present value liability of $16.0 billion based on an interest rate of 2.826% for compensation payments and 3.245% for medical payments projected over a 58-year period. As of September 30, 2012, the undiscounted liability was $22.5 billion discounted to a present value liability of $15.6 billion based on an interest rate of 3.138% for both compensation payments and medical payments projected over a 58-year period. The estimated liability includes the expected compensation 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 reported claims from the historical patterns of reported claims and subsequent claim approval rates. Medical payments were derived by estimating an average benefit award per living employee claimant.

N. Accrued Leave

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

O. Employee Health and Life Insurance Benefits

DOL employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP). DOL matches the employee contributions to each program to pay for current benefits. During FY 2013, DOL's contributions to the FEHBP and FEGLIP were $110.1 million and $2.4 million, respectively. During FY 2012, DOL's contributions to the FEHBP and FEGLIP were $105.7 million and $2.4 million, respectively. These contributions are recognized as current operating expenses.

P. Other Retirement Benefits

DOL employees eligible to participate in the FEHBP and the FEGLIP may continue to participate in these programs after their retirement. DOL recognizes a current operating expense for the future cost of these other retirement benefits (ORB) at the time the employee's services are rendered. This ORB expense must be financed by the U.S. Office of Personnel Management (OPM). Using cost factors supplied by OPM, DOL recorded ORB imputed costs and imputed financing sources of $70.3 million in FY 2013 and $79.9 million in FY 2012.

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. P.L. 112-96, Section 5001, the "Middle Class Tax Relief and Job Creation Act of 2012," changed the employee and employer contributions for new employees participating in FERS. For those employees designated by OPM as FERS Revised Annuity Employees (RAEs, i.e., new employees who, in general, were hired on or after January 1, 2013), DOL withholds 3.1% of gross earnings and makes a 9.6% employer contribution; for FERS employees hired on December 31, 2012, and before, DOL withholds 0.8% of gross earnings and makes an 11.9% employer contribution. This total is transferred to the Federal Employees' Retirement Fund. The CSRS and FERS retirement funds are administered by OPM. DOL contributions to

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Q. Employee Pension Benefits - Continued

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 current operating expenses. DOL's matching contributions were $115.5 million in FY 2013 and $111.5 million in FY 2012.

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 $17,500 of their gross pay to the TSP during calendar year 2013 ($17,000 in calendar year 2012), but there is no departmental matching contribution. FERS participants may contribute up to $17,500 of their gross pay to the TSP during calendar year 2013 ($17,000 in calendar year 2012). 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 2013 and 2012, but there is no departmental matching on "catch-up" contributions. For employees covered under FERS, DOL contributes 1% of the employees' gross pay to the TSP. DOL also matches employees' contributions dollar-for-dollar on the first 3% of pay contributed each pay period and 50 cents on the dollar for the next 2% of pay contributed. DOL contributions to the TSP are recognized as current operating expenses. Employee and employer contributions to the TSP are transferred to the Federal Retirement Thrift Investment Board. (See Note 14)

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

R. Net Position

DOL's net position consists of the following:

1. Unexpended appropriations

Unexpended appropriations include the unobligated balances and undelivered orders of DOL's appropriated funds. Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until those appropriations are cancelled, 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 programs and those indirect costs which can be reasonably assigned or allocated to programs. 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 major program agency and major program in Note 15.

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 FECA 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 UTF from Federal agencies for the cost of unemployment benefits provided to or accrued on behalf of their former employees. (See Note 15)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

T. Budgetary Financing Sources - Continued

transfers without reimbursement, as discussed below:

1. Appropriations received, appropriations used, appropriations transferred, and adjustments

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 adjusted due to rescission, cancellation, sequestration, or return of permanent indefinite authority. Appropriations are considered used as a financing source when goods and services are received or benefits are provided.

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 and are 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 UTF. State unemployment taxes are collected by each state and deposited in separate state accounts within the UTF. Among other things, 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 UI program, employment services including veterans' ES, and foreign labor certifications (FLC). Additional Federal collections from states with advances from the fund that have been outstanding for more than two years are used to reduce states' outstanding advance balances. State unemployment taxes are restricted in their use to the payment of unemployment benefits.

Interest

The UTF, the Panama Canal Commission Compensation Fund, and the Energy Employees Occupational Illness Compensation Fund receive interest on fund investments. The UTF receives interest from states that had accounts with loans payable to the Federal Unemployment Account (FUA) 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.

Reimbursement of unemployment benefits

The UTF 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

T. Budgetary Financing Sources - Continued

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 WHD. There are also transfers between DOL entities, primarily for the administration of the UI program and of 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 from costs absorbed by others

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, 1-Q, and 14)

2. Transfers without reimbursement

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

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, WHD, and EBSA for regulatory violations; and for FECA administrative costs assessed against government corporations in excess of amounts reserved to finance capital improvements in the FECA Special Benefit Fund; and for ETA collections and administrative changes and restitution payments. 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 Note 20)

W. Significant Assumptions Used in the Statement of Social Insurance and Statement of Changes in Social Insurance Amounts

1. Program Background

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

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. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

W. Significant Assumptions Used in the Statement of Social Insurance and Statement of Changes in Social Insurance Amounts - Continued

1. Program Background - continued

P.L. 110-343, Division B-Energy Improvement and Extension Act of 2008, enacted on October 3, 2008, among other things, restructured the BLDTF debt by refinancing the outstanding high interest rate repayable advances with low interest rate discounted debt instruments similar in form to zero-coupon bonds, plus a one-time appropriation. This Act also allowed that any subsequent debt issued by the BLDTF may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing. (See Notes 1-J and 8)

2. Significant Assumptions

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

Treasury's Office of Tax Analysis provides estimates of future receipts of the black lung excise tax. Its estimates are based on projections of future coal production and sale prices prepared by the Energy Information Agency of the U.S. Department of Energy. Treasury's Office of Tax Analysis provides the first eleven years of tax receipt estimates. The remaining years are estimated using a growth rate based on both historical tax receipts and the Treasury's estimated tax receipts. The coal excise tax rates of $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, continue until the earlier of December 31, 2018 or the first December 31 in which there exists no (1) balance of repayable debt described in section 9501 of the Internal Revenue Code and (2) unpaid interest on the debt. At that time, the tax rates revert to $0.50 per ton of underground-mined coal and $0.25 per ton of surface-mined coal sold, with a limit of 2.0% of sales price.

The beneficiary population data is updated from information supplied by the program. The beneficiary population is a nearly closed universe in which attrition by death exceeds new entrants by a ratio of more than ten to one. Projections for new participants are included in the overall projections and are considered immaterial. Therefore, the difference between the open group measure and the closed group measure due to new participants is immaterial and the same measure is presented for both the open group and the closed group.

SSA 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 CPIM, which are used to calculate future benefit costs. During the current projection period, the future benefit rate (annualized for the fiscal year) increases 2.78% in 2014, 3.47% in 2015, and 3.4% in each year thereafter and medical cost increases 3.7% in 2014 and 3.8% in each year thereafter. Estimates for administrative costs for the first 11 years of the projection are supplied by DOL's Budget Office, based on current year enacted amounts, while later years are based on the number of projected beneficiaries.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

W. Significant Assumptions Used in the Statement of Social Insurance and Statement of Changes in Social Insurance Amounts - Continued

2. Significant Assumptions - continued

The projection period ends September 30, 2040, because the primary purpose of the BLDTF, which was established in 1978, is to compensate the victims of coal mine dust exposures which occurred prior to 1970. By the end of FY 2040, not only the disabled miners and their widows in that class, but also virtually all of their eligible dependent disabled adult children will be deceased.

In FY 2013, DOL refined the approach for selecting the interest rate assumptions and enhanced matching between the timing of cash flows and interest rates. For FY 2013, projected annual payments were discounted to present value based on OMB's interest rate assumptions which were interpolated to reflect the average duration of payments between 21.3 and 25.4 years for income payments, medical payments, administrative expenses, and coal excise tax collections. The interest rates used to discount current year projections are between 2.79% and 2.95% for income payments, medical payments, administrative expenses, and coal excise tax collections. For FYs 2009 through 2012, the projections were discounted using an interest rate published by Treasury as of the start of the projection period for Treasury loans to government agencies for loans with a duration that approximated the projection period. The valuation date for the FY 2013 and FY 2012 information presented in the SOSI, including the summary section, and in the SCSIA is September 30, 2013, and 2012, respectively.

The accumulated deficit of all past disbursements over past cash receipts, including interest on investments, is ($5.9) billion, the amount of the trust fund net position deficit at the start of the projection period, September 30, 2013. The excess of the present value of estimated future excise tax income over the actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants (open and closed group measure) is calculated by adding the outflows of:

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

and then subtracting the inflows of:

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

As a result of changes in the assumptions described above, in FY 2013 the open and closed group measure decreased by ($38.2) million primarily due to projected lower coal excise tax revenues and the change in the interest rates used to discount the cash flows from 2.75% in FY 2012 to between 2.79% and 2.95% in FY 2013 for income payments, medical payments, administrative expenses, and coal excise tax collections, offset in part due to lower beneficiary costs. In FY 2012, the open and closed group measure decreased by ($61.7) million primarily due to projected lower coal excise tax revenues and higher beneficiary costs, offset in part due to the change in the interest rate used to discount the cash flows from 3.375% in FY 2011 to 2.75% in FY 2012.

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. Application of Critical Accounting Estimates

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

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

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

Z. Reclassifications

The FY 2012 financial statements were reclassified to conform to the FY 2013 financial statement presentation requirements and include changes in the presentation of the Combined Statement of Budgetary Resources in accordance with the requirements of OMB Circular No. A-136. The reclassifications had no effect on budgetary resources as previously reported.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2013 and 2012

NOTE 2 - FUNDS WITH U.S. TREASURY

Funds with U.S. Treasury as of September 30, 2013, consisted of the following:

(Dollars in thousands)	Revolving funds	Trust funds	Special funds	General funds	Other	Total
Unobligated Balance Available	$ 11,187	$ 163	$ 370,975	$ 2,743,221	$ -	$ 3,125,546
Unobligated Balance Unavailable	10,500	-	39,094	1,480,120	-	1,529,714
Obligated Balance Not Yet Disbursed	89,636	253,240	260,221	7,570,932	-	8,174,029
Non-Budgetary Fund Balance with Treasury	-	276,804	-	66	-	276,870
Total Entity Assets	111,323	530,207	670,290	11,794,339	-	13,106,159
Non-entity Assets	-	822	-	-	3,738	4,560
Fund Balance with Treasury	$ 111,323	$ 531,029	$ 670,290	$ 11,794,339	$ 3,738	$ 13,110,719

Funds with U.S. Treasury as of September 30, 2012, consisted of the following:

(Dollars in thousands)	Revolving funds	Trust funds	Special funds	General funds	Other	Total
Unobligated Balance Available	$ 1,350	$ 80	$ 212,151	$ 1,606,952	$ -	$ 1,820,533
Unobligated Balance Unavailable	15,670	-	89,208	2,465,834	-	2,570,712
Obligated Balance Not Yet Disbursed	95,582	(260,156)	303,149	7,495,730	-	7,634,305
Non-Budgetary Fund Balance with Treasury	-	-	-	-	-	-
Total Entity Assets	112,602	(260,076)	604,508	11,568,516	-	12,025,550
Non-entity Assets	-	(5,722)	-	-	3,355	(2,367)
Fund Balance with Treasury	$ 112,602	$ (265,798)	$ 604,508	$ 11,568,516	$ 3,355	$ 12,023,183

Obligated and unobligated balances differ from the amounts reported on the Statement of Budgetary Resources because budgetary balances are supported by amounts other than Fund Balance with Treasury, such as investments. Non-Budgetary Fund Balance with Treasury consists of amounts included in Fund Balance with Treasury but excluded from the Department's budgetary resources, such as temporarily sequestered UTF budgetary authority.

The negative fund balance reported as of September 30, 2012, relates to the UTF and is 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 results in a negative cash position for the preceding business day when the disbursements are greater than the receipts to the fund.

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

Unobligated Balance Available as of September 30, 2013 and 2012, includes $991.7 million and $1.0 billion, respectively, of funds apportioned for use in the subsequent year.

NOTE 3 - INVESTMENTS

Investments as of September 30, 2013, consisted of the following:

(Dollars in thousands)	Face Value	Premium (Discount)	Interest Receivable	Net Value	Market Value
Unemployment Trust Fund					
Non-marketable					
Special issue U.S. Treasury Bonds					
2.625% maturing June 30, 2014	$ 5,198,978	$ -	$ 34,118	$ 5,233,096	$ 5,198,978
2.375% maturing June 30, 2015	4,000,000	-	23,750	4,023,750	4,000,000
2.375% maturing June 30, 2016	3,751,987	-	22,277	3,774,264	3,751,987
Special issue Certificate of Indebtedness					
2.375% maturing June 30, 2014	16,527,070	-	49,327	16,576,397	16,527,070
	29,478,035	-	129,472	29,607,507	29,478,035
Panama Canal Commission Compensation Fund					
Marketable					
U.S. Treasury Notes					
4.250% maturing November 15, 2013	51,509	264	821	52,594	51,509
Energy Employees Occupational Illness Compensation Fund					
Non-marketable					
One day certificate					
0.030% maturing October 1, 2013	24,177	-	-	24,177	24,177
	$ 29,553,721	$ 264	$ 130,293	$ 29,684,278	$ 29,553,721
Entity investments	$ 29,367,286	$ 264	$ 129,474	$ 29,497,024	$ 29,367,286
Non-entity investments	$ 186,435	$ -	$ 819	$ 187,254	$ 186,435
	$ 29,553,721	$ 264	$ 130,293	$ 29,684,278	$ 29,553,721

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2013 and 2012

NOTE 3 - INVESTMENTS - Continued

Investments as of September 30, 2012, consisted of the following:

(Dollars in thousands)	Face Value	Premium (Discount)	Interest Receivable	Net Value	Market Value
Unemployment Trust Fund					
Non-marketable					
Special issue U.S. Treasury Bonds					
2.625% maturing June 30, 2013	$ 3,235,073	$ -	$ 21,230	$ 3,256,303	$ 3,235,073
2.625% maturing June 30, 2014	5,198,978	-	34,118	5,233,096	5,198,978
Special issue Certificates of Indebtedness					
2.625% maturing June 30, 2013	10,376,666	-	53,798	10,430,464	10,376,666
2.500% maturing June 30, 2013	1,861,861	-	829	1,862,690	1,861,861
	20,672,578	-	109,975	20,782,553	20,672,578
Panama Canal Commission Compensation Fund					
Marketable					
U.S. Treasury Notes					
4.000% maturing November 15, 2012	51,886	245	778	52,909	51,886
3.625% maturing May 15, 2013	5,041	(1)	69	5,109	5,041
	56,927	244	847	58,018	56,927
	$ 20,729,505	$ 244	$ 110,822	$ 20,840,571	$ 20,729,505
Entity investments	$ 20,553,677	$ 244	$ 109,887	$ 20,663,808	$ 20,553,677
Non-entity investments	175,828	-	935	176,763	175,828
	$ 20,729,505	$ 244	$ 110,822	$ 20,840,571	$ 20,729,505

NOTE 4 - ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

Accounts receivable as of September 30, 2013, consisted of the following:

(Dollars in thousands)	Gross Receivables	Allowance	Net Receivables
Entity intra-governmental assets			
Due for UCFE and UCX benefits	$ 519,690	$ -	$ 519,690
Due for workers' compensation benefits	5,298,168	-	5,298,168
Other	6,648	-	6,648
	5,824,506	-	5,824,506
Entity assets			
State unemployment taxes	1,403,161	(939,261)	463,900
Due from reimbursable employers	861,286	(75,979)	785,307
Benefit overpayments	4,480,925	(3,765,155)	715,770
Other	10,395	-	10,395
	6,755,767	(4,780,395)	1,975,372
Non-entity assets			
Fines and penalties	141,499	(25,944)	115,555
	6,897,266	(4,806,339)	2,090,927
	$ 12,721,772	$ (4,806,339)	$ 7,915,433

Accounts receivable as of September 30, 2012, consisted of the following:

(Dollars in thousands)	Gross Receivables	Allowance	Net Receivables
Entity intra-governmental assets			
Due for UCFE and UCX benefits	$ 578,111	$ -	$ 578,111
Due for workers' compensation benefits	5,387,349	-	5,387,349
Other	17,000	-	17,000
	5,982,460	-	5,982,460
Entity assets			
State unemployment taxes	1,454,900	(917,141)	537,759
Due from reimbursable employers	1,063,942	(115,773)	948,169
Benefit overpayments	4,732,359	(4,051,100)	681,259
Other	9,505	-	9,505
	7,260,706	(5,084,014)	2,176,692
Non-entity assets			
Fines and penalties	138,040	(56,456)	81,584
	7,398,746	(5,140,470)	2,258,276
	$ 13,381,206	$ (5,140,470)	$ 8,240,736

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

Property, plant and equipment as of September 30, 2013, consisted of the following:

(Dollars in thousands)	2013 Cost	2013 Accumulated Depreciation/ Amortization	2013 Net Book Value
Structures, facilities and improvements			
Structures and facilities	$ 1,411,415	$ (593,862)	$ 817,553
Improvements to leased facilities	399,543	(279,676)	119,867
	1,810,958	(873,538)	937,420
Furniture and equipment			
Equipment held by contractors	146,887	(139,173)	7,714
Furniture and equipment	40,230	(31,233)	8,997
	187,117	(170,406)	16,711
Internal use software and software in development	237,589	(99,272)	138,317
Construction-in-progress	77,925	-	77,925
Land	99,542	-	99,542
	$ 2,413,131	$ (1,143,216)	$ 1,269,915

Property, plant and equipment as of September 30, 2012, consisted of the following:

(Dollars in thousands)	2012 Cost	2012 Accumulated Depreciation/ Amortization	2012 Net Book Value
Structures, facilities and improvements			
Structures and facilities	$ 1,350,272	$ (551,979)	$ 798,293
Improvements to leased facilities	419,066	(274,063)	145,003
	1,769,338	(826,042)	943,296
Furniture and equipment			
Equipment held by contractors	149,976	(144,359)	5,617
Furniture and equipment	44,314	(34,060)	10,254
	194,290	(178,419)	15,871
Internal use software and software in development	225,915	(80,521)	145,394
Construction-in-progress	81,676	-	81,676
Land	94,101	-	94,101
	$ 2,365,320	$ (1,084,982)	$ 1,280,338

NOTE 6 - ADVANCES

Advances as of September 30, 2013 and 2012, consisted of the following:

(Dollars in thousands)	2013	2012
Intra-governmental		
Advances	$ 1,928	$ 3,128
Advances to states for UI benefit payments	1,916,300	1,447,417
Other	9,378	9,083
	1,925,678	1,456,500
	$ 1,927,606	$ 1,459,628

NOTE 7 - NON-ENTITY ASSETS

Non-entity assets as of September 30, 2013 and 2012, consisted of the following:

(Dollars in thousands)	2013	2012
Intra-governmental		
Funds with U.S. Treasury	$ 4,560	$ (2,367)
Investments	187,254	176,763
	191,814	174,396
Accounts receivable, net of allowance	115,555	81,584
Total non-entity assets	307,369	255,980
Total entity assets	53,600,582	43,588,476
	$ 53,907,951	$ 43,844,456

NOTE 8 - DEBT

Debt during FY 2013 consisted of the following:

(Dollars in thousands)	Balance at September 30, 2012	Additional Borrowing	Repayment of Debt	Interest	Balance at September 30, 2013
Intra-governmental debt to Treasury					
Black Lung Disability Trust Fund					
Borrowing from U.S. Treasury	$ 6,065,585	$ 401,000	$ (610,403)	$ 170,457	$ 6,026,639
Unemployment Trust Fund					
Advances from U.S. Treasury	32,931,755	7,700,000	(10,985,509)	49,388	29,695,634
	$ 38,997,340	$ 8,101,000	$ (11,595,912)	$ 219,845	$ 35,722,273

Debt during FY 2012 consisted of the following:

(Dollars in thousands)	Balance at September 30, 2011	Additional Borrowing	Repayment of Debt	Interest	Balance at September 30, 2012
Intra-governmental debt to Treasury					
Black Lung Disability Trust Fund					
Borrowing from U.S. Treasury	$ 6,163,075	$ 214,000	$ (502,035)	$ 190,545	$ 6,065,585
Unemployment Trust Fund					
Advances from U.S. Treasury	42,772,829	12,164,421	(22,005,495)	-	32,931,755
	$ 48,935,904	$ 12,378,421	$ (22,507,530)	$ 190,545	$ 38,997,340

NOTE 8 - DEBT - Continued

For the year ended September 30, 2013, interest expense for the BLDTF was $226.6 million, of which $170.5 million was capitalized interest and $56.1 million was paid. For the year ended September 30, 2012, interest expense was $227.8 million, of which $190.5 million was capitalized and $37.3 million was paid.

For the year ended September 30, 2013, interest expense for the UTF was $968.4 million, of which $919.0 million was paid. For the year ended September 30, 2012, all interest expense of $1.2 billion was paid.

NOTE 9 - OTHER LIABILITIES

Other liabilities as of September 30, 2013 and 2012, consisted of the following:

(Dollars in thousands)	2013	2012
Intra-governmental		
Non-entity receivables due to U.S. Treasury	$ 115,044	$ 81,584
Accrued payroll and other liabilties	197,734	197,054
Total intra-governmental	312,778	278,638
Grant accruals	778,731	797,967
Capital lease liability	41,811	43,166
Environmental and disposal liability	31,501	31,930
Accrued payroll and other liabilities	65,639	131,236
Total other liabilities with the Public	917,682	1,004,299
	$ 1,230,460	$ 1,282,937

The amounts above are current liabilities, except for the capital lease and environmental and disposal liabilities.

NOTE 10 - ACCRUED BENEFITS

Accrued benefits as of September 30, 2013 and 2012, consisted of the following:

(Dollars in thousands)	2013	2012
State regular and extended unemployment benefits payable	$ 1,017,609	$ 681,314
Federal extended unemployment benefits payable	242,907	261,067
Federal emergency unemployment benefits payable	808,505	814,397
Federal employees' unemployment benefits payable	259,137	286,630
Federal additional unemployment benefits payable	26,364	32,891
Total unemployment benefits payable	2,354,522	2,076,299
Black lung disability benefits payable	24,562	27,465
Federal employees' disability and 10(h) benefits payable	115,125	160,542
Energy employees occupational illness compensation benefits payable	22,913	25,296
	$ 2,517,122	$ 2,289,602

NOTE 11 - FUTURE WORKERS' COMPENSATION BENEFITS

DOL's liability for future workers' compensation benefits as of September 30, 2013 and 2012, consisted of the following:

(Dollars in thousands)	2013	2012
Projected gross liability of the Federal government for future FECA benefits	$ 36,787,794	$ 34,260,124
Less liabilities attributed to other agencies:		
U.S. Postal Service	(15,824,912)	(14,404,031)
Department of the Navy	(2,492,678)	(2,427,697)
Department of Homeland Security	(2,507,229)	(2,229,503)
Department of Veterans Affairs	(2,220,399)	(2,014,108)
Department of the Army	(1,927,282)	(1,882,561)
Department of Justice	(1,632,706)	(1,474,279)
Department of the Air Force	(1,441,960)	(1,383,963)
Department of Transportation	(1,047,454)	(1,017,770)
Department of Agriculture	(986,318)	(944,353)
Department of Defense, Other	(888,494)	(847,082)
Department of the Interior	(846,634)	(802,555)
Department of the Treasury	(618,603)	(576,308)
Tennessee Valley Authority	(460,475)	(456,908)
Social Security Administration	(368,218)	(350,329)
Department of Health and Human Services	(292,875)	(273,372)
Department of Commerce	(242,691)	(227,990)
General Services Administration	(138,657)	(132,802)
Department of Energy	(101,333)	(93,350)
Department of State	(88,426)	(78,941)
Department of Housing and Urban Development	(76,903)	(75,577)
National Aeronautics and Space Administration	(50,822)	(50,389)
Environmental Protection Agency	(51,818)	(46,905)
Small Business Administration	(33,703)	(31,591)
Agency for International Development	(26,047)	(23,582)
Office of Personnel Management	(24,750)	(23,291)
Department of Education	(17,575)	(16,641)
Nuclear Regulatory Commission	(7,023)	(7,224)
National Science Foundation	(1,425)	(1,366)
Other	(757,049)	(687,671)
	(35,174,459)	(32,582,139)
	$ 1,613,335	$ 1,677,985
Projected liability of the Department of Labor for future FECA benefits		
FECA benefits not chargeable to other Federal agencies payable by DOL's Federal Employees' Compensation Act Special Benefit Fund	$ 1,323,300	$ 1,398,153
FECA benefits due to eligible workers of DOL and Job Corps enrollees	243,612	231,995
FECA benefits due to eligible workers of the Panama Canal Commission	46,423	47,837
	$ 1,613,335	$ 1,677,985

NOTE 12 - LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources as of September 30, 2013 and 2012, consisted of the following:

(Dollars in thousands)	2013	2012
Intra-governmental		
Debt	$ 35,722,273	$ 38,997,340
Future workers' compensation benefits	546,873	984,053
Accrued annual leave	116,030	116,063
Other liabilities	60,943	67,085
	723,846	1,167,201
Total liabilities not covered by budgetary resources	36,446,119	40,164,541
Total liabilities covered by budgetary resources	21,086,314	20,178,683
	$ 57,532,433	$ 60,343,224

NOTE 13 - CONTINGENCIES

The Department is involved in various lawsuits incidental to its operations. 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 2013 consisted of the following:

(Dollars in thousands)	Employer Contributions	Costs Imputed by OPM	Total Pension Expense
Civil Service Retirement System	$ 12,780	$ 28,582	$ 41,362
Federal Employees' Retirement System	149,548	14,027	163,575
Thrift Savings Plan	54,514	-	54,514
	$ 216,842	$ 42,609	$ 259,451

Pension expense in FY 2012 consisted of the following:

(Dollars in thousands)	Employer Contributions	Costs Imputed by OPM	Total Pension Expense
Civil Service Retirement System	$ 14,925	$ 32,504	$ 47,429
Federal Employees' Retirement System	143,552	12,754	156,306
Thrift Savings Plan	52,208	-	52,208
	$ 210,685	$ 45,258	$ 255,943

NOTE 15 - PROGRAM COST

Note 15 A and B present detailed cost and revenue information by major program and major program agency (responsibility segment) in support of the summary information presented in the Consolidated Statement of Net Cost for FY 2013 and FY 2012, respectively. Note 15 C presents a further breakdown of this cost and revenue information for DOL's two largest program agencies, ETA, and the OWCP. (See Note 1-A.1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2013 and 2012

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, 2013, consisted of the following:

(Dollars in thousands)	Employment and Training Administration	Office of Workers' Compensation Programs	Office of Job Corps	Occupational Safety and Health Administration
CROSSCUTTING PROGRAMS				
Income maintenance				
Intra-governmental	$ 1,078,164	$ 302,834	$ -	$ -
With the public	71,443,513	5,086,617	-	274
Gross cost	72,521,677	5,389,451	-	274
Intra-governmental earned revenue	(1,131,451)	(2,905,979)	-	-
Public earned revenue	-	(18)	-	-
Less earned revenue	(1,131,451)	(2,905,997)	-	-
Net program cost	71,390,226	2,483,454	-	274
Employment and training				
Intra-governmental	50,753	-	12,467	-
With the public	4,595,597	-	1,512,470	-
Gross cost	4,646,350	-	1,524,937	-
Intra-governmental earned revenue	(12,246)	-	(25)	-
Public earned revenue	-	-	-	-
Less earned revenue	(12,246)	-	(25)	-
Net program cost	4,634,104	-	1,524,912	-
Labor, employment and pension standards				
Intra-governmental	-	-	-	-
With the public	-	-	-	-
Gross cost	-	-	-	-
Intra-governmental earned revenue	-	-	-	-
Public earned revenue	-	-	-	-
Less earned revenue	-	-	-	-
Net program cost	-	-	-	-
Worker safety and health				
Intra-governmental	-	-	-	115,231
With the public	-	-	-	476,410
Gross cost	-	-	-	591,641
Intra-governmental earned revenue	-	-	-	(401)
Public earned revenue	-	-	-	(1,829)
Less earned revenue	-	-	-	(2,230)
Net program cost	-	-	-	589,411
OTHER PROGRAMS				
Statistics				
Intra-governmental	-	-	-	-
With the public	-	-	-	-
Gross cost	-	-	-	-
Intra-governmental earned revenue	-	-	-	-
Public earned revenue	-	-	-	-
Less earned revenue	-	-	-	-
Net program cost	-	-	-	-
COSTS NOT ASSIGNED TO PROGRAMS				
Gross cost	-	-	-	-
Less earned revenue not attributed to programs	-	-	-	-
Net cost not assigned to programs	-	-	-	-
Net cost of operations	$ 76,024,330	$ 2,483,454	$ 1,524,912	$ 589,685

Bureau of Labor Statistics	Mine Safety and Health Administration	Employee Benefits Security Administration	Veterans' Employment and Training	Wage and Hour Division	Other Program Agencies	Total
$ -	$ -	$ 490	$ 33	$ -	$ -	$ 1,381,521
-	-	1,947	130	-	7,577	76,540,058
-	-	2,437	163	-	7,577	77,921,579
-	-	(245)	(17)	-	-	(4,037,692)
-	-	-	-	-	-	(18)
-	-	(245)	(17)	-	-	(4,037,710)
-	-	2,192	146	-	7,577	73,883,869
-	-	-	15,440	2,041	174	80,875
-	-	-	238,219	475	5,113	6,351,874
-	-	-	253,659	2,516	5,287	6,432,749
-	-	-	(55)	-	(82)	(12,408)
-	-	-	-	-	-	-
-	-	-	(55)	-	(82)	(12,408)
-	-	-	253,604	2,516	5,205	6,420,341
-	98	55,140	471	85,415	61,653	202,777
-	153	163,621	7,349	218,958	247,106	637,187
-	251	218,761	7,820	304,373	308,759	839,964
-	-	(6,144)	(11)	-	(1,542)	(7,697)
-	-	-	-	(2,660)	-	(2,660)
-	-	(6,144)	(11)	(2,660)	(1,542)	(10,357)
-	251	212,617	7,809	301,713	307,217	829,607
-	124,196	-	-	-	-	239,427
-	285,143	-	-	-	8,255	769,808
-	409,339	-	-	-	8,255	1,009,235
-	(334)	-	-	-	-	(735)
-	(2,741)	-	-	-	-	(4,570)
-	(3,075)	-	-	-	-	(5,305)
-	406,264	-	-	-	8,255	1,003,930
213,821	-	-	-	-	-	213,821
421,779	-	-	-	-	163	421,942
635,600	-	-	-	-	163	635,763
(12,056)	-	-	-	-	-	(12,056)
(27)	-	-	-	-	-	(27)
(12,083)	-	-	-	-	-	(12,083)
623,517	-	-	-	-	163	623,680
-	-	-	-	-	110,672	110,672
-	-	-	-	-	(816)	(816)
-	-	-	-	-	109,856	109,856
$ 623,517	$ 406,515	$ 214,809	$ 261,559	$ 304,229	$ 438,273	$ 82,871,283

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2013 and 2012

NOTE 15 - PROGRAM COST - Continued

B. Consolidating Statement of Net Cost by Major Program Agency

Net cost by major program agency for the year ended September 30, 2012, consisted of the following:

(Dollars in thousands)	Employment and Training Administration	Office of Workers' Compensation Programs	Office of Job Corps	Occupational Safety and Health Administration
CROSSCUTTING PROGRAMS				
Income maintenance				
Intra-governmental	$ 1,364,953	$ 325,022	$ -	$ -
With the public	93,636,205	5,324,918	-	182
Gross cost	95,001,158	5,649,940	-	182
Intra-governmental earned revenue	(1,319,939)	(3,018,284)	-	-
Public earned revenue	-	(22)	-	-
Less earned revenue	(1,319,939)	(3,018,306)	-	-
Net program cost	93,681,219	2,631,634	-	182
Employment and training				
Intra-governmental	37,027	-	33,428	-
With the public	4,644,930	-	1,735,523	-
Gross cost	4,681,957	-	1,768,951	-
Intra-governmental earned revenue	(10,323)	-	-	-
Public earned revenue	(28)	-	-	-
Less earned revenue	(10,351)	-	-	-
Net program cost	4,671,606	-	1,768,951	-
Labor, employment and pension standards				
Intra-governmental	-	-	-	-
With the public	-	-	-	-
Gross cost	-	-	-	-
Intra-governmental earned revenue	-	-	-	-
Public earned revenue	-	-	-	-
Less earned revenue	-	-	-	-
Net program cost	-	-	-	-
Worker safety and health				
Intra-governmental	-	-	-	126,394
With the public	-	-	-	517,626
Gross cost	-	-	-	644,020
Intra-governmental earned revenue	-	-	-	(1,363)
Public earned revenue	-	-	-	(1,225)
Less earned revenue	-	-	-	(2,588)
Net program cost	-	-	-	641,432
OTHER PROGRAMS				
Statistics				
Intra-governmental	-	-	-	-
With the public	-	-	-	-
Gross cost	-	-	-	-
Intra-governmental earned revenue	-	-	-	-
Public earned revenue	-	-	-	-
Less earned revenue	-	-	-	-
Net program cost	-	-	-	-
COSTS NOT ASSIGNED TO PROGRAMS				
Gross cost	-	-	-	-
Less earned revenue not attributed to programs	-	-	-	-
Net cost not assigned to programs	-	-	-	-
Net cost of operations	$ 98,352,825	$ 2,631,634	$ 1,768,951	$ 641,614

Bureau of Labor Statistics	Mine Safety and Health Administration	Employee Benefits Security Administration	Veterans' Employment and Training	Wage and Hour Division	Other Program Agencies	Total
$ -	$ -	$ 7,464	$ -	$ -	$ -	$ 1,697,439
-	-	22,601	-	-	865	98,984,771
-	-	30,065	-	-	865	100,682,210
-	-	(471)	-	-	-	(4,338,694)
-	-	-	-	-	-	(22)
-	-	(471)	-	-	-	(4,338,716)
-	-	29,594	-	-	865	96,343,494
-	-	-	10,637	521	123	81,736
-	-	-	232,251	393	497	6,613,594
-	-	-	242,888	914	620	6,695,330
-	-	-	(201)	-	(54)	(10,578)
-	-	-	-	-	-	(28)
-	-	-	(201)	-	(54)	(10,606)
-	-	-	242,687	914	566	6,684,724
-	-	49,142	1,016	92,161	67,618	209,937
-	-	137,011	37,856	275,465	190,928	641,260
-	-	186,153	38,872	367,626	258,546	851,197
-	-	(6,193)	(22)	(632)	(424)	(7,271)
-	-	-	-	(2,788)	-	(2,788)
-	-	(6,193)	(22)	(3,420)	(424)	(10,059)
-	-	179,960	38,850	364,206	258,122	841,138
-	123,645	-	-	-	-	250,039
-	290,398	-	-	-	131	808,155
-	414,043	-	-	-	131	1,058,194
-	(417)	-	-	-	-	(1,780)
-	(1,277)	-	-	-	-	(2,502)
-	(1,694)	-	-	-	-	(4,282)
-	412,349	-	-	-	131	1,053,912
221,565	-	-	-	-	-	221,565
461,002	-	-	-	-	327	461,329
682,567	-	-	-	-	327	682,894
(13,286)	-	-	-	-	-	(13,286)
-	-	-	-	-	-	-
(13,286)	-	-	-	-	-	(13,286)
669,281	-	-	-	-	327	669,608
-	-	-	-	-	81,176	81,176
-	-	-	-	-	(22,166)	(22,166)
-	-	-	-	-	59,010	59,010
$ 669,281	$ 412,349	$ 209,554	$ 281,537	$ 365,120	$ 319,021	$ 105,651,886

NOTE 15 - PROGRAM COST - Continued

C. Statement of Net Cost - Employment and Training Administration and Office of Workers' Compensation Programs

Net cost for the year ended September 30, 2013, consisted of the following:

(Dollars in thousands)	Employment and Training Administration	Office of Workers' Compensation Programs
CROSSCUTTING PROGRAMS		
Income maintenance		
Benefits	$ 65,542,488	$ 4,784,610
Grants	4,648,186	-
Interest	969,191	226,980
Administrative and other	1,361,812	377,861
Gross cost	72,521,677	5,389,451
Less earned revenue	(1,131,451)	(2,905,997)
Net program cost	71,390,226	2,483,454
Employment and training		
Grants	4,411,803	-
Interest	1	-
Administrative and other	234,546	-
Gross cost	4,646,350	-
Less earned revenue	(12,246)	-
Net program cost	4,634,104	-
Net cost of operations	$ 76,024,330	$ 2,483,454

Net cost for the year ended September 30, 2012, consisted of the following:

(Dollars in thousands)	Employment and Training Administration	Office of Workers' Compensation Programs
CROSSCUTTING PROGRAMS		
Income maintenance		
Benefits	$ 87,343,914	$ 5,061,376
Grants	4,695,049	-
Interest	1,249,025	227,761
Administrative and other	1,713,170	360,803
Gross cost	95,001,158	5,649,940
Less earned revenue	(1,319,939)	(3,018,306)
Net program cost	93,681,219	2,631,634
Employment and training		
Grants	4,533,033	-
Interest	6	-
Administrative and other	148,918	-
Gross cost	4,681,957	-
Less earned revenue	(10,351)	-
Net program cost	4,671,606	-
Net cost of operations	$ 98,352,825	$ 2,631,634

NOTE 16 - NON-EXCHANGE REVENUE

Non-exchange revenues reported on the Consolidated Statement of Changes in Net Position in FY 2013 and FY 2012 consisted of the following:

(Dollars in thousands)	2013	2012
Employer taxes		
Unemployment Trust Fund		
State unemployment taxes	$ 46,205,383	$ 55,974,102
Federal unemployment taxes	7,747,614	7,058,220
	53,952,997	63,032,322
Black Lung Disability Trust Fund excise taxes	541,338	620,992
	54,494,335	63,653,314
Interest		
Unemployment Trust Fund	1,270,780	1,586,401
Other	1,396	4,553
	1,272,176	1,590,954
Reimbursement of unemployment benefits and other	2,532,461	3,448,571
	$ 58,298,972	$ 68,692,839

NOTE 17 - TRANSFERS WITHOUT REIMBURSEMENT

Transfers from (to) other Federal agencies in FY 2013 and FY 2012 consisted of the following:

(Dollars in thousands)	2013	2012
Budgetary financing sources		
From H-1B Nonimmigrant Petitioner Account, Department of Homeland Security	$ 199,640	$ 224,851
Other financing sources		
From General Services Administration	4,764	966
	$ 204,404	$ 225,817

The balance of $200.0 million and $224.9 million in budgetary financing sources for FY 2013 and FY 2012 reflect the elimination of intra-DOL transfers of $22.2 billion and $35.8 billion, respectively.

NOTE 18 - STATUS OF BUDGETARY RESOURCES

A. Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Combined Statement of Budgetary Resources in FY 2013 and FY 2012 consisted of the following:

(Dollars in thousands)	2013	2012
Direct obligations		
Category A	$ 4,446,633	$ 4,737,614
Category B	37,017,563	51,645,520
Exempt from apportionment	73,913,459	96,500,468
Total direct obligations	115,377,655	152,883,602
Reimbursable obligations		
Category A	334,110	261,825
Category B	2,399,662	3,138,940
Total reimbursable obligations	2,733,772	3,400,765
	$ 118,111,427	$ 156,284,367

B. Permanent Indefinite Appropriations

DOL's permanent indefinite appropriations include trust funds, the FAUC Fund, the Panama Canal Commission Compensation Fund, the Energy Employees Occupational Illness Compensation Fund, ETA and WHD H-1B funds, ETA's Advances and Payments to the UTF, Short Time Compensation, and portions of SUIESO and Federal Unemployment Benefits and Allowances. These funds are described in Note 1-A.3. As of September 30, 2013 and 2012, the Department returned unobligated, indefinite authority to Treasury in the amount of $8.4 and $10.0 billion, respectively.

C. Legal Arrangements Affecting Use of Unobligated Balances

UTF 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 temporarily not available pursuant to public law. Therefore, these excess receipts are not classified as budgetary resources in the Combined Statement of Budgetary Resources. Conversely, when obligations exceed receipts in the current year, amounts are drawn from the temporarily 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 as of September 30, 2013 and 2012, reclassified from unobligated balances to UTF unavailable collections is presented on the following page.

NOTE 18 - STATUS OF BUDGETARY RESOURCES - Continued

C. Legal Arrangements Affecting Use of Unobligated Balances - Continued

(Dollars in millions)	2013	2012
Unemployment Trust Fund unavailable collections, beginning	$ 14,908	$ 9,736
Budget authority from current year appropriations	74,237	88,111
Budget authority from current year borrowing authority	7,700	12,164
Less obligations	$ (72,467)	(95,103)
Excess (deficiency) of budget authority over obligations	9,470	5,172
Unemployment Trust Fund unavailable collections, ending	$ 24,378	$ 14,908

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

The Budget of the United States Government with actual amounts for the year ended September 30, 2013, has not been published as of the issue date of these financial statements. This document will be available in February 2014 at http://www.dol.gov/dol/aboutdol/.

A reconciliation of budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays, as presented in the Combined Statement of Budgetary Resources (SBR), to amounts included in the Budget of the United States Government for the year ended September 30, 2012, is shown below.

(Dollars in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 160,676	$ 156,284	$ 43,235	$ 104,834
Pension Benefit Guaranty Corporation reported separately	21,442	5,860	-	(368)
Distributed offsetting receipts	-	-	-	43,235
Fiduciary funds (included in the budget but not in the SBR)	194	136	-	135
Expired accounts	(1,528)	(105)	-	-
Other	(37)	(36)	35	22
Budget of the United States Government	$ 180,747	$ 162,139	$ 43,270	$ 147,858

E. Undelivered Orders

Undelivered orders as of September 30, 2013 and 2012, were as follows:

(Dollars in thousands)	2013	2012
Undelivered orders	$ 11,590,796	$ 11,390,942

NOTE 18 - STATUS OF BUDGETARY RESOURCES - Continued

F. Appropriations Received

Appropriations from the Consolidated Statement of Changes in Net Position and the Combined Statement of Budgetary Resources are reconciled below.

(Dollars in millions)	FY 2013	FY 2012
Appropriations Received, Consolidated Statement of Changes in Net Position	$ 43,105	$ 62,229
Receipts recognized as revenue in current or prior years		
Unemployment Trust Fund	76,029	104,944
Black Lung Disability Trust Fund	501	598
Other funds from dedicated collections	198	223
Repayment of debt from appropriated receipts		
Unemployment Trust Fund	(10,986)	(22,005)
Black Lung Disability Trust Fund	(209)	(502)
Return of permanent indefinite authority	(5,241)	(9,247)
Reduction for sequestration, across the board reductions, and other	(788)	(20)
	59,504	73,991
Appropriations, Combined Statement of Budgetary Resources	$ 102,609	$ 136,220

G. Borrowing Authority

As of September 30, 2013 and 2012, P.L. 113-6 (127 Stat. 412 dated March 26, 2013) and P.L. 112-74 (125 Stat. 1056 dated December 23, 2011), respectively, granted borrowing authority for repayable advances and other debt in the amount of "such sums as may be necessary" to (1) the UTF for advances as authorized by sections 905(d) and 1203 of the Social Security Act and (2) the BLDTF for advances as authorized by section 9501(c)(1) of the Internal Revenue Code. Although section 9501 of the Internal Revenue Code and P.L. 112-74 use the terminology "advance," the Treasury has interpreted this to mean any debt owed by the BLDTF to the Bureau of the Fiscal Service.

Borrowing authority for the BLDTF was $401 and $214 million for FY 2013 and FY 2012, respectively. The borrowing authority was applied to repay debt of $401 and $214 million for FY 2013 and FY 2012, respectively.

Borrowing authority for the UTF was $7.7 and $12.2 billion for FY 2013 and FY 2012, respectively. The borrowing authority was used to allow states to borrow, as necessary, from the Federal government to pay unemployment benefits.

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

(Dollars in thousands)	FY 2013	FY 2012
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 118,111,427	$ 156,284,367
Recoveries of prior year obligations	(461,549)	(369,860)
Less spending authority from offsetting collections	(7,826,120)	(8,460,059)
Obligations, net of offsetting collections and recoveries	109,823,758	147,454,448
Other resources		
Imputed financing from costs absorbed by others	112,929	125,142
Transfers, net	4,764	966
Exchange revenue not in budget	(985,901)	(1,346,690)
Total resources used to finance activities	108,955,550	146,233,866
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet received or provided	(160,936)	(237,196)
Resources that finance the acquisition of assets	(66,477)	(141,648)
Transfers that do not affect the net cost of operations	(26,393,701)	(40,693,007)
Total resources used to finance items not part of the net cost of operations	(26,621,114)	(41,071,851)
Total resources used to finance the net cost of operations	82,334,436	105,162,015
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in other periods		
Increase (decrease) in annual leave liability	(39)	5,057
Increase in benefits liabilities	299,882	431,371
Increase in capitalized interest and other	196,245	67,513
Total	496,088	503,941
Components not requiring or generating resources		
Depreciation and amortization	73,501	76,507
Revaluation of assets and liabilities	1,062,620	1,461,338
Benefit overpayments	(1,095,362)	(1,551,915)
Total	40,759	(14,070)
Total components of the net cost of operations that will not require or generate resources in the current period	536,847	489,871
Net cost of operations	$ 82,871,283	$ 105,651,886

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 20 - CUSTODIAL REVENUE

Custodial revenues in FY 2013 consisted of the following:

(Dollars in thousands)	Net Cash Collections and Transfers to U.S. Treasury General Fund	Increase (Decrease) in Amounts to be Collected and Transferred	Total Revenues
Civil monetary penalties			
Occupational Safety and Health Administration	$ 111,066	$ 12,490	$ 123,556
Mine Safety and Health Administration	99,907	7,792	107,699
Employee Benefits Security Administration	32,607	488	33,095
Wage and Hour Division	33,523	6,018	39,541
	277,103	26,788	303,891
Other custodial activity			
Employment and Training Administration and other agencies	4,427	-	4,427
	$ 281,530	$ 26,788	$ 308,318

Custodial revenues in FY 2012 consisted of the following:

(Dollars in thousands)	Net Cash Collections and Transfers to U.S. Treasury General Fund	Increase (Decrease) in Amounts to be Collected and Transferred	Total Revenues
Civil monetary penalties			
Occupational Safety and Health Administration	$ 128,446	$ 2,951	$ 131,397
Mine Safety and Health Administration	133,434	4,364	137,798
Employee Benefits Security Administration	20,459	(1,569)	18,890
Wage and Hour Division	9,838	3,357	13,195
	292,177	9,103	301,280
Other custodial activity			
Employment and Training Administration and other agencies	1,208	(32)	1,176
	$ 293,385	$ 9,071	$ 302,456

NOTE 21 – FUNDS FROM DEDICATED COLLECTIONS

DOL is responsible for the operation of certain funds from dedicated collections. Other funds from dedicated collections include Gifts and Bequests, Panama Canal Commission Compensation Fund, and H-1B Funds. The financial position of the funds from dedicated collections as of September 30, 2013, is shown below.

(Dollars in thousands)	Unemployment	Black Lung Disability	Other	Total
Assets				
Intra-governmental				
Funds with U.S. Treasury	$ 402,065	$ 128,793	$ 670,634	$ 1,201,492
Investments	29,607,507	-	52,594	29,660,101
Accounts receivable				
Due from other Federal agencies for UCX and UCFE benefits	519,690	-	-	519,690
Other	-	-	489	489
Total intra-governmental	30,529,262	128,793	723,717	31,381,772
Accounts receivable, net				
State unemployment tax	463,900	-	-	463,900
Due from reimbursable employers	785,307	-	-	785,307
Benefit overpayments	670,993	17,001	-	687,994
Other	-	-	1	1
Advances	1,892,383	-	-	1,892,383
Other	-	-	684	684
Total assets	$ 34,341,845	$ 145,794	$ 724,402	$ 35,212,041
Liabilities				
Intra-governmental				
Accounts payable to DOL agencies	$ 1,921,834	$ -	$ 1	$ 1,921,835
Debt	29,695,634	6,026,639	-	35,722,273
Amounts held for the Railroad Retirement Board	188,076	-	-	188,076
Other	-	1	6,506	6,507
Total intra-governmental	31,805,544	6,026,640	6,507	37,838,691
Accounts payable	-	6	3,025	3,031
Future workers' compensation benefits	-	-	46,423	46,423
Accrued benefits	2,328,158	13,370	-	2,341,528
Other liabilities	-	-	20,936	20,936
Total liabilities	34,133,702	6,040,016	76,891	40,250,609
Net position				
Cumulative results of operations	208,143	(5,894,222)	647,511	(5,038,568)
Total liabilities and net position	$ 34,341,845	$ 145,794	$ 724,402	$ 35,212,041

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2013 and 2012

NOTE 21 - FUNDS FROM DEDICATED COLLECTIONS - Continued

The net results of operations of the funds from dedicated collections for the year ended September 30, 2013, are shown below.

(Dollars in thousands)	Unemployment	Black Lung Disability	Other	Total
Cost, net of earned revenues				
Benefits	$ (65,484,089)	$ (174,122)	$ -	$ (65,658,211)
Grants	-	-	(85,296)	(85,296)
Interest	(969,191)	(226,980)	-	(1,196,171)
Administrative and other	(1,219,700)	(2,594)	(70,782)	(1,293,076)
	(67,672,980)	(403,696)	(156,078)	(68,232,754)
Earned revenue	1,094,587	-	-	1,094,587
Net cost of operations	(66,578,393)	(403,696)	(156,078)	(67,138,167)
Net financing sources				
Taxes	53,952,997	541,338	-	54,494,335
Interest	1,270,780	1,224	172	1,272,176
Reimbursement of unemployment benefits and other	2,509,649	-	96	2,509,745
Imputed financing	-	-	2,992	2,992
Transfers-in				
Department of Homeland Security	-	-	208,619	208,619
DOL entities	26,395,361	-	-	26,395,361
Transfers-out				
DOL entities	(4,384,449)	(55,469)	-	(4,439,918)
Other financing sources	-	-	(10,640)	(10,640)
	79,744,338	487,093	201,239	80,432,670
Change in net position	13,165,945	83,397	45,161	13,294,503
Net position, beginning of period	(12,957,802)	(5,977,619)	602,350	(18,333,071)
Net position, end of period	$ 208,143	$ (5,894,222)	$ 647,511	$ (5,038,568)

NOTE 21 - FUNDS FROM DEDICATED COLLECTIONS - Continued

The financial position of the funds from dedicated collections as of September 30, 2012, is shown below.

(Dollars in thousands)	Unemployment	Black Lung Disability	Other	Total
Assets				
Intra-governmental				
Funds with U.S. Treasury	$ (354,700)	$ 88,805	$ 608,221	$ 342,326
Investments	20,782,553	-	58,018	20,840,571
Accounts receivable				
Due from other Federal agencies for UCX and UCFE benefits	578,111	-	-	578,111
Other	-	-	908	908
Total intra-governmental	21,005,964	88,805	667,147	21,761,916
Accounts receivable, net				
State unemployment tax	537,759	-	-	537,759
Due from reimbursable employers	948,169	-	-	948,169
Benefit overpayments	646,232	13,693	-	659,925
Other	-	-	4	4
Advances	1,339,191	-	-	1,339,191
Other	-	-	930	930
Total assets	$ 24,477,315	$ 102,498	$ 668,081	$ 25,247,894
Liabilities				
Intra-governmental				
Accounts payable to DOL agencies	$ 2,288,912	$ -	$ 116	$ 2,289,028
Debt	32,931,755	6,065,585	-	38,997,340
Amounts held for the Railroad Retirement Board	171,042	-	-	171,042
Other	-	1	7,263	7,264
Total intra-governmental	35,391,709	6,065,586	7,379	41,464,674
Accounts payable	-	4	313	317
Future workers' compensation benefits	-	-	47,837	47,837
Accrued benefits	2,043,408	14,527	-	2,057,935
Other Liabilities	-	-	10,202	10,202
Total liabilities	37,435,117	6,080,117	65,731	43,580,965
Net position				
Cumulative results of operations	(12,957,802)	(5,977,619)	602,350	(18,333,071)
Total liabilities and net position	$ 24,477,315	$ 102,498	$ 668,081	$ 25,247,894

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2013 and 2012

NOTE 21 – FUNDS FROM DEDICATED COLLECTIONS - Continued

The net results of operations of the funds from dedicated collections for the year ended September 30, 2012, are shown below.

(Dollars in thousands)	Unemployment	Black Lung Disability	Other	Total
Cost, net of earned revenues				
Benefits	$ (87,271,399)	$ (207,971)	$ -	$ (87,479,370)
Grants	-	-	(31,339)	(31,339)
Interest	(1,249,022)	(227,743)	-	(1,476,765)
Administrative and other	(1,572,126)	(5,507)	(70,578)	(1,648,211)
	(90,092,547)	(441,221)	(101,917)	(90,635,685)
Earned revenue	1,297,568	29	-	1,297,597
Net cost of operations	(88,794,979)	(441,192)	(101,917)	(89,338,088)
Net financing sources				
Taxes	63,032,322	620,992	-	63,653,314
Interest	1,586,401	291	266	1,586,958
Reimbursement of unemployment benefits	3,457,681	-	-	3,457,681
Imputed financing	-	-	3,462	3,462
Transfers-in				
Department of Homeland Security	-	-	222,731	222,731
DOL entities	40,695,126	14,643	-	40,709,769
Transfers-out				
DOL entities	(5,089,281)	(73,092)	-	(5,162,373)
Other financing sources	-	-	-	-
	103,682,249	562,834	226,459	104,471,542
Change in net position	14,887,270	121,642	124,542	15,133,454
Net position, beginning of period	(27,845,072)	(6,099,261)	477,808	(33,466,525)
Net position, end of period	$ (12,957,802)	$ (5,977,619)	$ 602,350	$ (18,333,071)

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 No. 31, "Accounting for Fiduciary Activities." The schedule of fiduciary activity and net assets for these funds for the year ended and as of September 30, 2013, is shown below.

(Dollars in thousands)	Wage and Hour and Public Contracts Restitution Fund	Longshore and Harbor Workers' Compensation Act Trust Fund	District of Columbia Workmen's Compensation Act Trust Fund	Total Fiduciary Funds
Fiduciary activity				
Assessments	$ 83,704	$ 126,235	$ 12,209	$ 222,148
Investment earnings	-	20	1	21
Administrative and other expenses	-	10	(15)	(5)
Transfer of funds to Treasury	(15,629)	(2,116)	-	(17,745)
Disbursements to beneficiaries	(37,585)	(121,432)	(8,455)	(167,472)
Increase (decrease) in fiduciary net assets	30,490	2,717	3,740	36,947
Fiduciary net assets, beginning of year	119,294	19,972	1,106	140,372
Fiduciary net assets, end of year	$ 149,784	$ 22,689	$ 4,846	$ 177,319
Cash	$ 144,106	$ 343	$ 1	$ 144,450
Investments	-	57,161	7,915	65,076
Other assets	5,678	4,088	554	10,320
Less: liabilities	-	(38,903)	(3,624)	(42,527)
Total fiduciary net assets	$ 149,784	$ 22,689	$ 4,846	$ 177,319

The schedule of fiduciary activity and net assets for the fiduciary funds for the year ended and as of September 30, 2012, is shown below.

(Dollars in thousands)	Wage and Hour and Public Contracts Restitution Fund	Longshore and Harbor Workers' Compensation Act Trust Fund	District of Columbia Workmen's Compensation Act Trust Fund	Total Fiduciary Funds
Fiduciary activity				
Assessments	$ 58,013	$ 124,874	$ 7,934	$ 190,821
Investment earnings	-	19	1	20
Administrative and other expenses	-	(46)	-	(46)
Transfer of funds to Treasury	(5,271)	(2,120)	-	(7,391)
Disbursements to beneficiaries	(35,055)	(124,268)	(8,798)	(168,121)
Increase (decrease) in fiduciary net assets	17,687	(1,541)	(863)	15,283
Fiduciary net assets, beginning of year	101,607	21,513	1,969	125,089
Fiduciary net assets, end of year	$ 119,294	$ 19,972	$ 1,106	$ 140,372
Cash	$ 138,736	$ 9	$ 1	$ 138,746
Investments	-	55,656	2,914	58,570
Other assets	-	2,558	286	2,844
Less: liabilities	(19,442)	(38,251)	(2,095)	(59,788)
Total fiduciary net assets	$ 119,294	$ 19,972	$ 1,106	$ 140,372

Note 22 - FIDUCIARY ACTIVITY - Continued

Unqualified opinions were expressed on separate financial statements, presented in accordance with U.S. GAAP, issued for the Longshore and Harbor Workers' Compensation Act Trust Fund and the District of Columbia Workmen's Compensation Act Trust Fund for FY 2012 and are available on DOL's website at www.oig.dol.gov.

NOTE 23 - MATERIAL CONCENTRATION OF RISK

The Division of FEC within OWCP administers 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 Benefit Fund for payments made on behalf of its workers. In Note 11, Future Workers' Compensation Benefits, the USPS liability as of September 30, 2013, of $15.8 billion represents the largest portion of the total projected gross liability of the Federal government for future FECA benefits attributed to other agencies of $35.2 billion as of September 30, 2013.

In October 2013 and 2012, USPS timely reimbursed the FECA Special Benefit Fund for costs incurred on its behalf during the 12 months ended June 30, 2013 and 2012, respectively. In the USPS annual report for the year ended September 30, 2013, USPS disclosed in the notes to its audited financial statements its severe lack of liquidity.

The USPS's portion of the FECA actuarial liability as of September 30, 2013, together with the USPS's poor financial condition, represent a material concentration of risk for the Department.

NOTE 24 - SUBSEQUENT EVENTS

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

Unemployment Insurance

Subsequent to September 30, 2013, the FUA of the UTF borrowed, as Advances from U.S. Treasury, $200 million at an interest rate of 2.375%.

Required Supplementary Stewardship Information

(Unaudited)

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(Unaudited)

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, ETA, including the OJC, and the VETS administer training programs that invest in human capital.

Employment and Training Administration, Including the Office of Job Corps

ETA, including the OJC, incurred total net costs of $77.5 billion in FY 2013. The majority of these costs consisted of unemployment benefits, which totaled $65.5 billion in FY 2013, a decrease of $21.8 billion (25.0%) over the previous fiscal year. Also included in ETA's total net costs were investments in human capital of $4.7 billion, which provided services to over 9.2 million participants in FY 2013. These investments were made through job training programs authorized by WIA, Title V of the Older Americans Act, as amended, the Trade Act of 1974, as amended, the Health Care and Education Reconciliation Act of 2010, the National Apprenticeship Act of 1937, the American Recovery and Reinvestment Act of 2009 (ARRA) and other legislation.

Within ETA the OJC also invests in human capital through WIA's Job Corps training program. OJC's investment in human capital in FY 2013 was $1.5 billion, providing services to 79.6 thousand participants in primarily residential settings at 125 Job Corps centers. The ETA and OJC job training programs authorized by WIA are discussed below.

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

- **Adult employment and training programs** – ETA awards grants to states to design and operate training and employment assistance programs for disadvantaged adults, including public assistance recipients. ETA's FY 2013 investment in human capital through WIA adult programs was $883 million.
- **Dislocated worker employment and training programs** – ETA awards grants to states to provide reemployment services and retraining assistance to individuals dislocated from their employment. ETA's FY2013 investment in human capital through WIA dislocated worker programs was $1.329 billion.
- **Youth programs** – ETA awards grants to states to support a wide range of program activities and services to prepare low-income youth for academic and employment success, including summer jobs, by linking academic and occupational learning with youth development activities. ETA's FY 2013 investment in human capital through WIA youth programs was $942 million.
- **Job Corps program** – ETA's OJC awards contracts to support a system of primarily residential centers offering basic academic education, career technical training, work experience and other support, to economically disadvantaged youth. Large and small corporations and non-profit organizations manage and operate 97 Job Corps centers under these contractual arrangements. The remaining 28 centers are operated through interagency agreements between DOL and the U.S. Department of Agriculture. In addition, 24 operators are contracted to provide outreach and admissions and career transition services. OJC's FY 2013 investment in human capital through the Job Corps program was $1.525 billion.
- **Reintegration of Ex-Offenders programs** – ETA supports programs to help individuals exiting prison make a successful transition to community life and long-term employment through the provision of mentoring and job training programs to promote the successful return of adult and juvenile ex-offenders into mainstream society. ETA's FY 2013 investment in human capital through ex-offender programs was $96 million.

- **National programs** – ETA's National programs provide evaluation resources and program support for WIA activities; including nationally administered programs providing employment and training services to segments of the population that have special disadvantages in the labor market, including grants to federally recognized Indian tribes and other Native American governments or non-profit organizations, and to Migrant and Seasonal Farmworker service organizations ETA's FY 2013 human capital investment in WIA National Programs was $170 million.

Community Service Employment for Older Americans Program

ETA also invests in human capital through the CSEOA program, authorized under Title V of the Older Americans Act, as amended in 2006. Known as the Senior Community Service Employment Program (SCSEP), the SCSEP is a federally sponsored community service employment and training program that provides part-time training through on-the-job work experience in community service activities for unemployed, low-income individuals ages 55 and older, so that they can prepare to enter or re-enter the workforce. ETA's FY 2013 investment in human capital through the CSEOA's SCSEP was $445 million.

Trade Adjustment Assistance for Workers Program

The TAA for Workers program was authorized by the Trade Act of 1974, as amended and reauthorized with expanded eligibility to service sector workers by the Trade and Globalization Adjustment Assistance Act of 2009. This expanded eligibility was extended through December 31, 2013, by the Trade Adjustment Assistance Extension Act of 2011. The TAA for Workers program provides cash benefits; job search and relocation allowances; employment services; and training to eligible workers displaced by international trade. Only TAA training costs are considered investments in human capital these costs were $257 million for FY 2013.

Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grant Fund

Implemented in cooperation with the Department of Education, the TAACCCT program provides grants to eligible institutions of higher learning to improve education and employment outcomes for students. Authorized by the Trade Act of 1974 and Health Care and Education Reconciliation Act of 2010, the program enables educational institutions to prepare students to succeed in growing occupations by acquiring the skills necessary for high-wage, in-demand jobs. ETA's FY 2013 human capital investment in the TAACCCT Grant Fund was $266 million.

National Apprenticeship Program

The National Apprenticeship Act of 1937 established the foundation for development of the nation's skilled workforce through apprenticeship programs, which combine on-the-job learning with related technical instruction to teach workers the theoretical aspects of skilled occupations. Funding provides oversight for a national system of skilled and technical occupational training, which promotes apprentices, registers apprenticeship programs, certifies apprenticeship standards, and safeguards the welfare of apprentices. ETA's FY 2013 investment in apprenticeship programs was $28 million.

Program Costs and Outputs

The cost of ETA and OJC investments in human capital and the participants served are shown in the chart below, for the five year period FY 2009 through FY 2013.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(Unaudited)

ETA and OJC Investments in Human Capital
Program Costs (in Millions) and Participants Served (1) (in Thousands)
For The Five Year Period FY 2009 through FY 2013

	2013		2012		2011		2010		2009	
Program	Costs	Part. Served	Costs	Part. Served	Costs	Part. Served	Costs	Part. Served	Costs	Part. Served
WIA										
Adult	$883	6,761.5	$861	6,979.1	$960	7,025.2	$899	6,695.3	$878	4,921.8
Dislocated Worker (2)	1,329	1,340.4	1,524	1,358.4	2,039	1,570.6	2,539	1,250.4	1,440	842.1
Youth	942	224.0	944	239.6	1,124	245.0	1,431	316.3	1,125	438.9
Job Corps (5)	1,525	79.6	1,770	97.5	1,717	99.4	1,663	102.4	1,640	101.3
Ex-Offenders	96	22.2	76	49.1	67	39.0	70	36.1	58	9.8
National Programs (3)	170	60.0	180	38.7	150	38.9	134	61.3	206	35.0
CSEOA										
SCSEP	445	66.9	492	76.9	707	105.9	740	103.6	543	89.0
TAA for Workers Training	257	105.1	431	144.7	506	193.1	540	232.7	286	105.0
TAACCCT	266	18.1								
Apprenticeship	28	366.0	29	410.0	32	432.2	28	485.4	25	301.6
Other (4)	212	109.3	95	357.7	135	104.9	139	95.8	120	N/A
TOTAL	$6,153	9,153.1	$6,402	9,751.7	$7,437	9,854.2	$8,183	9,379.3	$6,321	6,844.5

(1) Participant numbers are from grantee reports submitted for the Program Year ending on June 30 of the corresponding fiscal year. In general, participants served increased in FY 2009 - FY 2011 as a result of greater demand for services due to the economic downturn and the increased availability of services and resources under ARRA.
(2) Dislocated Worker programs include Community Based Job Training Grants, National Emergency Grants and High Growth and Emerging Industry training.
(3) National Programs include the Native American and Migrant and Seasonal Farmworker programs.
(4) Other includes training programs for highly skilled occupations funded through H1-B fees, green jobs initiatives and costs for lapsed programs. (High Growth and Emerging industry grants were reclassified from Dislocated Workers to Other in FY 2013.)
(5) Job Corps participants served in the FY2013 and prior years report switches from reporting only the number of new enrollees to the number of participants served.

The table below compares the revised method to the prior method for reporting participants served:

Method/Reporting Year	2013	2012	2011	2010	2009
New students enrolled (reporting method used in prior FYs reports)	40,800	55,029	56,204	59,839	60,896
Students Served (reporting method used in the FY 2013 report)	79,595	97,474	99,431	102,411	101,256

Program Outcomes

Outcomes for training programs comprising ETA's investment in human capital will be presented in the Department's Annual Performance Report for FY 2013, available on the DOL website at www.dol.gov/ sec/media/reports/ in February 2014.

Veterans' Employment and Training Service

VETS administers programs that address the employment, training, and job security needs of Americans who have served in uniform. VETS prepares transitioning service members and military spouses for civilian employment and provides employment and training services to eligible veterans. VETS also protects service members and veterans by ensuring employers respect their rights to employment and reemployment; and ensures that federal employers give preferential hiring to veterans.

Program Activities

Jobs for Veterans State Grants (JVSG)

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

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

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

Transition Assistance Program (TAP)

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

Federal Management (VETS)

Federal management activities provide programs and policies to meet the employment and training needs of veterans. The majority of resources are devoted to Uniformed Services Employment and Reemployment Rights Act (USERRA) of 1994, codified at 38 U.S.C. Chapter 43, and Veterans' Preference Rights (5 U.S.C. 2108, 3309) compliance and outreach. Activities are discussed below:

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

Homeless Veterans and Veterans' Workforce Investment Programs

- **Homeless Veterans Reintegration Program (HVRP)** – The HVRP, codified at 38 U.S.C. 2021, provides employment assistance to homeless veterans through competitive grants to states or other entities in both

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(Unaudited)

urban and rural areas to operate employment programs to reach out to homeless veterans and help them become employed.

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

Program Costs and Outputs

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

VETS Investments in Human Capital
Program Costs and Participants Served (in Thousands)
For the Fiscal Years Ended FY 2009 through FY 2013

	2013		2012		2011		2010		2009	
Program	Cost	Part. Served	Cost[2]	Part. Served	Cost	Part. Served	Cost	Part. Served	Cost	Part. Served
JVSG[1]	$162,999	450.6	$210,671	508.8	$171,497	631.6	$191,802	709.0	$174,981	707.4
TAP[3]	13,176	187	13,093	153.0	7,089	143.1	7,928	129.0	7,233	124.7
USERRA[5][6]	11,381	47.5	12,361	74.7	9,874	79.9	11,043	101.6	10,075	107.9
HVRP	40,691	17.4	35,562	19.8	28,385	17.0	31,746	14.4	28,962	13.7
VWIP[4]	2,157	1.9	9,855	4.3	7,863	3.9	8,794	3.3	8,023	3.6
TOTAL	$230,404	*704.4*	$281,542	*760.6*	$224,708	*875.5*	$251,313	*957.3*	$229,274	*957.3*

(1) This category was previously broken into its constituent components of DVOPs and LVERs. However, to ensure consistency of each funding mechanism representing a single row, DVOPs and LVERs have been consolidated into a single row entitled JVSG
(2) FY12 and prior cost allocated based on historical program cost.
(3) Department of Defense participant estimates.
(4) Public Law 113-6, Consolidated and Further Continuing Appropriations Act, 2013, did not provide funding for the Veterans' Workforce Investment Program.
(5) USERRA Participants (USERRA Outreach Measure) reflects the number of people VETS connects with each year (service members, spouses, and employers) to inform them of their rights and responsibilities under the law.
(6) Assumes 30% of USERRA authorized staff workload is dedicated to USERRA outreach efforts.

Program Outcomes

Outcomes for the programs comprising VETS' investment in human capital will be presented in the Department's Annual Performance Report for FY 2013, available in February 2014 on the DOL website at: www.dol.gov/_sec/media/reports/.

Required Supplementary Information

(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

DEFERRED MAINTENANCE AND REPAIRS

DOL reports as general purpose plant, property and equipment, *Structures, facilities and improvements,* on which maintenance and repair activities may be deferred (deferred maintenance or DM). Over 99.3% of these buildings and other structures (based on net book value) are owned by ETA-OJC, and located at one hundred twenty-five (125) Job Corps centers throughout the United States. The remaining 0.7% is owned by MSHA. Periodic maintenance is performed to keep these properties in acceptable condition, as determined by DOL management. Maintenance requirements are stratified into critical and non-critical projects. Critical maintenance involves health and life safety deficiencies and certain environmental and building code compliance deficiencies. To the extent possible, critical maintenance projects are funded shortly after they are identified. Non-critical maintenance projects are performed each year to the extent that funding constraints allow. Critical and 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 property 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 to reflect maintenance and repairs performed, and rolled up with current assessments to provide a condition assessment for the entire DOL portfolio of constructed assets. Condition assessment surveys are based on methods and standards consistently applied, including descriptions of the facility condition; standardized condition codes, classifications and categories; estimated costs of maintenance and repair actions and recommended maintenance schedules.

Asset Condition

Condition assessment surveys are used to estimate the current plant replacement value and deferred maintenance repair backlog for each constructed asset. 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 and MSHA Constructed Assets
Ranking of Individual Asset Condition By FCI Score[(1)]
Fiscal Years 2009 – 2013

		2013		2012		2011		2010		2009	
Asset Condition	FCI Score	No. of Assets	Asset %	No. of Assets	Asset %	No. of Assets	Asset %	No. of Assets	Asset %	No. of Assets	Asset %
Excellent	90 - 100%	3,593	88.4	3,454	86.8	3,338	86.2	3,273	86.4	3,037	84.6
Good	80 - 89%	234	5.8	303	7.6	301	7.8	282	7.4	290	8.1
Fair	70 - 79%	117	2.9	93	2.3	100	2.6	90	2.4	95	2.6
Poor	60 - 69%	34	0.8	57	1.4	52	1.3	57	1.5	71	2.0
Very Poor	< 60%	88	2.1	74	1.9	83	2.1	88	2.3	96	2.7
TOTAL		**4,066**	**100**	**3,981**	**100**	**3,874**	**100**	**3,790**	**100**	**3,589**	**100**

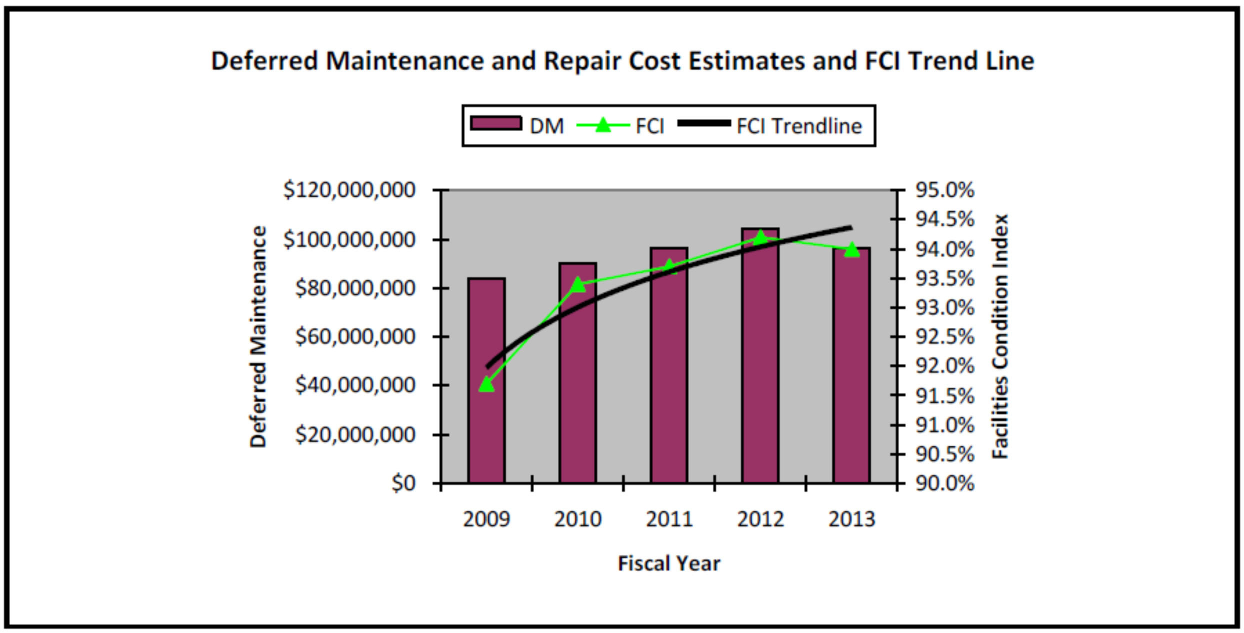
[(1)] FCI = 1 – (Repair Backlog / Plant Replacement Value). An FCI closer to 100 % indicates better asset condition.

Portfolio Condition and Deferred Maintenance and Repair 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 and MSHA portfolios. Job Corps and MSHA have 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 as a level of acceptable condition for the periods reported. In 2013, the portfolio's aggregate FCI score for 4,066 constructed assets was 94.0%, and deferred maintenance and repair costs to return the portfolio to an acceptable condition were estimated at $96.5 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 2013.

Job Corps Center and MSHA Constructed Assets
Portfolio Condition and Deferred Maintenance and Repair Cost Estimates
Fiscal Years 2009 - 2013

Constructed Assets - FY	Number of Constructed Assets	Portfolio Condition Based on Aggregate FCI Score	Deferred Maintenance Costs to Return Assets To Acceptable Condition
Buildings and structures - 2013	4,066	Excellent - 94.0%	$96,507,601
Buildings and structures - 2012	3,981	Excellent - 94.2%	$104,599,502
Buildings and structures - 2011	3,874	Excellent - 93.7%	$96,136,092
Buildings and structures - 2010	3,790	Excellent - 93.4%	$89,827,363
Buildings and structures - 2009	3,589	Excellent - 91.7%	$83,861,828



REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

SOCIAL INSURANCE PROGRAMS

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.

DOL operates two programs classified under Federal accounting standards as social insurance programs, the UI Program and the Black Lung Disability Benefits Program. Presented below is the supplementary information for the two programs.

Unemployment Insurance Program

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

Program Administration and Funding

The UI program is administered through a unique system of Federal-state partnerships, established in Federal law but executed through conforming state laws by state officials. The Federal government provides broad policy guidance and program direction through the oversight of DOL, 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 UTF and Federal appropriations. The UTF was established to account for the receipt, investment, and disbursement of unemployment taxes. Federal unemployment taxes are used to pay for the administrative costs of the UI program, including grants to each state to cover the costs of state UI operations and the Federal share of extended UI benefits. Federal unemployment taxes are also used to fund an account within the UTF, to make advances to state UI accounts that are unable to make benefit payments because the state UI account balance has been exhausted. State UI taxes are used exclusively for the payment of regular UI benefits, as well as the state's share of EB.

Federal Unemployment Taxes

Under the provisions of the FUTA, a Federal tax is levied on covered employers, at a current rate of 6.0% of the first $7,000 in annual wages paid to each employee. This Federal tax rate is reduced by a credit of up to 5.4%, granted to employers paying state UI taxes under conforming state UI statutes. Accordingly, in conforming states, employers pay an effective Federal tax of 0.6% (0.8% prior to July 1, 2011); employers in states with advances from the fund may pay a higher effective Federal tax rate because the Federal tax rate credit of 5.4% may be decreased in increments of 0.3% if a state has had an outstanding advance for more than two years. Additional Federal unemployment taxes collected as a result of the reduced Federal tax rate credit are used to pay down the state's outstanding advance balance. Federal unemployment taxes are collected by the Internal Revenue Service.

State Unemployment Taxes

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

Unemployment Trust Fund

Federal and state UI taxes are deposited into designated accounts within the UTF. 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. Tax receipts collected under the FUTA are appropriated to the ESAA and used to pay the costs of Federal and state administration of the UI program and veterans' ES and 97% of the costs of the state ES; and, amounts collected due to FUTA credit reductions are transferred to the FUA and are used to pay down balances of state advances that have been outstanding for more than two years. 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 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 ARRA of 2009 waived interest on advances to state accounts for the period February 17, 2009, through December 31, 2010. The FUA may borrow from the ESAA or EUCA, without interest, or may also receive repayable advances, with interest, from the general fund of the U.S. Treasury, when the FUA has a balance insufficient to make advances to the states.

The Extended Unemployment Compensation Account 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 EB program, extended unemployment benefits are paid to individuals who have exhausted their regular unemployment benefits. These EB 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 U.S. Treasury when the EUCA has a balance insufficient to pay the Federal share of EB. 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 EUC benefits. Emergency unemployment benefits require Congressional authorization.

The Federal Employees Compensation (FEC) Account 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 U.S. 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 UI program for railroad employees. This separate UI 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 UI 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.

UI Program Benefits

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

Regular UI Benefits

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

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

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 EUCA within the UTF, and 50% by the state, from the state's UTF account. The ARRA of 2009 began temporary 100% Federal funding of EB. Subsequent legislation, most recently P.L. 112-240, the American Taxpayer Relief Act of 2012, authorized continuing 100% Federal funding of extended unemployment benefits to December 31, 2013.

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 subsequently modified several times, most recently by P.L. 112-240, the American Taxpayer Relief Act of 2012, which extended the emergency unemployment insurance program to January 1, 2014.

Federal UI Benefits

Unemployment benefits to unemployed Federal civilian personnel and ex-service members are paid from the Federal Employees Compensation Account within the UTF. These benefit costs are reimbursed by the responsible Federal agency and are not considered to be social insurance benefits. Federal UC benefits are not included in this discussion of social insurance programs.

Program Finances and Sustainability

As of September 30, 2013, total assets within the UTF exceeded total liabilities by $208.1 million. At the present time there is a small surplus; 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, as of September 30, 2013 was $29.6 billion. This interest is distributed to eligible state and Federal accounts within the UTF. Interest income from these investments during FY 2013 was $1.3 billion. Federal and state UI tax and reimbursable revenues of $56.5 billion and regular, extended and emergency benefit payment expense of $65.5 billion were recognized for the year ended September 30, 2013.

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 as of September 30, 2013 were $2.4 billion.

During FY 2013, both the FUA and EUCA borrowed from the General Fund of the U.S. Treasury in the form of repayable advances and also repaid certain prior year (PY) advances. FUA had an outstanding repayable advances balance of $10.0 billion, bearing interest between 2.375% and 2.75% as of September 30, 2013. EUCA had an outstanding repayable advances balance of $19.6 billion bearing interest between 2.375% and 3.25% as of September 30, 2013.

Subsequent Events

This RSI does not reflect the effects of the subsequent events described below.

Subsequent to September 30, 2013, the FUA of the UTF borrowed, as Advances from U.S. Treasury, $200 million at an interest rate of 2.375%.

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

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

The significant assumptions used in the projections include total unemployment rates, civilian labor force levels, percent of unemployed receiving benefits, total wages, distribution of benefit payments by state, state tax rate structures, state taxable wage bases, interest rates on UTF investments, and the Consumer Price Index-Urban (CPI-U) for goods and services. The use of CPI-U factors allows the projections to be presented in constant dollars with FY 2013 as the base year. The valuation date for the projections is September 30, 2013. Cash projections depend on the assumptions used and actual experience may differ from the projections.

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

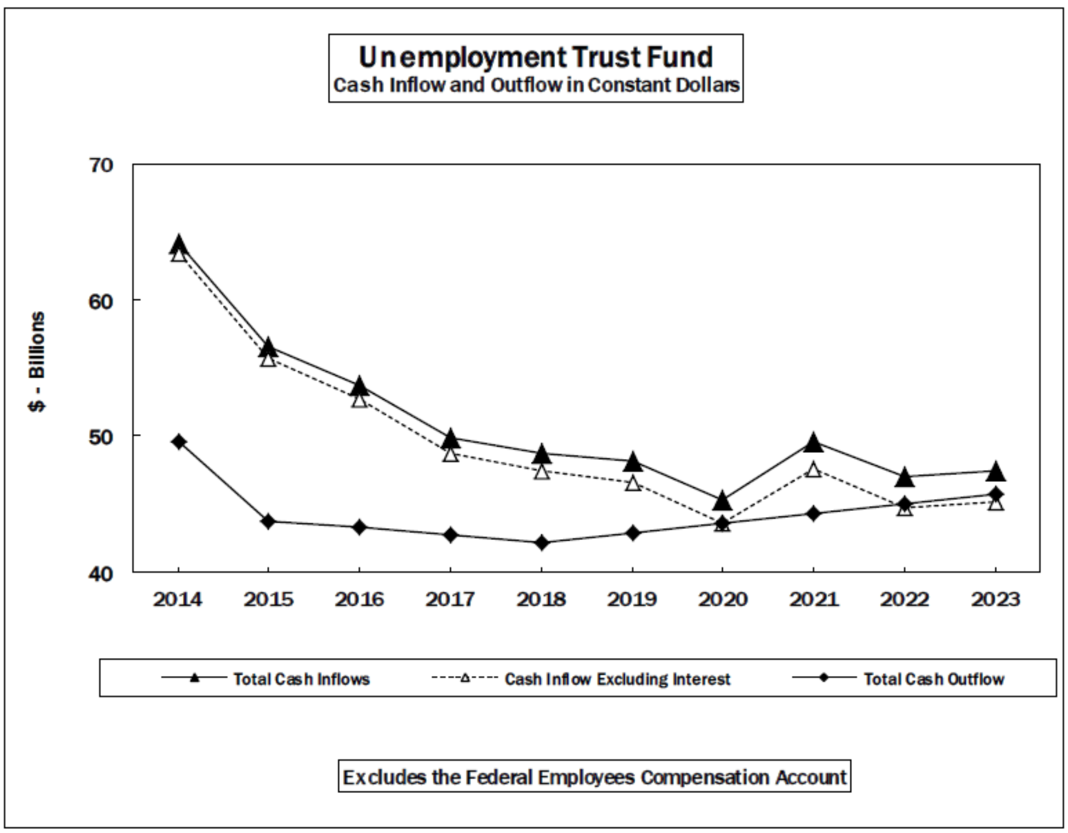
Expected Economic Conditions

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

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

Chart I depicts projected cash inflows and outflows of the UTF, in constant dollars, over the next ten years under expected economic conditions. Both cash inflows and cash inflows excluding interest earnings are displayed. Current estimates by the Department are based on an expected unemployment rate of 7.1% during FY 2014, decreasing steadily to 5.4% in FY 2018 and thereafter. Total cash inflows exceed total cash outflows in FY 2014 and through the end of the projected period. The net inflow decreases from $14.6 billion in FY 2014 to $12.8 billion in FY 2015, and ranges between $10.5 billion and $1.7 billion thereafter. The net inflow is sustained by the excess of Federal tax collections over Federal expenditures.

Chart I

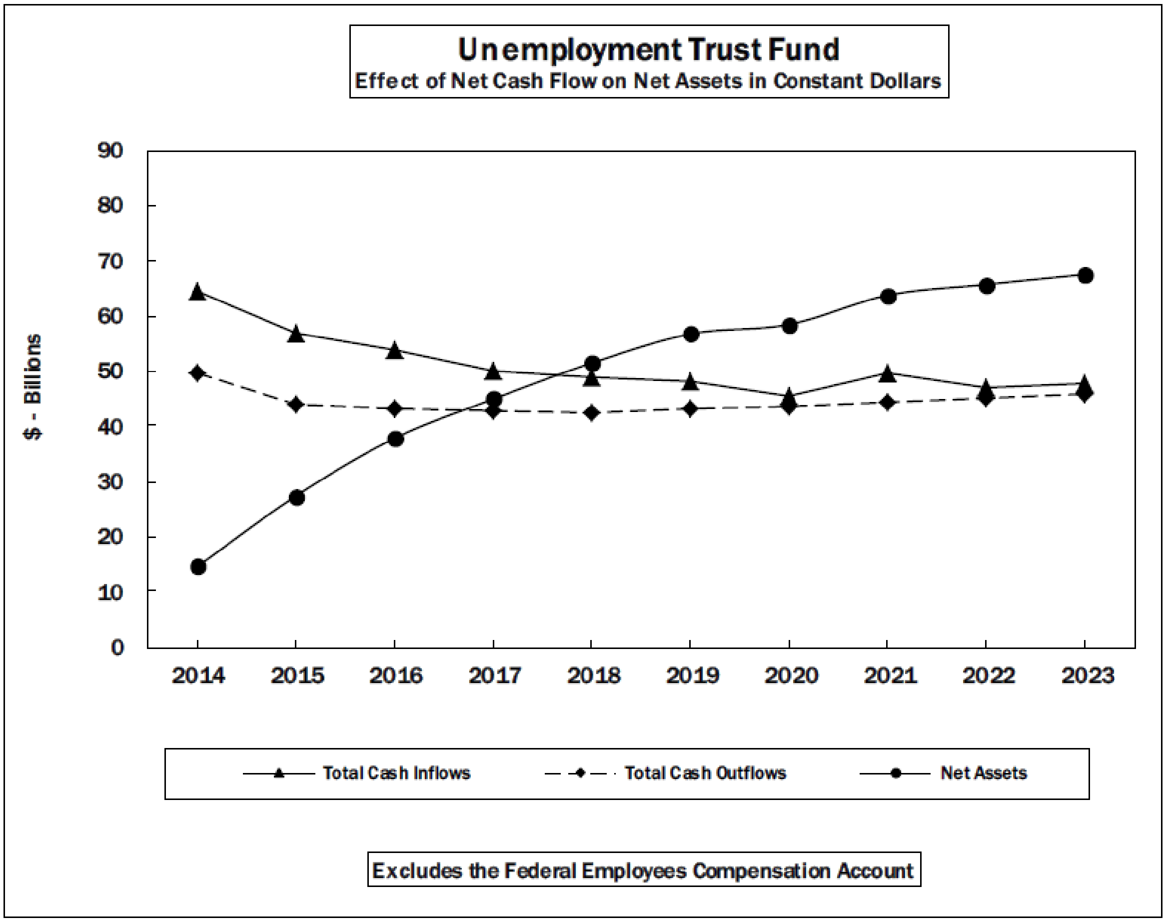


Effect of Expected Cash Flows on UTF Assets in Constant Dollars

Chart II demonstrates the effect of these expected cash inflows and outflows on the net assets of the UTF, in constant dollars, over the ten-year period ending September 30, 2023. 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 inflows exceed total cash outflows in FY 2014 and all other years in the projected period. The excess of total cash inflows over total cash outflows is highest in FY 2014. Starting at a $109.0 million fund balance deficit at the beginning of FY 2014, net UTF assets increase by about $67.5 billion over the next ten years to a $67.4 billion fund net assets balance by the end of FY 2023. The fund has a small fund balance deficit at the beginning of FY 2014, but ends FY 2014 with a $14.4 billion fund net assets balance.

Chart II



Sensitivity Analyses in Constant Dollars

Charts III (Sensitivity Analysis I) and IV (Sensitivity Analysis II) demonstrate the effect on accumulated UTF assets of projected total cash inflows and cash outflows of the UTF, in constant dollars, over the ten-year period ending September 30, 2023, in two sensitivity analyses. Each sensitivity analysis uses an open group, which includes current and future participants in the UI program. Sensitivity Analysis I assumes lower rates of unemployment and Sensitivity Analysis II assumes higher rates of unemployment compared to the expected economic conditions as shown in Charts I and II. Table I below summarizes the unemployment rates for expected conditions, Sensitivity Analysis I, and Sensitivity Analysis II.

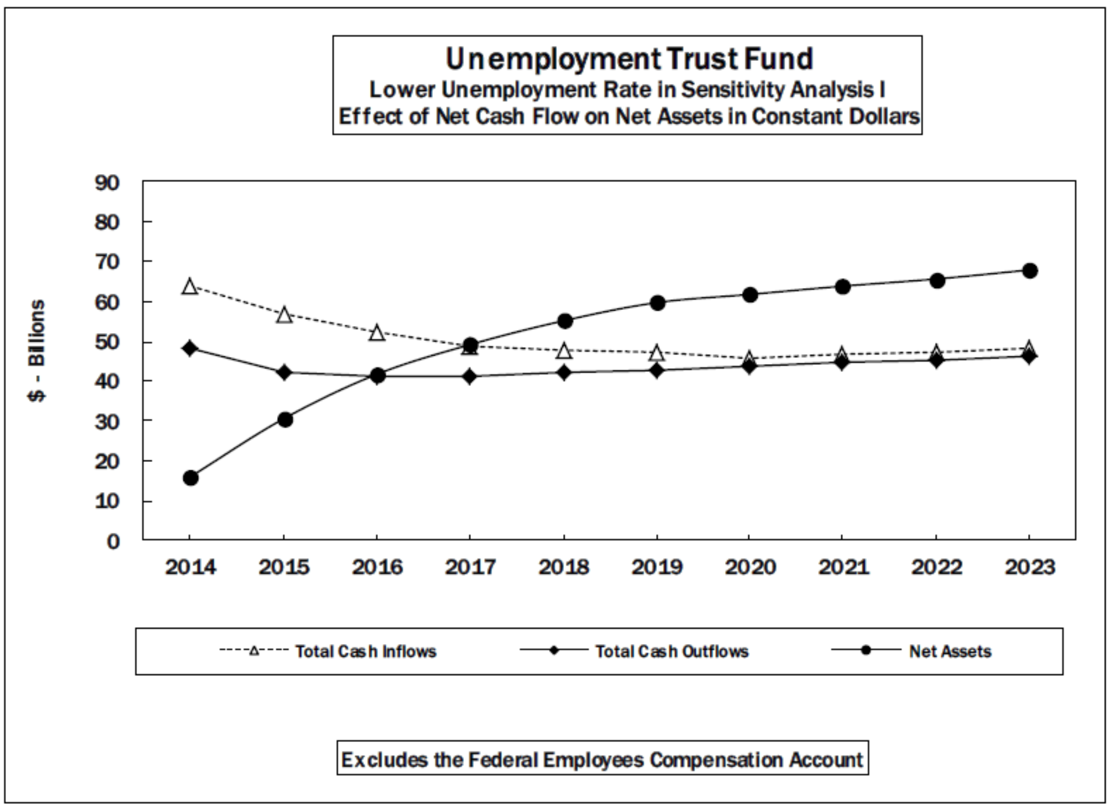
Table I

Total Unemployment Rate for the Ten-Year Period Ending September 30, 2023										
Conditions	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Expected	7.10%	6.57%	6.15%	5.70%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%
Sensitivity Analysis I	6.91%	6.08%	5.60%	5.45%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%
Sensitivity Analysis II	9.11%	10.12%	7.82%	7.26%	7.05%	6.43%	5.61%	5.40%	5.40%	5.40%

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

In this sensitivity analysis, which utilizes a lower unemployment rate of 6.91% beginning in FY 2014, net cash inflows peak in FY 2014 and continue to be positive through 2023. Starting at a $109.0 million fund balance deficit at the beginning of FY 2014, net UTF assets increase by $68.0 billion over the next ten years to a $67.9 billion fund net assets balance by the end of FY 2023.

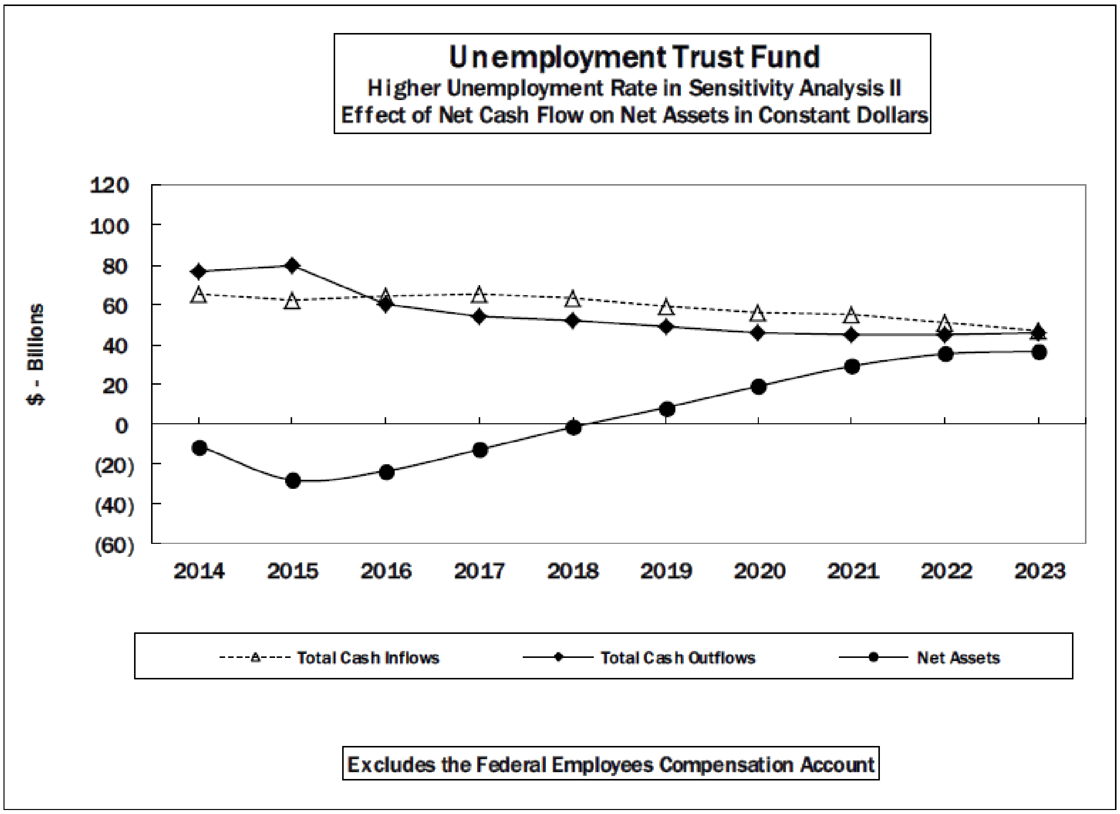
Chart III



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

In this sensitivity analysis, net cash outflows including interest earnings and expenses are projected in FY 2014 and FY 2015. Net cash inflows are reestablished in FY 2016 and peak in FY 2018 with a drop in the unemployment rate to 7.05% and then lower rates for FYs 2019 through 2023. The net assets increase $36.6 billion from a $109.0 million fund balance deficit at the beginning of FY 2014 to a $36.5 billion net assets fund balance in FY 2023. At the end of the projection period of sensitivity analysis II, net assets are $30.9 billion less than under expected economic conditions.

Chart IV



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

U.S. DEPARTMENT OF LABOR
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION IN CONSTANT DOLLARS
CASH INFLOW AND OUTFLOW OF THE
UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT
FOR THE TEN-YEAR PERIOD ENDING SEPTEMBER 30, 2023
(1) EXPECTED ECONOMIC CONDITIONS

(Dollars in millions)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Balance, start of year	$ (109)	$ 14,446	$ 27,243	$ 37,700	$ 44,826	$ 51,362	$ 56,625	$ 58,357	$ 63,632	$ 65,601
Cash inflow										
State unemployment taxes	49,661	46,965	44,001	41,219	39,824	38,879	38,112	38,811	38,922	39,166
Federal unemployment taxes	8,499	8,389	8,469	7,256	7,406	7,685	5,385	8,617	5,723	5,883
General revenue appropriation	4,803	-	-	-	-	-	-	-	-	-
Interest on loans	415	255	145	100	68	36	33	28	12	29
Deposits by the Railroad Retirement Board	39	85	144	145	106	80	97	126	126	102
Total cash inflow excluding interest	63,417	55,694	52,759	48,720	47,404	46,680	43,627	47,582	44,783	45,180
Interest on Federal securities	777	893	971	1,112	1,298	1,545	1,765	2,039	2,221	2,350
Total cash inflow	64,194	56,587	53,730	49,832	48,702	48,225	45,392	49,621	47,004	47,530
Cash outflow										
State unemployment benefits	44,695	39,175	38,805	38,299	37,805	38,664	39,407	40,100	40,798	41,454
State administrative costs	4,021	3,918	3,923	3,924	3,928	3,930	3,931	3,932	3,941	3,950
Federal administrative costs	189	189	188	188	188	187	186	186	186	186
Interest on tax refunds	1	1	1	1	1	1	1	2	1	1
Interest on advances	619	394	245	184	135	71	26	17	-	8
Railroad Retirement Board withdrawals	114	113	111	110	109	109	109	109	109	109
Total cash outflow	49,639	43,790	43,273	42,706	42,166	42,962	43,660	44,346	45,035	45,708
Excess of total cash inflow excluding interest over total cash outflow	13,778	11,904	9,486	6,014	5,238	3,718	(33)	3,236	(252)	(528)
Excess of total cash inflow over total cash outflow	14,555	12,797	10,457	7,126	6,536	5,263	1,732	5,275	1,969	1,822
Balance, end of year	$ 14,446	$ 27,243	$ 37,700	$ 44,826	$ 51,362	$ 56,625	$ 58,357	$ 63,632	$ 65,601	$ 67,423
Total unemployment rate	7.10%	6.57%	6.15%	5.70%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%

U.S. DEPARTMENT OF LABOR
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION IN CONSTANT DOLLARS
CASH INFLOW AND OUTFLOW OF THE
UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT
FOR THE TEN-YEAR PERIOD ENDING SEPTEMBER 30, 2023
(2) SENSITIVITY ANALYSIS I LOWER UNEMPLOYMENT RATE

(Dollars in millions)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Balance, start of year	$ (109)	$ 15,931	$ 30,500	$ 41,670	$ 49,120	$ 55,098	$ 59,672	$ 61,743	$ 63,823	$ 65,624
Cash inflow										
State unemployment taxes	49,624	46,789	43,307	40,087	38,984	38,042	38,511	38,834	38,951	39,393
Federal unemployment taxes	8,513	8,430	7,713	7,286	7,424	7,697	5,392	5,567	5,733	6,194
General revenue appropriation	4,784	-	-	-	-	-	-	-	-	-
Interest on loans	408	240	125	77	39	20	19	32	65	103
Deposits by the Railroad Retirement Board	39	85	144	145	106	80	97	126	126	102
Total cash inflow excluding interest	63,368	55,544	51,289	47,595	46,553	45,839	44,019	44,559	44,875	45,792
Interest on Federal securities	780	1,094	1,020	1,155	1,345	1,583	1,787	2,015	2,228	2,437
Total cash inflow	64,148	56,638	52,309	48,750	47,898	47,422	45,806	46,574	47,103	48,229
Cash outflow										
State unemployment benefits	43,187	37,504	36,729	36,951	37,616	38,584	39,503	40,261	41,058	41,723
State administrative costs	3,998	3,887	3,884	3,893	3,916	3,923	3,927	3,929	3,940	3,950
Federal administrative costs	189	189	188	188	188	187	186	186	186	186
Interest on tax refunds	1	1	1	1	1	1	1	1	1	1
Interest on advances	619	375	226	157	90	44	9	8	8	8
Railroad Retirement Board withdrawals	114	113	111	110	109	109	109	109	109	109
Total cash outflow	48,108	42,069	41,139	41,300	41,920	42,848	43,735	44,494	45,302	45,977
Excess of total cash inflow excluding interest over total cash outflow	15,260	13,475	10,150	6,295	4,633	2,991	284	65	(427)	(185)
Excess of total cash inflow over total cash outflow	16,040	14,569	11,170	7,450	5,978	4,574	2,071	2,080	1,801	2,252
Balance, end of year	$ 15,931	$ 30,500	$ 41,670	$ 49,120	$ 55,098	$ 59,672	$ 61,743	$ 63,823	$ 65,624	$ 67,876
Total unemployment rate	6.91%	6.08%	5.60%	5.45%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%

U.S. DEPARTMENT OF LABOR
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION IN CONSTANT DOLLARS
CASH INFLOW AND OUTFLOW OF THE
UNEMPLOYMENT TRUST FUND EXCLUDING THE FEDERAL EMPLOYEES COMPENSATION ACCOUNT
FOR THE TEN-YEAR PERIOD ENDING SEPTEMBER 30, 2023
(3) SENSITIVITY ANALYSIS II HIGHER UNEMPLOYMENT RATE

(Dollars in millions)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Balance, start of year	$ (109)	$ (11,096)	$ (28,237)	$ (23,704)	$ (12,999)	$ (1,783)	$ 8,111	$ 18,926	$ 28,968	$ 35,056
Cash inflow										
State unemployment taxes	50,229	51,539	53,392	53,340	51,773	48,398	45,709	42,868	40,536	39,686
Federal unemployment taxes	8,524	9,216	9,986	10,600	10,285	9,307	9,112	9,699	8,325	4,974
General revenue appropriation	5,007	55	20	-	-	-	-	-	-	-
Interest on loans	532	663	593	462	355	277	204	123	43	35
Deposits by the Railroad Retirement Board	39	85	144	145	106	80	97	126	126	102
Total cash inflow excluding interest	64,331	61,558	64,135	64,547	62,519	58,062	55,122	52,816	49,030	44,797
Interest on Federal securities	623	520	422	511	682	976	1,266	1,618	1,904	2,007
Total cash inflow	64,954	62,078	64,557	65,058	63,201	59,038	56,388	54,434	50,934	46,804
Cash outflow										
State unemployment benefits	70,469	73,581	54,659	49,184	46,925	44,246	40,822	39,767	40,293	40,871
State administrative costs	4,421	4,508	4,236	4,114	4,085	4,035	3,970	3,938	3,941	3,950
Federal administrative costs	189	189	188	188	188	187	186	186	186	186
Interest on tax refunds	1	1	1	1	1	1	2	2	2	1
Interest on advances	747	827	829	756	677	566	484	390	315	268
Railroad Retirement Board withdrawals	114	113	111	110	109	109	109	109	109	109
Total cash outflow	75,941	79,219	60,024	54,353	51,985	49,144	45,573	44,392	44,846	45,385
Excess of total cash inflow excluding interest over total cash outflow	(11,610)	(17,661)	4,111	10,194	10,534	8,918	9,549	8,424	4,184	(588)
Excess of total cash inflow over total cash outflow	(10,987)	(17,141)	4,533	10,705	11,216	9,894	10,815	10,042	6,088	1,419
Balance, end of year	$ (11,096)	$ (28,237)	$ (23,704)	$ (12,999)	$ (1,783)	$ 8,111	$ 18,926	$ 28,968	$ 35,056	$ 36,475
Total unemployment rate	9.11%	10.12%	7.82%	7.26%	7.05%	6.43%	5.61%	5.40%	5.40%	5.40%

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

States with Minimally Solvent UTF Account Balances

Each state's accumulated UTF net assets or reserve balance should provide a defined level of benefit payments over a defined period. To be minimally solvent, a state's reserve balance should provide for one year's projected benefit payment needs based on the highest levels of benefit payments experienced by the state over the last twenty years. A ratio of 1.00 or greater indicates that the state UTF account balance 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 FUA to make benefit payments. During FY 2009, the balances in the FUA were depleted and the FUA borrowed from the General Fund of the U.S. Treasury and continued to do so through FY 2013, although in FY 2012 and FY 2013 the FUA repaid some borrowings.

Chart V presents the state by state results of this analysis at September 30, 2013 in descending order by ratio. As the chart below illustrates, 37 state UTF accounts were below the minimal solvency ratio of 1.00 at September 30, 2013.

Chart V

Minimally Solvent	
State	Ratio
Wyoming	2.01
Oklahoma	1.95
Nebraska	1.76
Mississippi	1.70
Utah	1.35
Maine	1.33
Alaska	1.28
Oregon	1.27
District of Columbia	1.21
Iowa	1.21
Louisiana	1.20
Washington	1.15
New Hampshire	1.13
North Dakota	1.10
South Dakota	1.09
Montana	1.05

Not Minimally Solvent			
State	Ratio	State	Ratio
Maryland	0.97	Pennsylvania	0.00
Puerto Rico	0.87	Texas	0.00
Tennessee	0.83	New Jersey	0.00
Hawaii	0.73	Georgia	0.00
Minnesota	0.69	Delaware	0.00
Vermont	0.51	Wisconsin	0.00
Alabama	0.47	Missouri	0.00
West Virginia	0.42	Connecticut	0.00
Florida	0.32	Rhode Island	0.00
Massachusetts	0.30	South Carolina	0.00
Virginia	0.26	Nevada	0.00
Kansas	0.20	New York	0.00
New Mexico	0.19	Ohio	0.00
Arizona	0.08	Kentucky	0.00
Arkansas	0.00	North Carolina	0.00
Colorado	0.00	California	0.00
Idaho	0.00	Indiana	0.00
Illinois	0.00	Virgin Islands	0.00
Michigan	0.00		

Black Lung Disability Benefit Program

The Black Lung Disability Benefit Program provides for compensation, medical, and survivor benefits for eligible coal miners who are totally disabled due to pneumoconiosis (black lung disease) arising out of their coal mine employment and the BLDTF provides benefit payments when no responsible mine operator can be assigned the liability. Other information about the BLDTF and social insurance reporting is also presented in Note 1-W of the financial statements.

Program Administration and Funding

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. Black lung disability benefit payments are funded by excise taxes from coal mine operators based on the sale of coal, as are the program's administrative costs. These taxes are collected by the Internal Revenue Service and transferred to the BLDTF, which was established under the authority of the Black Lung Benefits Revenue Act, and administered by the U.S. Department of the Treasury.

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 statutory limit and (2) restructured the BLDTF debt by refinancing the outstanding repayable advances (which had higher interest rates) with 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 subsequent debt issued by the BLDTF 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 1-J and 8)

Program Finances and Sustainability

At September 30, 2013, total liabilities of the BLDTF exceeded assets by nearly $5.9 billion. This net position represents the accumulated shortfall of excise taxes necessary to meet benefit payments, administrative costs, and interest expense incurred prior to and subsequent to the debt refinancing pursuant to P.L. 110-343. Prior to enactment of P.L. 110-343, this shortfall was funded by repayable advances to the BLDTF, which were 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, 2013 was $6.0 billion, bearing interest rates ranging from 0.098% to 4.556%. Excise tax revenues of $541.3 million, benefit payment expense of $174.1 million, and interest expense of $227.0 million were recognized for the year ended September 30, 2013. 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, 2013, the BLDTF issued debt in the amount of $401.0 million, bearing interest at 0.098% and maturing on September 30, 2014. At September 30, 2013, there were 28 debt instruments with staggered maturities of September 30 for years 2014 through 2040, with a total carrying value of nearly $6.0 billion and a total face value at maturity of $9.8 billion. Of these 28 debt instruments, 27 are from the October 2008 refinancing and one debt instrument was issued on September 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Projected Cash Inflows and Outflows, in Constant Dollars

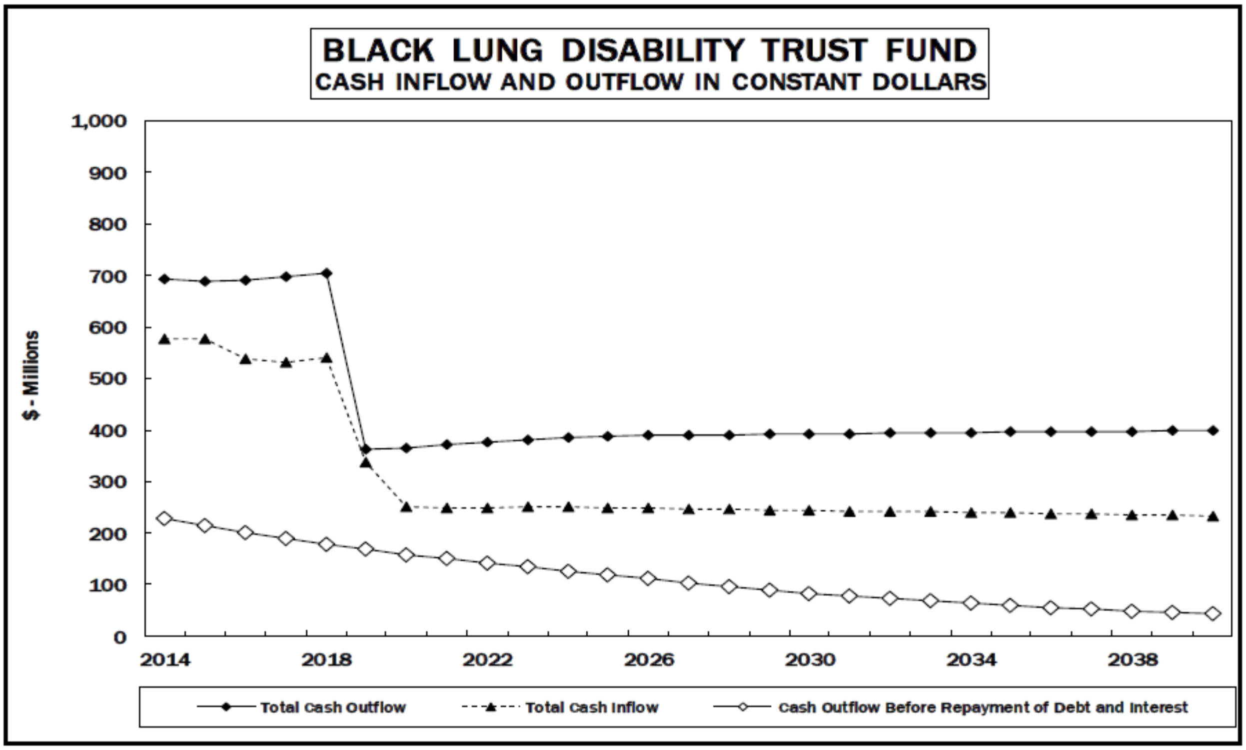
The beneficiary population is a nearly closed universe in which attrition by death exceeds new entrants by a ratio of more than ten to one. Projections for new participants are included in the overall projections and are considered immaterial. Therefore, the difference between the open group measure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

The significant assumptions used in the projections, in constant dollars, are coal excise tax revenue estimates, the tax rate structure, the number of beneficiaries, life expectancy, Federal civilian pay raises, medical cost inflation, the interest rate on new debt issued by the BLDTF, and the CPI-U for goods and services . The use of CPI-U factors allows the projections to be presented in constant dollars with FY 2013 as the base year. The valuation date for the projections is September 30, 2013. Cash projections depend on the assumptions used and actual experience may differ from the projections. These projections are sensitive to changes in the excise tax rate and changes in interest rates on debt issued by the BLDTF.

These projections, in constant dollars, made over the 27-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 $5.1 billion by FY 2040. However, when payments from the BLDTF's maturing debt are applied against this surplus cash inflow, the BLDTF's cash flow turns negative in all periods included in the projections. Net cash outflows after payments on maturing debt are projected to reach $3.8 billion by the end of FY 2040, resulting in a projected deficit of $6.0 billion at September 30, 2040. Amount totals in tables may differ slightly due to rounding. (See Chart I and Table 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, 2013, 2012, 2011, 2010, and 2009 are presented in the SOSI.

Chart I



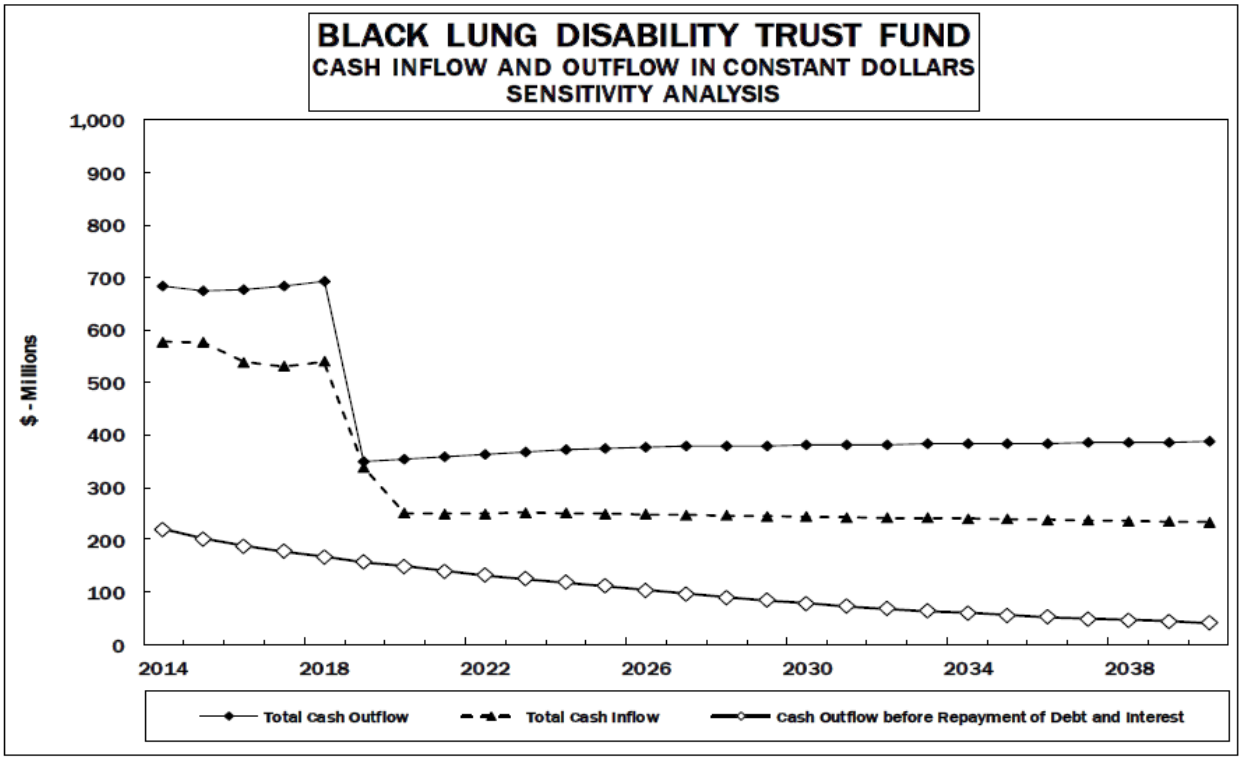
<u>Projected Cash Inflows and Outflows with Sensitivity Analysis, in Constant Dollars</u>

For the projected cash inflows and outflows with sensitivity analysis, in constant dollars, the significant assumptions for Federal civilian pay raises were modified to freeze raises during 2014 and 2015 (which in turn froze income benefits) and the administrative costs were reduced by 7.5% for FYs 2014 through 2023; however, the other significant assumptions were left unchanged. The Federal Coal Mine Health and Safety Act sets Black Lung benefits at 37.5% of the base salary of a Federal employee at level GS-2. The significant assumptions for Federal civilian pay raises were modified to reflect that no Federal employee statutory pay adjustment would take effect through December 31, 2015. As a result, because the Federal employee base salary would remain unchanged through 2015, the rates for Black Lung benefits would likewise remain unchanged through 2015. Even after statutory pay adjustments return in 2016, they would be applied to lower amounts of benefits and this would decrease the benefit amounts through FY 2040. The administrative costs were reduced to reflect the effects of reduced budgets overall due to the sequestration which occurred during FY 2013. Cash projections depend on the assumptions used and actual experience may differ from the projections. These projections are sensitive to changes in the excise tax rate and changes in interest rates on debt issued by the BLDTF.

These projections with sensitivity analysis, in constant dollars, made over the 27-year period ending September 30, 2040, indicate that cash inflows from excise taxes would exceed cash outflows for benefit payments and administrative expenses for each period projected. Cumulative net cash inflows would be projected to reach $5.3 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 would turn negative in all periods included in the projections. Net cash outflows after payments on maturing debt would be projected to reach $3.5 billion by the end of the year 2040, and would result in a projected deficit of $5.6 billion at September 30, 2040. (See Chart II and Table II) Amount totals in tables may differ slightly due to rounding.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Chart II



<u>Open and Closed Group Measure with Sensitivity Analysis</u>

For the open and closed group measure with sensitivity analysis, we modified the significant assumptions as described above (see Projected Cash Inflows with Sensitivity Analysis, in Constant Dollars) for Federal civilian pay raises and administrative costs, but the other significant assumptions were left unchanged.

In FY 2013, DOL refined the approach for selecting the interest rate assumptions and enhanced matching between the timing of cash flows and interest rates used in the open and closed group measure with sensitivity analysis. For FY 2013, projected annual payments were discounted to present value based on OMB's interest rate assumptions which were interpolated to reflect the average duration of payments between 21.3 and 25.4 years for income payments, medical payments, administrative expenses, and coal excise tax collections. The interest rates used to discount the projections are between 2.79% and 2.95% for income payments, medical payments, administrative expenses, and coal excise tax collections. In FYs 2011 and 2012, the projections were discounted using an interest rate published by Treasury as of the start of the projection period for Treasury loans to government agencies for loans with a duration that approximated the projection period.

As a result of changing the significant assumptions for Federal civilian pay raises and administrative costs as described above, for FY 2013 the actuarial present value of future benefit payments during the projection period to disabled coal miners and dependent survivors would decrease ($103,188) from $1,953,763 as reported on the SOSI to $1,850,575; the present value of estimated future administrative costs during the projection period would decrease ($69,057) from $920,740 as reported on the SOSI to $851,683; the actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants would decrease ($172,245) from $2,874,503 as reported on the SOSI to $2,702,258;

the excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants (open and closed group measure) would increase $172,245 from $4,620,297 as reported on the SOSI to $4,792,542. The trust fund net position deficit at the start of the projection period would remain unchanged.

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

Table I

U.S. DEPARTMENT OF LABOR

SUPPLEMENTARY SOCIAL INSURANCE INFORMATION

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

FOR THE 27-YEAR PERIOD ENDING SEPTEMBER 30, 2040

(Dollars in thousands)	2014	2015	2016	2017	2018	2019 - 2040	Total
Balance, start of year	$ (5,894,222)	$ (5,619,550)	$ (5,351,096)	$ (5,130,160)	$ (4,933,985)	$ (4,750,935)	$ (5,894,222)
Cash inflow							
Excise taxes	577,021	576,238	538,824	531,072	539,994	5,450,839	8,213,988
Total cash inflow	577,021	576,238	538,824	531,072	539,994	5,450,839	8,213,988
Cash outflow							
Disabled coal miners benefits	169,703	156,866	145,432	134,831	124,914	1,354,569	2,086,315
Administrative costs	58,077	56,836	55,654	54,473	53,350	714,477	992,867
Cash outflows before repayment of debt and interest	227,780	213,702	201,086	189,304	178,264	2,069,046	3,079,181
Cash inflow over cash outflow before repayment of debt and interest	349,241	362,536	337,738	341,768	361,730	3,381,793	5,134,807
Maturity of obligations refinanced October 2008	464,811	473,890	487,493	498,362	506,265	4,718,714	7,149,535
Interest on annual borrowings	386	923	2,542	9,693	20,944	1,757,096	1,791,583
Total cash outflow	692,977	688,514	691,120	697,359	705,473	8,544,856	12,020,299
Total cash outflow over total cash inflow	(115,956)	(112,276)	(152,296)	(166,287)	(165,479)	(3,094,017)	(3,806,311)
Reduction of debt refinanced October 2008	390,627	380,730	373,233	362,462	348,529	1,899,790	3,755,371
Balance, end of year	$ (5,619,550)	$ (5,351,096)	$ (5,130,160)	$ (4,933,985)	$ (4,750,935)	$ (5,945,162)	$ (5,945,162)

Table II

U.S. DEPARTMENT OF LABOR
SUPPLEMENTARY SOCIAL INSURANCE INFORMATION SENSITIVITY ANALYSIS
CASH INFLOW AND OUTFLOW OF THE BLACK LUNG DISABILITY TRUST FUND IN CONSTANT DOLLARS
FOR THE 27-YEAR PERIOD ENDING SEPTEMBER 30, 2040

(Dollars in thousands)	2014	2015	2016	2017	2018	2019 - 2040	Total
Balance, start of year	$ (5,894,222)	$ (5,611,193)	$ (5,330,265)	$ (5,096,512)	$ (4,887,894)	$ (4,692,425)	$ (5,894,222)
Cash inflow							
Excise taxes	577,021	576,238	538,824	531,072	539,994	5,450,839	8,213,988
Total cash inflow	577,021	576,238	538,824	531,072	539,994	5,450,839	8,213,988
Cash outflow							
Disabled coal miners benefits	165,701	148,672	136,889	126,953	117,640	1,279,884	1,975,739
Administrative costs	53,721	52,573	51,480	50,387	49,349	660,888	918,399
Cash outflows before repayment of debt and interest	219,422	201,246	188,369	177,340	166,989	1,940,772	2,894,139
Cash inflow over cash outflow before repayment of debt and interest	357,599	374,992	350,455	353,732	373,005	3,510,067	5,319,849
Maturity of obligations refinanced October 2008	464,811	473,890	487,493	498,362	506,265	4,718,714	7,149,535
Interest on annual borrowings	386	905	2,443	9,214	19,800	1,613,440	1,646,186
Total cash outflow	684,619	676,040	678,304	684,916	693,054	8,272,926	11,689,860
Total cash outflow over total cash inflow	(107,598)	(99,802)	(139,480)	(153,844)	(153,060)	(2,822,087)	(3,475,872)
Reduction of debt refinanced October 2008	390,627	380,730	373,233	362,462	348,529	1,899,790	3,755,371
Balance, end of year	$ (5,611,193)	$ (5,330,265)	$ (5,096,512)	$ (4,887,894)	$ (4,692,425)	$ (5,614,723)	$ (5,614,723)

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

STATEMENT OF BUDGETARY RESOURCES

The principal Combined Statement of Budgetary Resources combines the availability, status, and outlay of DOL's budgetary resources during FY 2013 and FY 2012. Presented on the following pages is the disaggregation of this combined information for each of the Department's major budget agencies.

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REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2013

	Employment and Training Administration	Office of Workers' Compensation Programs	Office of Job Corps
BUDGETARY RESOURCES			
Unobligated balance brought forward, October 1	$ 1,989,635	$ 817,406	$ 1,322,891
Recoveries of prior year unpaid obligations	381,166	7,085	19,291
Other changes in unobligated balance	(187,523)	(1,737)	(7,069)
Unobligated balance from prior year budget authority, net	2,183,278	822,754	1,335,113
Appropriations (discretionary and mandatory)	96,223,426	2,272,746	1,634,317
Borrowing authority (discretionary and mandatory)	7,700,000	-	-
Spending authority from offsetting collections (discretionary and mandatory)	4,165,101	3,059,918	950
Total budgetary resources	$ 110,271,805	$ 6,155,418	$ 2,970,380
STATUS OF BUDGETARY RESOURCES			
Obligations incurred	$ 108,256,608	$ 4,946,175	$ 1,743,270
Unobligated balance, end of year			
Apportioned	674,871	1,097,292	1,191,512
Exempt from apportionment	-	54,279	-
Unapportioned	1,340,326	57,672	35,598
Total unobligated balance, end of year	2,015,197	1,209,243	1,227,110
Total budgetary resources	$ 110,271,805	$ 6,155,418	$ 2,970,380
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid obligations, brought forward, October 1	$ 13,864,842	$ 314,213	$ 447,333
Obligations incurred	108,256,608	4,946,175	1,743,270
Less: Outlays (gross)	(108,379,297)	(5,025,459)	(1,589,150)
Less: recoveries of prior year unpaid obligations	(381,166)	(7,085)	(19,291)
Unpaid obligations, end of year	13,360,987	227,844	582,162
Uncollected Payments:			
Uncollected payments, Federal sources, brought forward, October 1	(2,292,212)	(19,166)	-
Change in uncollected payments, Federal sources	356,599	18,176	-
Uncollected payments, Federal sources, end of year	(1,935,613)	(990)	-
Obligated balance, start of year	$ 11,572,630	$ 295,047	$ 447,333
Obligated balance, end of year	$ 11,425,374	$ 226,854	$ 582,162
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)	$ 108,088,527	$ 5,332,664	$ 1,635,267
Less: actual offsetting collections (discretionary and mandatory)	(4,521,700)	(3,078,094)	(950)
Less: change in uncollected customer payments from Federal sources (discretionary and mandatory)	356,599	18,176	-
Budgetary authority, net (discretionary and mandatory)	$ 103,923,426	$ 2,272,746	$ 1,634,317
Outlays, gross (discretionary and mandatory)	$ 108,379,297	$ 5,025,459	$ 1,589,150
Actual offsetting collections (discretionary and mandatory)	(4,521,700)	(3,078,094)	(950)
Outlays, net (discretionary and mandatory)	103,857,597	1,947,365	1,588,200
Distributed offsetting receipts	(28,171,829)	(1,371)	-
Agency outlays, net (discretionary and mandatory)	$ 75,685,768	$ 1,945,994	$ 1,588,200

Occupational Safety and Health Administration	Bureau of Labor Statistics	Mine Safety and Health Administration	Employee Benefits Security Administration	Veterans' Employment and Training Service	Wage and Hour Division	Other Program Agencies	TOTAL
$ 17,486	$ 37,631	$ 3,813	$ 5,016	$ 5,001	$ 62,741	$ 130,079	$ 4,391,699
8,759	5,427	3,058	4,166	6,149	4,597	21,851	461,549
(5,833)	(1,552)	(890)	(764)	(1,755)	(12,499)	(2,281)	(221,903)
20,412	41,506	5,981	8,418	9,395	54,839	149,649	4,631,345
537,496	513,551	353,702	173,573	36,188	256,354	607,687	102,609,040
-	-	-	-	-	-	-	7,700,000
2,269	79,949	1,639	5,969	214,438	3,455	292,432	7,826,120
$ 560,177	$ 635,006	$ 361,322	$ 187,960	$ 260,021	$ 314,648	$ 1,049,768	$ 122,766,505
$ 540,135	$ 628,228	$ 358,167	$ 182,363	$ 253,064	$ 261,531	$ 941,886	$ 118,111,427
1,061	1,000	440	42	512	38,957	65,316	3,071,003
-	-	-	-	-	-	-	54,279
18,981	5,778	2,715	5,555	6,445	14,160	42,566	1,529,796
20,042	6,778	3,155	5,597	6,957	53,117	107,882	4,655,078
$ 560,177	$ 635,006	$ 361,322	$ 187,960	$ 260,021	$ 314,648	$ 1,049,768	$ 122,766,505
$ 105,508	$ 92,723	$ 49,018	$ 60,312	$ 102,609	$ 55,996	$ 436,614	$ 15,529,168
540,135	628,228	358,167	182,363	253,064	261,531	941,886	118,111,427
(557,722)	(616,260)	(363,943)	(183,849)	(259,224)	(286,052)	(925,969)	(118,186,925)
(8,759)	(5,427)	(3,058)	(4,166)	(6,149)	(4,597)	(21,851)	(461,549)
79,162	99,264	40,184	54,660	90,300	26,878	430,680	14,992,121
(2,993)	(1,296)	-	-	-	-	(9,225)	(2,324,892)
14	1,034	-	-	-	-	3,012	378,835
(2,979)	(262)	-	-	-	-	(6,213)	(1,946,057)
$ 102,515	$ 91,427	$ 49,018	$ 60,312	$ 102,609	$ 55,996	$ 427,389	$ 13,204,276
$ 76,183	$ 99,002	$ 40,184	$ 54,660	$ 90,300	$ 26,878	$ 424,467	$ 13,046,064
$ 539,765	$ 593,500	$ 355,341	$ 179,542	$ 250,626	$ 259,809	$ 900,119	$ 118,135,160
(2,283)	(80,983)	(1,639)	(5,969)	(214,438)	(3,455)	(295,444)	(8,204,955)
14	1,034	-	-	-	-	3,012	378,835
$ 537,496	$ 513,551	$ 353,702	$ 173,573	$ 36,188	$ 256,354	$ 607,687	$ 110,309,040
$ 557,722	$ 616,260	$ 363,943	$ 183,849	$ 259,224	$ 286,052	$ 925,969	$ 118,186,925
(2,283)	(80,983)	(1,639)	(5,969)	(214,438)	(3,455)	(295,444)	(8,204,955)
555,439	535,277	362,304	177,880	44,786	282,597	630,525	109,981,970
-	-	-	-	-	-	(16,484)	(28,189,684)
$ 555,439	$ 535,277	$ 362,304	$ 177,880	$ 44,786	$ 282,597	$ 614,041	$ 81,792,286

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2012

	Employment and Training Administration	Office of Workers' Compensation Programs	Office of Job Corps
BUDGETARY RESOURCES			
Unobligated balance brought forward, October 1	$ 1,922,143	$ 572,416	$ 641,913
Recoveries of prior year unpaid obligations	211,051	5,952	90,982
Other changes in unobligated balance	(80,596)	(2,055)	(7,295)
Unobligated balance from prior year budget authority, net	2,052,598	576,313	725,600
Appropriations (discretionary and mandatory)	129,163,572	2,033,171	2,405,732
Borrowing authority (discretionary and mandatory)	12,164,421	214,000	-
Spending authority from offsetting collections (discretionary and mandatory)	4,841,048	3,020,880	37
Total budgetary resources	$ 148,221,639	$ 5,844,364	$ 3,131,369
STATUS OF BUDGETARY RESOURCES			
Obligations incurred	$ 146,232,004	$ 5,026,958	$ 1,808,478
Unobligated balance, end of year			
Apportioned	659,456	716,840	296,525
Exempt from apportionment	-	56,721	-
Unapportioned	1,330,179	43,845	1,026,366
Total unobligated balance, end of year	1,989,635	817,406	1,322,891
Total budgetary resources	$ 148,221,639	$ 5,844,364	$ 3,131,369
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid obligations, brought forward, October 1	$ 14,184,446	$ 214,319	$ 520,104
Obligations incurred	146,232,004	5,026,958	1,808,478
Less: Outlays (gross)	(146,340,557)	(4,921,112)	(1,790,267)
Less: recoveries of prior year unpaid obligations	(211,051)	(5,952)	(90,982)
Unpaid obligations, end of year	13,864,842	314,213	447,333
Uncollected Payments:			
Uncollected payments, Federal sources, brought forward, October 1	(2,021,992)	67,465	-
Change in uncollected payments, Federal sources	(270,220)	(86,631)	-
Uncollected payments, Federal sources, end of year	(2,292,212)	(19,166)	-
Obligated balance, start of year	$ 12,162,454	$ 281,784	$ 520,104
Obligated balance, end of year	$ 11,572,630	$ 295,047	$ 447,333
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)	$ 146,169,041	$ 5,268,051	$ 2,405,769
Less: actual offsetting collections (discretionary and mandatory)	(4,586,704)	(2,934,249)	(37)
Less: change in uncollected customer payments from Federal sources (discretionary and mandatory)	(270,220)	(86,631)	-
Budgetary authority, net (discretionary and mandatory)	$ 141,312,117	$ 2,247,171	$ 2,405,732
Outlays, gross (discretionary and mandatory)	$ 146,340,557	$ 4,921,112	$ 1,790,267
Actual offsetting collections (discretionary and mandatory)	(4,586,704)	(2,934,249)	(37)
Outlays, net (discretionary and mandatory)	141,753,853	1,986,863	1,790,230
Distributed offsetting receipts	(43,211,817)	(533)	-
Agency outlays, net (discretionary and mandatory)	$ 98,542,036	$ 1,986,330	$ 1,790,230

Occupational Safety and Health Administration	Bureau of Labor Statistics	Mine Safety and Health Administration	Employee Benefits Security Administration	Veterans' Employment and Training Service	Wage and Hour Division	Other Program Agencies	TOTAL
$ 18,121	$ 37,253	$ 4,834	$ 16,787	$ 7,020	$ 70,534	$ 85,240	$ 3,376,261
11,272	7,798	5,022	6,284	1,858	4,897	24,744	369,860
(6,334)	(1,830)	(1,132)	(9,986)	(2,576)	(12,153)	(4,384)	(128,341)
23,059	43,221	8,724	13,085	6,302	63,278	105,600	3,617,780
564,788	541,895	372,523	183,153	52,779	272,436	629,757	136,219,806
-	-	-	-	-	-	-	12,378,421
1,875	76,349	1,407	5,331	210,964	2,405	299,763	8,460,059
$ 589,722	$ 661,465	$ 382,654	$ 201,569	$ 270,045	$ 338,119	$ 1,035,120	$ 160,676,066
$ 572,236	$ 623,834	$ 378,841	$ 196,553	$ 265,044	$ 275,378	$ 905,041	$ 156,284,367
129	1,510	751	30	1,235	6,419	81,293	1,764,188
-	-	-	-	-	-	-	56,721
17,357	36,121	3,062	4,986	3,766	56,322	48,786	2,570,790
17,486	37,631	3,813	5,016	5,001	62,741	130,079	4,391,699
$ 589,722	$ 661,465	$ 382,654	$ 201,569	$ 270,045	$ 338,119	$ 1,035,120	$ 160,676,066
$ 102,235	$ 85,680	$ 46,847	$ 42,947	$ 89,194	$ 60,468	$ 440,983	$ 15,787,223
572,236	623,834	378,841	196,553	265,044	275,378	905,041	156,284,367
(557,691)	(608,993)	(371,648)	(172,904)	(249,771)	(274,953)	(884,666)	(156,172,562)
(11,272)	(7,798)	(5,022)	(6,284)	(1,858)	(4,897)	(24,744)	(369,860)
105,508	92,723	49,018	60,312	102,609	55,996	436,614	15,529,168
(2,499)	(711)	-	-	(883)	-	(9,877)	(1,968,497)
(494)	(585)	-	-	883	-	652	(356,395)
(2,993)	(1,296)	-	-	-	-	(9,225)	(2,324,892)
$ 99,736	$ 84,969	$ 46,847	$ 42,947	$ 88,311	$ 60,468	$ 431,106	$ 13,818,726
$ 102,515	$ 91,427	$ 49,018	$ 60,312	$ 102,609	$ 55,996	$ 427,389	$ 13,204,276
$ 566,663	$ 618,244	$ 373,930	$ 188,484	$ 263,743	$ 274,841	$ 929,520	$ 157,058,286
(1,381)	(75,763)	(1,407)	(6,247)	(211,847)	(3,005)	(283,025)	(8,103,665)
(494)	(585)	-	-	883	-	652	(356,395)
$ 564,788	$ 541,896	$ 372,523	$ 182,237	$ 52,779	$ 271,836	$ 647,147	$ 148,598,226
$ 557,691	$ 608,993	$ 371,648	$ 172,904	$ 249,771	$ 274,953	$ 884,666	$ 156,172,562
(1,381)	(75,763)	(1,407)	(6,247)	(211,847)	(3,005)	(283,025)	(8,103,665)
556,310	533,230	370,241	166,657	37,924	271,948	601,641	148,068,897
-	-	-	-	-	-	(22,570)	(43,234,920)
$ 556,310	$ 533,230	$ 370,241	$ 166,657	$ 37,924	$ 271,948	$ 579,071	$ 104,833,977

OTHER INFORMATION

UNITED STATES DEPARTMENT OF LABOR

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Inspector General's Top Management Challenges

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

NOV 19 2013

MEMORANDUM FOR THE SECRETARY

FROM: SCOTT S. DAHL
Inspector General

SUBJECT: Top DOL Management Challenges

As required by the Reports Consolidation Act of 2000, we have identified the most serious management and performance challenges facing the Department of Labor (DOL). The Department plays a vital role in the nation's economy and in the lives of workers and retirees, and, therefore, must remain vigilant in its important stewardship of taxpayer funds, particularly in an era of shrinking resources.

In this report, we summarize the challenges, significant DOL progress to date, and what remains to be done to address them. We also removed two challenges that were included in last year's list: procurement management and foreign labor certification program integrity. While they remain important concerns for the Department, we wanted to focus management on the areas of greatest risk.

The challenges we identified for 2013 are:

- Protecting the safety and health of workers
- Protecting the safety and health of miners
- Improving performance accountability of Workforce Investment Act grants
- Ensuring the effectiveness of the Job Corps Program
- Reducing improper payments
- Ensuring the security of employee benefit plan assets
- Securing and protecting information management systems
- Ensuring the effectiveness of Veterans' Employment and Training Service Programs

I would be pleased to meet with you concerning any aspect of this report.

Attachment

cc: Deputy Secretary Seth Harris
Chief Financial Officer James Taylor

Working for America's Workforce

2013 Top Management Challenges Facing the Department of Labor

For 2013, the OIG considers the following as the most serious management and performance challenges facing the Department:

- Protecting the Safety and Health of Workers
- Protecting the Safety and Health of Miners
- Improving Performance Accountability of Workforce Investment Act Grants
- Ensuring the Effectiveness of the Job Corps Program
- Reducing Improper Payments
- Ensuring the Security of Employee Benefit Plan Assets
- Securing and Protecting Information Management Systems
- Ensuring the Effectiveness of Veterans' Employment and Training Service Programs

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

CHALLENGE: Protecting the Safety and Health of Workers

OVERVIEW

The Occupational Safety and Health Administration (OSHA) was established by the Occupational Safety and Health Act of 1970. OSHA's mission is to assure, so far as possible, that every working man and woman has safe and healthy working conditions. OSHA ensures the safety and health of more than 130 million workers at over 8 million establishments by setting and enforcing workplace safety and health standards; providing training, outreach, and education; and encouraging continuous improvement in workplace safety and health. Combined with its state partners OSHA has approximately 2,200 inspectors – which translates to about one inspector for every 59,000 workers.

CHALLENGE FOR THE DEPARTMENT

U.S. workplace fatalities have fallen steadily since OSHA was established in 1970. Most recently, for instance, from 2011 to 2012, the fatal injury rate fell from 3.5 to 3.2 deaths per 100,000 full-time equivalent workers. However, with more than eight million entities under its oversight, OSHA is challenged in assuring that employers abate workplace safety and health hazards. To that end, since it can only reach a fraction of the entities it regulates, OSHA must target its compliance activities to those areas where it can have the greatest impact. OSHA also faces challenges in measuring the impact of its policies and programs, and those of the 21 states authorized by OSHA to operate their own safety and health programs, on reported declines in workplace injuries, illnesses, and deaths.

Recent OIG audits have found that the highest risk industries and worksites were not always targeted and inspected; and OSHA lacked outcomes-based performance metrics to measure and demonstrate the causal effect of its own Federal programs on the safety and health of workers nationwide. Without such metrics, OSHA cannot determine the effectiveness of either Federally-operated or state-run worker safety and health programs, and, as such, cannot ensure that its limited resources are being used efficiently and with the greatest possible impact on worker safety and health.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

OSHA established a workgroup in FY 2012 with state representatives and developed effectiveness measures for state-operated safety and health programs. OSHA formally revised the State Activity Mandated Measures in FY 2013 and introduced 10 new measures, one of which is intended to help OSHA determine the effectiveness of State Plan inspection targeting. OSHA has also implemented a number of industry-specific National and Local Emphasis programs targeting areas such as Chemical Process Safety, Grain Facilities, and Nursing Homes, among others.

Moreover, OSHA is working on establishing regular processes for evaluating the success of its enforcement strategies. In this regard, the Department initiated a multi-year study of OSHA's Site Specific Targeting (SST) program to assess the impact of the program interventions on future employer compliance. The study is scheduled to be completed by September 2014.

OSHA is also currently working to develop program evaluation systems to ensure that its programs are being run effectively and efficiently. Specifically, OSHA has committed resources to determine the effectiveness of some of its more complex and resource-intensive investigations, such as fatality and catastrophe investigations by implementing an inspection weighting system. Additionally, OSHA has begun the rulemaking process to improve the tracking of occupational injuries and illnesses by expanding OSHA's legal authority to collect and make available injury and illness information.

OSHA still needs to ensure it includes the highest risk worksites in SST program targeting, and prioritize and complete inspections of the highest risk worksites. OSHA also needs to move forward with its plans to test and evaluate the inspection weighting system intended to improve OSHA's ability to target its resources.

CHALLENGE: Protecting the Safety and Health of Miners

OVERVIEW

The Federal Mine Safety and Health Act of 1977, as amended, charges the Mine Safety and Health Administration (MSHA) with protecting the health and safety of more than 387,000 miners who work at over 14,000 mines nationwide.

CHALLENGE FOR THE DEPARTMENT

MSHA continues to be challenged in effectively managing its resources to meet statutory mine inspection requirements while successfully administering other enforcement responsibilities designed to help ensure miners are afforded all protections so they can safely return home at the end of each work day. While MSHA has made progress in this area, it must continue its efforts to instill a culture of mine safety and prevention of accidents to protect the rights of miners to report workplace safety and health concerns. Our recent audit of MSHA's actions in response to two review reports that reviewed MSHA's actions preceding the deadly explosion at the Upper Big Branch Mine found MSHA had made significant progress in implementing the reports' recommendations, but needs to build a process into its internal review framework to rank and prioritize recommendations, and to continue to work on those recommendations that did not have anticipated completion dates to ensure they are being diligently pursued.

MSHA also remains challenged in maintaining a cadre of experienced, diverse and properly trained enforcement staff to meet its statutory enforcement obligations. This challenge will soon be exacerbated by retirements, with 39 percent of MSHA's health and safety personnel eligible to retire by 2017. This is a particularly pressing issue given that it takes nearly two years to train new mine inspectors. Moreover, with seventy-eight percent of MSHA's top leadership becoming eligible for retirement by 2017, MSHA is challenged to develop future leaders in order to avoid leadership gaps in future years.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

Fatality and injury rates were at an all-time low in FY 2011 and FY 2012 and this trend has continued in FY 2013. Other notable achievements included historic low levels of respirable dust – which results in black lung – at underground coal mines and an 18 percent drop in violations. However, mining remains an inherently dangerous industry with too many injuries and fatalities. To reduce those numbers, MSHA took a number of actions in FY 2013, including: making significant progress implementing recommendations from reviews conducted following the Upper Big Branch mine accident; improving its process for reviewing, approving and overseeing coal mine roof control plans; publishing an updated Accountability Program Handbook that addresses OIG recommendations made as a result of recent reviews; promulgating the final Coal Mine Examination Rule which requires underground coal mine operators to find and fix conditions consistent with the "Rules to Live By" standards. MSHA also published it final Pattern of Violations rule that implemented several of the OIG's recommendations. Other actions taken by MSHA include diversified education efforts and increased outreach to both miners and representatives of miners on rights provided by the Mine Act.

MSHA should continue to closely monitor its efforts to implement the recommendations made by the Upper Big Branch internal review. For the 100 recommendations resulting from the internal review, MSHA reports it has completed corrective actions for 68; 32 are still in process. MSHA has also taken several actions to address the 4 recommendations made by an Independent Assessment Panel and needs to complete other actions it has outlined. For coal mine roof control plans, MSHA needs to finalize its new Coal Mine Roof Control Plan Approval Procedures Handbook, which it anticipates will be completed by December 31, 2013. MSHA also needs to continue to follow up on all of its revised policy guidance to ensure the policy is being implemented as intended and is achieving the desired results.

With respect to succession planning, MSHA continues to identify and hire mine inspector candidates within authorized personnel levels. MSHA has also developed a draft succession plan and is engaged in succession planning activities. MSHA needs to continue its efforts to finalize a succession plan that will help MSHA maintain strong leadership and diversity into its workforce into the future, while staying focused on its primary mission to protect the safety and health of miners.

CHALLENGE: Improving Performance Accountability of Workforce Investment Act Grants

OVERVIEW

In Fiscal Year 2013, the Department's Employment and Training Administration (ETA) was appropriated $2.6 billion for grants to States for Workforce Investment Act (WIA) Adult, Dislocated Worker, and Youth programs. The WIA Adult formula program provides employment and training services through formula grants to states and territories. 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. In addition to the grants to States and territories for WIA Adult, Dislocated Worker and Youth, ETA also administers competitive grants to service providers to design and operate programs for disadvantaged, often unemployed persons.

CHALLENGE FOR THE DEPARTMENT

The Department is challenged in ensuring that the WIA grant programs are successful in training and placing workers in suitable employment to reduce chronic unemployment, underemployment, and reliance on social payments by the population it serves. Our audit work over several decades, primarily as it relates to discretionary grants, has documented the difficulties encountered by the Department in obtaining quality employment and training providers; ensuring that performance expectations are clear to grantees and sub-grantees; obtaining accurate and reliable data by which to measure and assess the success of grantees and states in meeting the program's goals; providing active oversight of the grant making and grant execution process; disseminating proven strategies and programs for replication; and, most critically, ensuring that training provided by grantees leads to placement in training-related jobs paying a living wage.

For example, a 2011 OIG audit of the WIA Adult and Dislocated Worker program found that 37 percent of program participants either did not obtain employment or their employment was unrelated to the training that they received. OIG projected that the amount of funds paid for this training outcome totaled approximately $124 million. Similarly, our October 2012 audit of the $500 million Recovery Act Green Jobs program designed to train those most affected by the recession for jobs in "green" industries found that almost half of the training provided consisted of 1-5 days of instruction, that 92 percent of "credentials" received for participating in the training were merely certificates of completion, and that there were significant disparities in the participant job retention goals proposed by grantees and approved by ETA. Most recently, our December 2012 audit of discretionary grant closeouts found that grantees often failed to meet one or more of the goals in their grant agreement, yet ETA certified their performance as acceptable. A finding common in many of our audits has been the significant problem in obtaining accurate, reliable, and detailed performance data from grantees, which makes it more difficult for the Department to measure program success.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

ETA recently awarded 26 Workforce Innovation Fund grants with the goal of evaluating strategies for delivering services more efficiently, achieving better outcomes, and facilitating cooperation across programs and funding streams. ETA has indicated that it will capture promising practices and lessons learned and share them with the broader workforce system. In addition to this type of program evaluation, ETA should continue to closely monitor WIA grants and address the disconnections between the training provided and the realities of the job market. To that end, ETA should consider using Labor Market Information tools and provide technical assistance to grantees. ETA also needs to develop criteria for determining acceptable performance in its grant programs and implement a process that captures grantee performance results for use in future grant-making decisions.

ETA expects to receive the first evaluation report (on implementation) from the WIA Gold Standard Evaluation during the Fall of 2013, the first impact report in 2015 and the final report in 2016. Through this evaluation, ETA intends to measure the net impact of specific interventions, such as the incremental effects of the intensive and training services provided to adults and dislocated workers. The multi-year WIA Gold Standard is funded on an annual basis and is contingent on the availability of appropriated funding. In response to our audit of the Green Jobs program, ETA has taken a number of corrective actions, such as creating a Performance Reporting Workgroup that will identify recommendations for specific steps that ETA can take to clarify grantee data collection and reporting expectations, and developing and releasing its Enhanced Desk Monitoring Review tool.

ETA and the Department have identified the reauthorization of WIA as a legislative priority and have specified several goals that the Department believes should be a focus of the reauthorization process. Among those goals is improving accountability by updating the performance measures used by WIA programs. The OIG considers these initiatives to be of importance. In particular, we recommend that ETA give maximum priority to developing processes to ensure grant agreements delineate clear, concise and measurable objectives that can be used to measure the success of grant performance, and that those programs or strategies that are successful are disseminated to the workforce investment system for replication.

CHALLENGE: Ensuring the Effectiveness of the Job Corps Program

OVERVIEW

The Employment and Training Administration's (ETA) Job Corps program provides residential and nonresidential education, training, and support services to approximately 60,000 disadvantaged, at-risk youths, ages 16-24, at 125 Job Corps centers nationwide. The goal of this $1.6 billion program is to offer an intensive intervention to this targeted population as a means to help them turn their lives around and prevent a life-time of unemployment, underemployment, dependence on social programs, or criminal behavior.

CHALLENGE FOR THE DEPARTMENT

The Department is challenged in providing a safe, residential and nonresidential education and training program which results in outcomes that truly assist at-risk, disadvantaged youth in turning their lives around including: placement in training-related employment, attainment of education and industry-recognized credentials, entrance into advanced vocational/apprenticeship training, entrance into higher education, or enlistment in the military. Our audits have consistently documented the Department's difficulty in ensuring the quality of residential life, a critical component of the Job Corps intensive intervention experience. Specifically, our audits have disclosed safety and health hazards and physical maintenance needs at various centers as well as, in some instances, a lack of enforcement of disciplinary policies.

Our audits have also demonstrated the challenge faced by the Department in obtaining and documenting desired program outcomes. ETA oversight of its centers did not adequately ensure academic and career technical training programs met performance goals and maximized student achievements. Specifically, under-performing programs were not identified for increased oversight and center assessments and performance improvement plans were not used effectively to improve performance. Additionally, most centers are operated by contractors through performance-based contracts with incentive fees and bonuses which are tied directly to contractor performance. Absent strict oversight, there is a risk that contractors will overstate performance results and maintain disruptive students on site. We have also documented problems with ETA's reporting of job training matches.

Most recently, budgeting missteps and poor financial planning, management, and oversight forced Job Corps to reprogram $26.2 million in June 2012 to cover its Program Year 2011 (July 1, 2011 – June 30, 2012) operating costs and impose a 3-month enrollment freeze in early 2013 to avoid a projected $61.5 million budget overrun for Program Year 2012 (July 1, 2012 – June 30, 2013). Our audit of Job Corps' funds and expenditures found the Department did not have a sound budget or spending plan for the Job Corps program or have a process in place to accurately project spending needs. If not adequately addressed, these financial management control weaknesses could result in further budget overruns and possibly future moratoriums on student enrollments. In addition, we have documented significant problems with centers being unable to ensure that major procurements are properly competed to ensure best value to the program and the taxpayers.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

Job Corps is continuing its efforts to improve the quality of program services and achieve better outcomes for the students it serves. These efforts include implementing a standards-based system of teaching and learning, identifying and replicating the practices of high-performing centers as well as closing some chronically low-performing centers. Job Corps also plans to increase its oversight of under-performing training programs by improving its monitoring, and by using performance improvement plans, center assessments, and other oversight activities more effectively.

To improve its reported performance data, Job Corps has updated its Job Training Match Crosswalk to align with the revised DOL O*NET-Standard Occupational Classification database, which characterizes all jobs in the U.S. labor market.

To avoid the financial difficulties it experienced in PY 2011 and PY 2012, the Department has refined Job Corps' processes for planning, requirements determination, budgeting, procurement and evaluation in order to enhance internal controls. This effort is intended to establish a more defined process for all aspects of financial and contractual activity well in advance of the start of a program year and allow for more rapid response to Job Corps budget changes. A key aspect will be the formalization of significantly enhanced communications among offices and leadership within ETA and the Department. Specifically, the Department established a new Office of Financial Administration within ETA and implemented a new management oversight process that includes the Office of the Chief Financial Officer, the Office of the Assistant Secretary for Administration and Management, and the Office of the Solicitor. The Department also adopted a new budgeting approach to adjust the number of students enrolled with the funding available in Job Corps' appropriation. Additional training has been provided to staff members who monitor Job Corps' contracts to improve their skills and enable them to provide better oversight. While these changes should help the agency to actively oversee the program and its expenses, Job Corps will need to be vigilant in its oversight to promptly identify and address potential problems.

ETA's Office of Contracts Management (OCM) recently inspected the contracting purchasing systems for many Job Corps center operators. In instances where there was an inadequate purchasing program, the cognizant Contracting Officer withdrew the approved purchasing plans. These center operators must now have each purchase (subcontract) approved by the responsible Contracting Officer.

OIG continues to recommend that Job Corps provide rigorous oversight of contractors at all centers to: ensure they provide a safe environment that is conducive to learning; improve the transparency and reliability of performance metrics and outcomes; and ensure that center operators and other service providers comply with applicable procurement requirements.

CHALLENGE: Reducing Improper Payments

OVERVIEW

The Unemployment Insurance (UI), the Workforce Investment Act (WIA) and the Federal Employees Compensation Act (FECA) programs are at risk of making significant improper payments. For example, for FY 2013, the Department reported improper payments totaling approximately $7.68 billion for the UI program alone. Outlays for the UI program decreased in FY 2013 to an estimated $66.7 billion, compared with $90.19 billion in FY 2012. This decrease reflects the decline in the number of new claims, the drop in Federally-funded emergency and additional benefits, and the efforts of DOL and the state workforce agencies to reduce improper payments. The 2013 UI improper payment rate is 9.32 percent for the reporting period July 2012 to June 2013, which is below the 10 percent target established by the Improper Payments Elimination and Recovery Act of 2010 but slightly above the 9.23 percent target rate identified by the Office of Management and Budget (OMB). However, in 2013 the Department, in conjunction with OMB, made a change in the way it computes the improper payment rate by subtracting overpayments recovered from total estimated overpayments. The true UI improper payment rate without netting out subsequent recoveries actually increased from 10.78 percent for the 2012 reporting period to 11.50 percent in 2013.

The leading cause of UI overpayments is claimants who have returned to work and continue to claim UI benefits, and OIG investigations continue to uncover fraud committed by individual UI recipients who do not report or underreport earnings, as well as fraud related to fictitious employer schemes.

CHALLENGE FOR THE DEPARTMENT

The Department's ability to identify and reduce the rate of improper payments in the UI, FECA and WIA programs continues to be a challenge for the Department. Notably, OMB has designated the Unemployment Insurance (UI) and Workforce Investment Act (WIA) programs as being particularly at risk for improper payments. Our audits have found that the Department lacked effective controls to ensure states are properly measuring improper payments and identifying and recovering overpayments for both the UI state and Federal programs.

The Department also remains challenged in identifying the full extent of improper payments in the FECA and WIA programs. As highlighted in past OIG audits, the estimation method used for the FECA program does not appear to provide a reasonable estimate of improper payments. Without this information, the Department cannot implement the appropriate corrective actions that will reasonably assure taxpayers' funds are adequately safeguarded. In addition, DOL OIG investigations continue to identify significant amounts of FECA compensation and medical fraud, which has often surpassed the Department's improper payments estimates. For the WIA program, data are not readily available to allow the Department to directly sample grant payments and develop a statistically valid estimate of improper payments.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

The Department continues to work with states to implement a number of strategies to improve the prevention, detection and recovery of UI improper payments. Among numerous other initiatives, the Department has launched a website that clearly identifies each state's estimated UI improper payment rate and payments over a 3-year period, as well as each state's progress in implementing the identified improper payment strategies. The Department has also undertaken the "Improper Payment High Priority States" initiative to reduce the UI improper payment rate in those states with unacceptably high levels over a prolonged period. In addition, the Department established a UI Integrity Center of Excellence to develop, implement, and promote innovative program integrity strategies to reduce improper payments, including the prevention and detection of fraud, in the UI program. However, the Department needs to employ cost benefit and return on investment analyses to evaluate the impact of those improper payment reduction strategies. The Department can further improve oversight of the states' detection and prevention of UI overpayments by increasing the frequency of on-site reviews at State Workforce Agencies. In addition, the Department needs to continue pursuing legislation to allow States to use a percentage of recovered UI overpayments to detect and deter benefit overpayments.

With respect to improper payments in the FECA program, the Department developed a methodology for estimating the FECA improper payment rate and plans to implement it for FY 2014. In the WIA program, the Department has attempted to identify the full extent of improper payments by including estimates from other sources, but it should continue to consider other sampling methods in order to provide a more complete estimate of improper payments. Further, the Department needs to provide full disclosure in the Agency Financial Report regarding the limitations of the data used to estimate WIA overpayments.

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 benefit plans for America's workers, retirees, and their families. EBSA is responsible for administering and enforcing the fiduciary, reporting, and disclosure provisions of Title I of the Employee Retirement Income Security Act (ERISA). The agency is charged with protecting about 141 million workers, retirees and their families who are covered by nearly 684,000 private retirement plans, 2.4 million health plans, and similar numbers of other welfare benefit plans which together hold estimated assets of $7.6 trillion.

CHALLENGES FOR THE DEPARTMENT

EBSA's limited authority and resources present challenges in achieving its mission of administering and enforcing ERISA requirements protecting approximately 141 million participants and beneficiaries. An important part of EBSA's mission is to deter and correct violations of ERISA through a strong enforcement program to ensure workers receive promised benefits. Given the number of plans that the agency oversees relative to the number of investigators, EBSA has to focus its available resources on investigations that it believes will most likely result in the deterrence, detection, and correction of ERISA violations. In order to do so, EBSA must determine which of its enforcement initiatives are the most effective. EBSA has begun trying to quantify its results by using programs such as the Sample Investigation Program (SIP), which attempts to measure the effectiveness of enforcement initiatives.

Among EBSA's challenges over the past couple of decades has been the fact that billions in pension assets held in otherwise regulated entities, such as banks, escape audit scrutiny. Because ERISA authorizes these institutions to obtain so-called "limited scope audits," presumably because they are being audited by other entities for other purposes, the independent public accountants that conduct their audits express "no opinion" on the financial statements of the assets they hold on behalf of plans. These concerns were renewed and heightened by recent audit findings that as much as $3.3 trillion in pension assets received these types of limited scope audits, providing no assurances to participants as to the financial health of their plans. EBSA is further challenged by the many changes that have taken place in the employee benefit plan community since ERISA was enacted in 1974, such as the shift from defined benefit retirement plans to defined contribution retirement plans, as well as the large increase in the types and complexity of investment products available to pension plans. For example, our September 2013 audit of EBSA's oversight of employee benefit plans that hold alternative investments totaling almost $3 trillion found that EBSA needs to do more to ensure plan Administrator properly identify and value hard-to-value investments.

EBSA is also responsible for oversight of health coverage provided by employers through the administration and enforcement of Title I of ERISA. EBSA oversees approximately 2.4 million employer-sponsored health plans covering approximately 150 million participants and beneficiaries. EBSA, in conjunction with the Department of Treasury and the Department of Health and Human Services, has worked to implement the Patient Protection and Affordable Care Act (PPACA). Beginning in FY 2014, key provisions of PPACA will come into effect, and EBSA will be challenged to ensure plan sponsors and their benefit plans comply with the new law.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

As an initial step in developing performance metrics to measure the effectiveness of its enforcement program, EBSA implemented a broad Sample Investigation Program (SIP) in FY 2011. Now in its third year, the SIP is designed to measure overall compliance with ERISA and the impact of ERISA investigations on compliance rates. In addition, data collected by the SIP will be used to evaluate the effectiveness of EBSA's enforcement targeting strategies, as well as the impact of investigations on plan compliance. EBSA processed 273 SIP cases in 2013, and will implement a baseline compliance measure for 2014.

EBSA should continue to work to obtain legislative changes to repeal the limited scope audit exception, obtain additional authority over plan auditors to address deficient benefit plan audits, and ensure that auditors with poor records do not continue to perform substandard plan audits. In the interim, EBSA should use existing authority to clarify and strengthen limited scope audit regulations and evaluate the ERISA Council's recommendations on the issue. Finally, to mitigate potential challenges that may affect implementation and compliance with PPACA requirements, EBSA will need to take further action in its rulemaking, enforcement, reporting on benefits typically covered by employers, and Multiple Employer Welfare Arrangements (MEWA) regulations. These actions would help improve transparency to the public; provide additional compliance assistance to employers, plans and insurers; and help strengthen enforcement over MEWAs.

CHALLENGE: Securing and Protecting Information Management Systems

OVERVIEW

The Department's Information Technology (IT) systems contain sensitive information that is central to its mission and to the effective administration of its programs. DOL systems are used to analyze and house the nation's leading economic indicators, such as the unemployment rate and the Consumer Price Index. They also maintain critical data related to enforcement actions, worker safety, health, pension, and welfare benefits, job training services, and other worker benefits.

CHALLENGE FOR THE DEPARTMENT

Safeguarding data and information systems is a continuing challenge for all Federal agencies, including DOL. Recent OIG audits have identified deficiencies in configuration management, account management, vulnerability management, as well as security and access controls weaknesses in key departmental financial and support systems. These deficiencies can pose an increased risk to the security of data and information maintained in DOL systems.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

The Department has made progress in establishing risk mitigation as a priority via its Risk Management program. The Office of the Chief Information Officer (OCIO) established Priority Security Performance Metrics and began measuring agency progress on achieving these metrics resulting in the remediation and closure of 93% of prior year findings.

The Department has also begun an IT modernization program. As part of DOL's IT modernization, users will eventually access their network accounts by logging on to their desktops and/or laptop computers using their PIV card. The IT Modernization program also includes consolidating the Department's nine IT infrastructures in an effort to create a more unified and scalable IT service organization. In addition, DOL has acquired an enterprise IT system monitoring tool to assist in configuration management, vulnerability assessment, and accounting for the inventory of electronic devices connecting to each IT system.

To improve upon identity management and security issues, DOL needs to continue to reduce its IT footprint by completing its data center consolidation efforts and reducing the number of external connections. Furthermore, while the migration of email to the cloud was delayed and is now scheduled for implementation later this year, the Department must take steps to ensure that DOL systems and data will be secure in the cloud computing environment prior to implementation. To enhance security, reduce identity fraud, and protect personal privacy, DOL also needs to ensure its PIV card workstation logon process is fully implemented throughout the Department. Most importantly, a greater presence in IT system security is needed at the Executive Level; continuing current Risk Management and Continuous Monitoring Program processes will assist in that effort as Executives become integral to the discussion and understanding of their IT security risks and control weaknesses, including setting mitigation priorities.

CHALLENGE: Ensuring the Effectiveness of Veterans' Employment and Training Service Programs

OVERVIEW

The Veterans' Employment and Training Service (VETS) provides assistance to veterans and transitioning service members by protecting their employment and reemployment rights through investigation and resolution of claims from protected individuals. VETS also assists veterans in obtaining and maintaining civilian employment through its Jobs for Veterans State Grants (JVSG) Program. JVSG supports two principal staff positions in the Workforce System: Disabled Veterans Outreach Program (DVOP) specialists and Local Veterans Employment Representatives (LVERs). DVOP specialists provide intensive services to meet the employment needs of disabled and other eligible veterans, with an emphasis on serving those who are economically or educationally disadvantaged, including homeless veterans. LVERs conduct outreach to employers and engage in advocacy efforts to increase employment opportunities for veterans. Another VETS' program, the Transition Assistance Program (TAP), provides a three day employment workshop to separating service members and their spouses at military installations worldwide.

CHALLENGE FOR THE DEPARTMENT

VETS estimates that the U.S. military discharges about 270,000 service members annually. VETS is refocusing its efforts to ensure veterans who have significant barriers to employment are served by the DVOP program, while all other veterans will be served on a priority basis in DOL's Wagner-Peyser and Workforce Investment Act programs. These programs will be challenged to meet the employment needs of this expected influx of veterans. For VETS specifically, the Department projects that approximately 90 percent of future JVSG participants will require intensive services, such as career planning and counseling, skill assessment, referral to training and support services, and post-transition follow-up, to overcome significant barriers to employment.

VETS continues to be challenged to meet this increased demand for intensive services; our prior audit work has found that JVSG staff needed to do a better job of accurately assessing veterans' needs and documenting intensive service activities.

We have also found that VETS did not use measurable performance goals and outcomes to evaluate program effectiveness and lacked adequate contracting oversight for TAP workshop services. These deficiencies undermined VETS's ability to ensure that it was providing a high-quality program which helped veterans successfully transition from military to civilian employment.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

In a joint effort with the Department's Employment and Training Administration, VETS has launched the Veteran Gold Card program. The Veteran Gold Card provides post-9/11 veterans with extra support as they transition out of the military. Once a veteran has downloaded the Veteran Gold Card, he or she can access six months of personalized case management, assessments and counseling at the roughly 3,000 American Job Centers located across the country.

Over the past year, VETS has started working with State Workforce Agencies to convert LVERs to DVOPs in response to the increased demand for intensive services. VETS has also directed states to provide more oversight of DVOP services to ensure that veterans with significant barriers to employment are getting the assistance they need. In addition, VETS has requested an increase of 500 DVOPs in FY 2014. When combined with the conversions of LVERs to DVOPs already underway, VETS believes this will significantly increase the workforce focused directly on providing intensive services for those veterans with significant barriers to employment and should have a positive impact on employment outcomes for this population. VETS stated that it is developing clarifying guidance for distribution to State Workforce Agencies about the JVSG program, as well as a training program that will address JVSG expectations. The training is expected to be available in February 2014. VETS needs to closely monitor the program to ensure states can demonstrate that the DVOP program is operating as intended. VETS must also evaluate the effectiveness of the DVOP program and use evaluation results to modify and improve it.

VETS also completed a major effort to redesign the TAP employment workshop curriculum in January 2013. Unlike previous years, TAP is now mandatory for all separating service members and all workshops worldwide are being led by professional facilitators. The new workshop is designed to provide relevant, up-to-date content with a focus on experiential learning, best practices in career transition, and emphasis on networking and communicating the veteran's value to the hiring manager. VETS has developed and implemented outcome measures for FY 2014 to assess the effectiveness of the TAP workshops, and stated it is working with the Department of Defense and the Department of Veteran Affairs to explore new data sharing possibilities and ways to monitor veteran employment outcomes.

CHANGES FROM LAST YEAR:

Changes from the FY 2012 Top Management Challenges report include the deletion of the challenges pertaining to Foreign Labor Certification programs and procurement integrity. Although we still consider these challenges to be significant issues for the Department, we believe they no longer pose the greatest threat to the Department in meeting its mission to workers, retirees, beneficiaries and taxpayers. We will continue to conduct audit and investigative work and report the Department's challenges in these program areas in our "Significant Concerns" section of the OIG's Semiannual Report to the Congress.

Summary of Financial Statement Audit and Management Assurances

The following tables provide a summary of the Department's FY 2013 financial statement audit and its management assurances.

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0				0

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0					0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0					0
Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0					0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	No noncompliance noted	No noncompliance noted
2. Accounting Standards	No noncompliance noted	No noncompliance noted
3. USSGL at Transaction Level	No noncompliance noted	No noncompliance noted

Improper Payments Reporting Details

In accordance with the *Improper Payments Information Act (IPIA) of 2002*, as amended by the *Improper Payments Elimination and Recovery Act (IPERA) of 2010* and the *Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)* and implemented by OMB Circular No. A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, the Department reviews its programs and activities annually to identify those that may be susceptible to significant improper payments. For programs and activities deemed "at risk," the Department performs testing to estimate rates and amounts of improper payments, establishes improper payment reduction targets in accordance with OMB guidance, and develops and implements corrective actions to reduce and recover improper payments. Additionally, the Department conducts payment recapture audits for each program and activity that expends $1 million or more annually if conducting such an audit is cost effective.

DOL Review of Programs and Activities

Similar to prior years, the Department's FY 2013 review of major programs and activities includes the following tasks:

- Reviewing the prior three years' results of IPIA risk assessments and detailed tests.
- Reviewing DOL Office of Inspector General (OIG) and GAO audit reports issued for DOL programs to identify control weaknesses or other issues that could potentially impact improper payments.
- Reviewing results of the Department's OMB Circular A-123 internal control assessment to identify control weaknesses that could potentially impact improper payments for DOL programs.
- Reviewing DOL programs' FY 2010 through FY 2012 funding levels for significant changes that may impact improper payments.

The review identified one program, the Unemployment Insurance (UI) benefit program, to be at risk of significant improper payments according to OMB criteria (i.e., programs with annual improper payments exceeding both $10 million and 2.5% of annual program payments, or $100 million).

The cluster of Workforce Investment Act (WIA) grant programs was classified as at-risk in OMB's former Circular No. A-11, Section 57, in 2001 due to its annual level of expenditures; however, the Department's annual risk assessments have not supported the high-risk designation.

The FECA benefit program was also classified as at-risk in OMB's former Circular No. A-11, Section 57 in 2001. The Department's past risk assessments have not supported the high-risk designation for the FECA program.

During FY 2013, the Department performed detailed testing for the UI and WIA programs to estimate the level of improper payments and their major causes. DOL 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.

Table 1 shows the FY 2012 – FY 2016 targets and projected rates for Department's "At-Risk" programs.

Table 1: Target and Actual Improper Payments Rates for the Department's "At-Risk" Programs

DOL Program	2012		2013		2014	2015	2016
	Target	Actual	Target	Actual	Target	Target	Target
Unemployment Insurance (UI)	9.7%	10.78%	9.23%	9.32%	(See Note)	(See Note)	(See Note)
Workforce Investment Act (WIA)	0.44%	0.22%	0.44%	0.19%	0.44%	0.44%	0.44%

Note: Integrity rate target for FY 2013 is based on the alternative methodology explained in this document at Section II - UI Statistical Sampling. The FY 2014 - FY 2016 targets will be set pending additional guidance and consultation regarding estimation methodology with OMB. FY 2012 target and results are based on the combined overpayment and underpayment rates and are not adjusted for overpayment recoveries.

Unemployment Insurance (UI)

The FY 2013 target error rate for UI's improper payments was 9.23%, as compared to the estimated error rate of 9.32% (8.82% net overpayment rate plus 0.50% underpayment rate) for the period July 2012 to June 2013, the most recent period for which data were available. The net overpayment rate is computed by subtracting overpayments recovered from total estimated overpayments, plus total estimated underpayments, divided by total projected budget outlays for FY 2013.

Workforce Investment Act Programs (WIA)

With regard to WIA programs, the Department continues to improve accuracy in rate estimation and program integrity. The rate for FY 2013 is 0.19%, which is less than half of the target of 0.44%.

Unemployment Insurance Program

Overview

The single largest program at DOL is the UI program, which represented approximately $67 billion in outlays in FY 2013. Because the improper payments for UI are above $750 million and are estimated to be over 10%, the UI program is classified as a "high-priority" program, the only program with this designation within the DOL.

Enhancing Federal and state efforts to reduce improper payments in the UI program is a top priority at DOL. Additionally, the UI program is continuing to emphasize the recovery of overpayments by performing payment recapture activities and providing states with tools to aid their recovery efforts.

I. UI Risk Assessment

The outlays for the State UI, Unemployment Compensation for Federal Employees (UCFE), Unemployment Compensation for Ex-Service Members (UCX), Extended Benefits (EB), and Emergency Unemployment Compensation 2008 (EUC08) programs decreased in FY 2013 to an estimated $66.79 billion, compared with $90.19 billion in FY 2012, reflecting the following:

- Improved labor market conditions;
- A significant drop in EUC08 program payments, which decreased from $39.58 billion in 2012 to an estimated $25.43 billion in 2013; and
- A sharp decrease in EB payments, from $4.94 billion in 2012 to an estimated $77 million in 2013.

The UI program's estimated annual improper payments for 2013 are $6.225 billion, consisting of $5.891 billion in net overpayments (estimated overpayments of $7.347 billion minus $1.456 in overpayment recoveries) plus $334 million in underpayments. Net overpayments (estimated overpayments minus recoveries) were $5.89 billion. The estimates are based on the results of the Benefit Accuracy Measurement (BAM) survey, which includes payments from the State UI, UCFE, and UCX programs, but does not include EUC and EB payments. For the purposes of reporting UI payment accuracy data required by the IPIA, the estimated improper payment rates are assumed to generally reflect the accuracy of benefit payments from the EUC and EB programs, although they are not directly measured by the BAM survey. The BAM survey methodology is described in Section II – UI Statistical Sampling. States reported total overpayment recoveries of $1.456 billion, which includes overpayments recovered from the State UI, UCFE, UCX, EUC, and EB programs. States report recovery data on the ETA 227 *Overpayment Detection and Recovery Report*. Recovery data cover the period July 2012 to June 2013, the most recent ETA 227 report data available.

II. UI Statistical Sampling

The following sampling was performed for the UI benefit program:

Sampling Process: Improper payment rates are estimated from the BAM program. BAM includes the three largest permanently authorized unemployment compensation (UC) programs: State UI[1], UCFE, and UCX. The Department reports an improper payment rate, which is the combined Annual Report Overpayment Rate and the Underpayment Rate, required by the IPIA. Executive Order 13520 required "high-priority" Federal programs to develop supplemental measures. The Department, in consultation with OMB, developed two supplemental measures - the Operational Rate, which includes fraud and non-fraud recoverable overpayments that state agencies are expected to identify and establish for recovery, and the Employment Service (ES) Registration Rate, which measures the percentage of UI claimants who were required to register with the state ES, but who were not actively registered during the paid week selected for the BAM audit. The Department reports these two supplemental measures quarterly for publication on the Department of the Treasury Payment Accuracy Web site (http://www.paymentaccuracy.gov/). These supplemental measures are also reported annually as part of the IPIA reporting requirements (see Table 4, Improper Payment Reduction Outlook).

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 and EUC programs, the estimated improper payment rates are assumed to generally reflect the accuracy of these benefit payments. Overpayment and underpayment rates for FY 2013 are shown in Table 4, Improper Payment Reduction Outlook, and are for the period July 1, 2012 to June 30, 2013. Data are reported 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, 2012 to June 30, 2013, state agencies completed audits for 24,181 paid claims cases, a completion rate of 99.9%. Additional information about the BAM methodology can be found at: http://oui.doleta.gov/unemploy/bam/2011/CY_2011_BAM_Methodology.pdf.

During 2012, DOL developed a new metric to measure improper payments that takes into account the "net" effect of UI overpayment recoveries. This measure includes the two components that have been reported annually as part of the IPIA reporting requirements - total overpayments plus total underpayments - which continue to be estimated from BAM, and subtracts the amount of overpayment recoveries, which are based on actual amounts reported by

[1] The 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands (referred to as states/areas) administer UI programs. The U.S. Virgin Islands does not participate in BAM.

the state workforce agencies on the ETA 227 *Overpayment Detection and Recovery Reports* for State UI, UCFE, UCX, EB, and EUC. It should be noted:

- Overpayments include fraud, non-fraud recoverable, and non-fraud non-recoverable overpayments.
- Underpayments include benefits payable to the claimant and underpayments not payable due to state finality rules or other disqualifying issues.
- Both overpayment and underpayment rates include all causes.

On December 13, 2012, OMB informed the Department that this methodology is consistent with OMB's IPERA implementing guidance (OMB memorandum M-11-16) and approved its use beginning with FY 2013 reporting.

III. UI Corrective Actions

OMB has established the following categories to classify the root causes of improper payments in the UI program:

- Documentation and Administrative Errors
- Verification Errors
- Authentication and Medical Necessity Errors

These categories do not align precisely with the way the UI program classifies root causes. The BAM survey collects data on state workforce agency actions associated with the processing of overpayments. **Table 2** displays the crosswalk between the OMB classification for Documentation and Administrative Errors and Verification Errors and BAM data. Since UI does not provide medical benefits of any type, no UI overpayments fit the definition of the Authentication and Medical Necessity Errors category.

Table 2: OMB-Specified Causes of Errors and BAM Data Crosswalk

Overpayment Causes (OMB Classification)	Percent of Overpayments
Documentation and Administrative Errors Total (breakdown listed below)	**11.30%**
Agency Took Incorrect Action	6.24%
Procedures Not Followed by Agency	3.72%
Other Agency Errors	0.91%
Agency Provided Incorrect Information	0.43%
Verification Errors Total (breakdown listed below)	**88.70%**
Issue Not Detectable by Agency Procedures	76.62%
Agency Had Documentation/Did Not Resolve Properly	8.77%
Agency in Process of Resolving	2.72%
New Hire Cross-Match	0.44%
Wage Record Cross-Match	0.15%
Authentication and Medical Necessity Errors Total	**0.00%**

Table 3 reflects the root causes of UI overpayments. The Department classifies the root causes of UI overpayments according to the following categories:

Table 3: Root Causes of UI Overpayments

Annual Report Rate Overpayments	Percent of Overpayments (2013 IPIA Rate)
Benefit Year Earnings	34.60%
Work Search	24.33%
Separation	19.48%
Base Period Wages	4.55%
Able and Available	4.22%
Employer Service Registration	4.16%
Other Eligibility Issues[1]	3.85%
All Other Issues[2]	4.81%
Total	**100.0%**

[1]The category "Other Eligibility Issues" includes refusal of work, self-employment, failure to report for agency review or report requested information, citizenship status, and claiming benefits using a false identity.
[2]The category "All Other Issues" includes adjustments to dependents' allowance, adjustments to benefits due to claimant receipt of income from severance pay, vacation pay, Social Security, or employer pension, back pay awards, payment during a period of disqualification, or agency redetermination of eligibility.

Reducing Improper Payments in Unemployment Insurance

In response to the level of improper payments in the UI program, ETA has developed a Strategic Plan to address several root causes of improper payments. A high level summary of the Strategic Plan is available at http://www.dol.gov/dol/maps/Strategies.htm.

Funds for UI are disbursed and monitored through established systems and processes. In addition, the Department has taken and will continue to take various actions to minimize and manage risk, including the following:

- Conducting outreach to states and other eligible grant applicants to communicate policies and guidelines and utilizing the regional office Federal Project Officers to conduct and document quarterly desk reviews of financial obligations, expenditures, and program performance. Grantees identified as "high-risk grantees" through these reviews are given priority attention for on-site monitoring.
- Training grantees on Federal grant requirements, performance expectations, fiscal and program requirements, and allowable use of funds.
- Closely monitoring the draw-down of UI's funds from the specific accounts and ensuring systems are in place for reporting information required for monitoring and evaluating the operations of these programs.
- Conducting program reviews to ensure that the various activities are properly implemented, including the use of funds according to various operating instructions and guidance provided to the states.

Goals for improving UI's improper payment program include:

- Working with the states to develop and implement processes to identify and recapture improper payments.
- Defining audit procedures to be performed on selected items.
- Developing a framework for identifying improper payments and providing guidance to implement that framework.
- Establishing appropriate payment recapture targets.
- Utilizing statutory and regulatory authorities to recapture improper payments.

Several factors contribute to improper UI payments. Efforts to reduce costs of taking claims and improve customer service prompted the states to design remote claims processing. The transition from in-person claims to remote claims processing (phone and internet) has depersonalized the process, making it easier for claimants to make false statements, and has had the additional side effect of precluding valuable prevention activities (such as agency messaging to reinforce eligibility requirements with claimants and questioning claimants with respect to their active work search efforts and benefit year employment issues) and contributed to the rise of improper payments.

Additionally, the states are required to meet benefit payment timeliness performance standards, which may result in some eligibility decisions that are based on incomplete or untimely information.

DOL is actively working with the states to reduce improper payments. All states have been called to action to ensure that UI integrity is a top priority and to develop state-specific strategies to bring down the overpayment rate. Specific attention and assistance has been given to those states with the largest impact on the improper payment rate. This work is continuing with all the states, particularly those with high overpayment rates.

Additionally, DOL has provided states with supplemental funding to implement strategies and technology-based infrastructure investments that will help the states prevent, detect, and recover UI overpayments. These grants demonstrate DOL's commitment to the development of integrity-related systems focused on the proper payment of UI benefits. These systems can result in significant savings of staff costs for integrity-related activities, increased dollar amounts of overpayments recovered, and prevention of future overpayments.

Between FY 2005 and FY 2012, DOL provided approximately $187.1 million to states in supplemental funding for integrity related projects. Additionally, in FY 2011 $128 million in supplemental funding was provided to three consortia to address outdated IT system infrastructures, all of which are necessary to improve UI integrity. In FY 2012, an additional $92.8 million was awarded to these consortia.

UI Program Letter (UIPL) No. 24-13, issued in July 2013, provided funding opportunities that encourage states to continue efforts to aggressively target UI overpayment prevention and detection, and to develop state-specific strategies to reduce the UI improper payment rate. The funding opportunities are designed to build from the supplemental funding provided in prior years to assist states in developing their own state-specific strategies to prevent, detect, and recover improper payments.

In September 2013 DOL ETA awarded $176.4 million in supplemental funding to 40 states for the prevention, detection, and recovery of improper UI benefit payments; improve state performance; address outdated IT system infrastructures necessary to improve UI program integrity; and enable states to expand or implement Reemployment and Eligibility Assessment (REA) programs. These incentive funds will support state implementation of high-priority activities, including:

- Activities to address Worker Misclassification;
- Implementation of other integrity-related projects, including technology-based prevention, detection, and collection activities;
- Implementing the State Information Data Exchange System (SIDES) earnings / wage verification and monetary and potential employer charges data exchange;

- Subscription fees for maintenance and operation of SIDES;
- Contract staff support for activities that do not require the use of state merit staff;
- UI IT Security and IT Contingency Planning projects; and
- Automation efforts that result in performance and system improvements.

Overpayment Prevention and Detection in Unemployment Insurance

Every state conducts post award audits for the prevention and detection of UI improper payments on benefit payments to determine whether error or willful misrepresentation has occurred in the payment of UI benefits. Every state audits all benefits payments by means of a cross-match against National and State new hire directories and state wage files. However, under certain circumstances, states may exclude payments from these matches if the wages are being reported by the claimant, or if the payment was made to a claimant with a return-to-work date.

These activities are conducted through the use of automated tools and procedures that confirm the identity and legal status of the claimants, search for unreported earnings, and detect other forms of fraud or errors contributing to improper payments in the UI program.

States agencies also maintain the integrity of unemployment insurance and reduce the amount of improper payments by ensuring that employers contribute their fair share of tax and facilitate the return to work of UI claimants.

Some of the most useful tools and practices include:

1. BYE Issues (claimants continuing to claim UI benefits after returning to work)
    a. NDNH – This database is managed by the Department of Health and Human Services, Office of Child Support Enforcement. The NDNH has claims information as well as wage and new hire information from employers including the Federal government and military. States use this database to cross-match between the wage record data to detect unreported earnings and new hire data to identify individuals who continue to claim benefits after returning to work.
    b. State Directory of New Hires – This tool provides information similar to the NDNH, but only contains data reports from employers within the state.
    c. State Quarterly Wage Cross-Match – Paid claims are matched against the quarterly wage records reported by employers to state tax units. The lag in reporting requirements for UI taxes can prevent identification of overpayments in a timely manner.
2. Separation Issues (claimants ineligible to receive benefits due to voluntary quit or discharge for cause)
    a. State Information Data Exchange System – This automated data exchange promotes the receipt of timely information from employers regarding the claimants' separation from employment and verification of earnings upon returning to work. Timely and adequate information from employers provides the state agency with the necessary information to make a determination on the claimants' eligibility and thus prevent improper payments.
3. Verification of Claimant Identity and Other Fraud Prevention Activities
    a. State Department of Motor Vehicles – Helps verify the identity of the claimant.
    b. Social Security Administration (SSA) – Helps confirm identity and benefits from SSA.
    c. Systematic Alien Verification for Entitlement (SAVE) – Maintained by the Department of Homeland Security, SAVE confirms the legal status of non-citizens. The wages used to establish a claim must be earned legally, and after filing a UI claim, non-citizens must be legally authorized to seek and accept employment.
    d. State and Local Prison Records – Some states match claimant data against these records to prevent fraud in the program.

e. Internal state databases record multiple claimants using the same contact information (phone numbers, addresses, bank accounts, or IP addresses). These tools can prevent fraud schemes.

4. Tax Fraud Detection
   a. State Unemployment Tax Act (SUTA) Dumping Detection System (SDDS) – Use of SDDS software helps detect employers who manipulate their tax rates by, for example, shifting employees from accounts with higher tax rates to accounts with lower tax rates.
   b. Worker Misclassification Programs – Includes audits and investigations to prevent worker misclassification by employers. Worker misclassification occurs when an employee is erroneously classified by an employer as a non-employee, which reduces UI tax revenue, as well as the worker's ability to receive UI benefits, worker's compensation, Social Security benefits, health insurance coverage, retirement coverage, and protection under the Fair Labor Standards Act.
5. Reemployment and Continuing Eligibility
   a. Worker Profiling and Reemployment Services – A system designed to identify claimants who are likely to exhaust benefits and refer them to services designed to assist them in returning to work quickly.
   b. Reemployment and Eligibility Assessments – In-person claimant interviews conducted at the One-Stop Career Centers to review continuing UI eligibility and assess reemployment needs, including providing labor market information, assisting with the development of a work search plan, and referral to reemployment services and/or training when appropriate.

IV. UI Improper Payment Reporting

Table 4 shows the Improper Payment Reduction Outlook, for the UI program, for FY 2012 – FY 2016. FY 2012 estimated improper rates and amounts have been revised due to the recoding of BAM data reported by Pennsylvania that reflected legislation establishing new active work search and registration requirements effective January 1, 2012. In April 2013, Pennsylvania requested that these improper payments be reclassified due to the fact that the rule making process had not been completed and, therefore, the new eligibility requirements could not yet be enforced. The Department approved this request in July 2013.

Table 4: UI Improper Payment Reduction Outlook FY 2012– FY 2016 ($ in millions)

Program	FY 2012			FY 2013[3]			FY 2014[1]			FY 2015[1]			FY 2016[1]		
	Outlays	IP %	IP $	Outlays	IP %	IP $	Est. Outlays	IP %	IP $	Est. Outlays	IP %	IP $	Est. Outlays	IP %	IP $
UI Program Total	**$90,190**	**10.78%**	**$9,719**	**$66,788**	**9.32%**	**$6,225**	**$46,340**	**(See Note)**	**(See Note)**	**$41,570**	**(See Note)**	**(See Note)**	**$42,010**	**(See Note)**	**(See Note)**
Annual Report Rate Overpayments[2]		10.17%	$9,168		8.82%	$5,891									
Underpayments		0.61%	$551		0.50%	$334									
Operational Rate		5.99%	$5,402		6.25%	$4,174									
Employment Service Registration		0.65%	$587		0.46%	$306									

[1]Integrity rate targets for FY 2014 to FY 2016 will be set pending additional guidance and consultation regarding estimation methodology with OMB.
[2]For FY 2013 the overpayment rate reflects the Annual Report rate, which includes all overpayments, estimated form the BAM survey, minus overpayments recovered, reported on the ETA 227 *Overpayment Detection and Recovery Report*. The FY 2012 overpayment rate is not adjusted for overpayment recoveries.
[3]The Department allowed New Jersey to suspend BAM operations as a result of Super Storm Sandy. Data for the BAM sampling period November 4, 2012, to February 2, 2013, have been estimated.

Data for the fourth quarter of calendar year 2012 have been estimated for New Mexico, due to methodological issues related to the operation of the BAM survey.

Actual UI outlays in FY 2013 include no benefit payments under the EB, Federal Additional Compensation (FAC) and EUC08 programs funded by the American Recovery and Reinvestment Act of 2009. Recovery Act UI modernization incentive and administrative cost payments to states are not included.

The rates were determined as described in Section II – UI Statistical Sampling and applied to the estimated outlays for the fiscal year. UI rates are estimates based on the BAM statistical survey of State UI, UCFE, and UCX payments.

Because the claims processes and eligibility requirements are very similar for the EB and EUC programs, the estimated improper payment rates are assumed to generally reflect the accuracy of these benefit payments. No benefits were paid under the FAC program in FY 2012 or FY 2013.

An estimated 2.89% of UI benefits were overpaid due to fraud in FY 2013, compared with a 2.85% fraud rate in FY 2012. Overpayments due to fraud are included as part of both the IPIA Rate and Operational overpayment rates.

V. UI Recapture of Improper Payments Reporting

The UI program was deemed cost effective for payment recapture audits. Performing UI payment recapture activities and providing states with tools to aid recovery are top priorities at DOL. DOL's recapture activities have focused on the following areas that offer the greatest opportunity for improvement:

- BYE Issues – These issues arise when a claimant continues to claim and receive UI benefits after returning to work.
- Separation Issues – These issues occur because the claimant files for benefits when they are ineligible to do so, and the state has not received documentation to that effect from the former employer before the claim is processed.
- Work Search Issues - These issues occur when the claimant has not met the state's requirements to conduct an active search for work.
- Employment Service (ES) Registration Issues – These issues occur when the claimant has not registered in the state's Employment Service system (or job bank) when required to do so, and is therefore ineligible for UI benefits.

The Department coordinates with states to recover UI overpayments. Each state's Benefit Payment Control (BPC) unit is responsible for promoting and maintaining UI program integrity through prevention, detection, investigation, establishment, and recovery of improper payments. BPC operations identify UI overpayments for recovery through such methods as cross-matching claimant Social Security Numbers 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, Federal income tax refunds under the Treasury Offset Program (TOP), state income tax offsets, and direct cash reimbursement from the claimant. From FY 2004 through FY 2012, approximately $7.43 billion was recovered for the UI program (including the State UI, UCFE, UCX, EB, and EUC programs).

In February 2011, the Department of Treasury (Treasury) enacted a regulation to permit states to offset UI overpayments through TOP. As of September 2013, 36 states had implemented TOP and 11 other states have received supplemental funding, but have not yet implemented. An estimated $323.8 million in UI overpayments were recovered through TOP in FY 2013.

The states must hold the claimants liable to repay benefits that were received improperly and take an active role to recover improper payments (payment recapture audits). States may waive repayments for non-fraud overpayments when it would be against equity and good conscience pursuant to their state's law.

Some of the recovery activities and tools used by states include:

- Offsets from benefits;
- Offsets from state and Federal income tax refunds;
- Offsets from lottery winnings, homestead exemptions, and other benefits, including the Alaska Mineral
- Refund;
- Interstate recovery agreements;
- Repayment plans;
- Civil Actions, including wage garnishments and property liens;
- Skip tracing, collection agencies, and credit bureaus;
- Probate and Bankruptcy;
- Referral to Office of Inspector General and other Law Enforcement Agencies;
- State and Federal Prosecution; and
- Establishment of interest and penalties on overpayments, which adds an incentive to repay quickly.

Table 5 provides a summary of UI overpayments established and recovered as a result of the activities described above.

Separate rates are shown for State UI, UCFE, UCX, and EB claims only and for State UI, UCFE, UCX, and EB plus EUC claims. Recovered overpayments for State UI claims are returned to the UI account from which the benefits were originally paid. EUC and EB overpayments that are recovered by the states are returned to the EUCA account within the UI Trust Fund.

Table 5: UI Overpayments Established and Recovered By Fiscal Year (Excluding Waivers)

Fiscal Year	Overpayments Established UI/UCFE/UCX/EB	Overpayments Recovered UI/UCFE/UCX/EB	Recovered %	Overpayments Established UI/UCFE/UCX/EB + EUC	Overpayments Recovered UI/UCFE/UCX/EB + EUC	Recovered %
2004	$1,101,549,360	$528,941,410	48.02%			
2005	$960,277,791	$488,807,550	50.90%			
2006	$979,836,264	$511,524,977	52.21%			
2007	$952,898,179	$531,724,056	55.80%			
2008	$1,002,131,148	$571,160,044	56.99%	$1,010,170,720	$572,970,520	56.72%
2009	$1,456,403,205	$850,987,241	58.43%	$1,736,295,243	$914,626,113	52.68%
2010	$1,906,310,909	$966,016,812	50.67%	$2,834,448,745	$1,179,889,999	41.63%
2011	$1,887,177,040	$997,967,260	52.88%	$2,995,716,708	$1,298,988,280	43.36%
2012	$1,740,389,347	$1,015,228,074	58.33%	$3,021,708,061	$1,400,128,425	46.34%

The states are required to report quarterly on overpayment detection and recovery activities on the ETA 227 Report. The amounts established and recovered are based on reports submitted during the indicated fiscal year. However, the actual payment of benefits may have occurred in a prior fiscal year.

The information reported on the ETA 227 Report is based on actual counts of UI overpayments identified and recovered by the state agencies. This is in contrast to the estimates of UI overpayment rates and amounts that are reported for the IPIA, which are based on the results of BAM. BAM is a statistical survey of paid and denied UI claims. The results of the BAM audits are projected to the population of benefit payments for all unemployment compensation programs: State UI, UCFE, UCX, EB, and EUC. These BAM estimates may be significantly higher than actual overpayments identified for recovery because: 1) the BAM audits detect eligibility issues that usual BPC detection methods will not identify, because it is very workload intensive and/or not cost effective to detect (for example, verification of all claimant work search activity or that all claimants were able and available for work); or 2) the overpayment is not recoverable because the responsibility for the improper payment is the agency's and/or the employer's, rather than the claimant's, or due to state finality rules.

"Overpayment Establishments" have been adjusted to subtract waivers, which are overpayments that the state agency has determined are not recoverable. The Unemployment Insurance Report Handbook (ET Handbook 401, 4th edition, Section IV, Chapter 3, p. 10) defines a waiver as:

> "A non-fraud overpayment for which the state agency, in accordance with state law, officially relinquishes the obligation of the claimant to repay."

Usually, this is authorized when the overpayment was not the fault of the claimant and requiring repayment would be against equity and good conscience or would otherwise defeat the purpose of the UI law.

DOL believes that this definition is consistent with the criteria established by OMB for evaluating the cost effectiveness of a payment recapture program in the revised Appendix C, Part I.B, Section 5 of Circular A-123.

Table 6 compares the overpayment establishment and recovery rates for UI/UCFE/UCX/EB claims versus EUC claims. The lower recovery rates for EUC reduce the overall recovery rates that include all UI benefit programs.

Table 6: Comparison of UI/UCFE/UCX/EB and EUC Overpayments Established and Recovered ($ in billions)

Fiscal Year	UI/UCFE/UCX/EB Outlays	Overpayments Established UI/UCFE/UCX/EB (excluding waivers)	Established As a Percent of Outlays	Overpayments Recovered	Recovered as a Percent of Established
2008	$38.88	$1.002	2.58%	$0.571	56.99%
2009	$80.42	$1.456	1.68%	$0.851	58.43%
2010	$72.36	$1.906	2.63%	$0.966	50.67%
2011	$62.02	$1.887	3.04%	$0.998	52.88%
2012	$50.61	$1.740	3.44%	$1.015	58.33%
Fiscal Year	**EUC Outlays**	**Overpayments Established***	**Established As a Percent of Outlays**	**Overpayments Recovered**	**Recovered as a Percent of Established**
2008	$3.55	$0.008	0.23%	$0.002	22.54%
2009	$32.66	$0.280	0.86%	$0.064	22.74%
2010	$72.09	$0.928	1.29%	$0.214	23.04%
2011	$52.66	$1.109	2.11%	$0.301	27.15%
2012	$39.58	$1.281	3.24%	$0.385	30.04%

The recovery rate for EUC overpayments is significantly less than the recovery rate for state UI and EB overpayments due to several factors:

- Many of these claimants have exhausted benefits, and therefore, states are unable to offset overpayments against their unemployment compensation payments.
- The legislation establishing the EUC program limits offsets to 50% of the amount payable to the claimant for the compensated week. The Middle Class Tax Relief and Job Creation Act of 2012 (Public Law 112-96) removed this restriction, which contributed to the increase in recoveries of EUC overpayments in FY 2012.
- Claimants who have been unemployed for long durations have few resources available for the repayment of overpayments.
- The severe decline in the housing market removed the option that states have used to recover overpayments by attaching liens to an individual’s property and recovering the overpayments when the property is sold.
- Many states reassigned BPC staff to process claims when workloads increased sharply during the recession, thereby leaving fewer staff to identify and recover overpayments.

The ETA 227 Report captures data on the causes of overpayments, the method of detection, recovery and reconciliation, criminal and civil actions, and the aging of benefit accounts. After eight quarters, the overpayments are removed from the total outstanding balance on this report. This does not affect the state’s accounting practices. When overpayments are recovered that have been removed from the reported outstanding balance, the amount will be added back to report the recovery in the quarterly report, regardless of when the overpayment originally occurred. States are now able to attempt recovery of these older unemployment compensation debts through TOP by offsetting the claimant’s Federal income tax returns. When improper payments are recovered, they are returned to the states’ UI trust fund account from which they were paid.

A cost-benefit analysis conducted in 2012, which updated the methodology of a cost-benefit analysis conducted in 2001, indicates that an additional $6.52 will be recovered for every $1 invested in BPC, based on the inflation adjusted average returns on investment for the period FY 2001 to FY 2011. In addition to the methodology replicating the FY 2001 study, regression models were constructed to identify variables with statistical associations with UI overpayment detections and recoveries. The period of analysis was FY 2007 to FY 2011 for all states and territories excluding the Virgin Islands. The model for UI overpayment detections indicates that estimated overpayments (from the BAM survey) explained the largest proportion of the variance, followed by EB benefit payments, and BPC funding. This indicates that state BPC operations can detect additional overpayments as the pool of overpayments expands up to a point using existing resource levels. The model indicates that agencies will identify and possibly recoup a little more than $5 in overpayments for every additional dollar in BPC funding they receive.

With respect to overpayment recoveries, the model suggests that recoveries are largely a function of the pool of overpayments and the amount of those overpayments that the agency establishes. The model also indicates that recoveries are unresponsive to changes in BPC resource levels, although these resources are important to support additional overpayment detections, which are in turn significant with respect to recoveries.

Table 7 shows the payment recapture audit reporting for the UI program.

Table 7: Payment Recapture Audit Reporting ($ in millions)

Status	Benefits (UI)
Amount Subject to Review for Current Year (CY) 2013 Reporting	$66,788
Actual 2013 Amount Reviewed and Reported	N/A[1]
Amount Identified for Recovery in 2013	$2,579
Amount Recovered in 2013	$1,456
% of Amount Recovered Out of Amount Identified in 2013	56.5%
Amount Outstanding in 2013	$1,685[2]
% of Amount Outstanding Out of Amount Identified in 2013	65.3%[2]
Amount Determined Not to be Collectable in 2013	$1,303[3]
% of Amount Determined Not to be Collectable Out of Amount Identified in 2013	50.6%[3]
Amounts Identified for Recovery in Prior Years (PYs) 2004-2012	$15,593
Amounts Recovered in PYs 2004-2012	$7,428
Cumulative Amounts Identified for Recovery (CY + PYs)	$18,172
Cumulative Amounts Recovered (CY + PYs)	$8,884
Cumulative Amounts Outstanding (CY + PYs)	$4,358[4]
Cumulative Amounts Determined Not to be Collectable (CY & PYs)	$6,333[3]

Note: Amounts include State UI, UCFE, UCX, EB, and EUC programs. Data for FY 2013 are estimated based on data submitted on the ETA 227 report for the period July 1, 2012, through June 30, 2013, the most recent period for which data are available.

[1]UI payments are reviewed by each state, not by the DOL, in accordance with the provisions of the Social Security Act of 1935 and under state UI law. Each state follows review procedures, such as matching paid claims against the National Directory of New Hires and other databases to detect benefits which are improperly paid and use a variety of tools to recover benefits overpaid such as leveraging the U.S. Treasury Offset Program. Overpayments detected and recovered are reported to DOL on the quarterly Overpayment Report, ETA 227.

[2]Includes that portion of overpayments reported as outstanding on the ETA 227 and EUC 227 Reports (line 313) that were 360 days old or less as of the report date. Overpayment aging data are not available for EUC overpayments and have been imputed from UI, UCFE, UCX, and EB overpayment aging data.

[3]Includes overpayments written off (ETA 227 and EUC 227 Reports, line 309) and receivables removed after two years unless recovery is in progress (ETA 227 and EUC 227 Reports, line 312).

[4]Includes total overpayments reported as outstanding on the ETA 227 and EUC 227 reports (line 313) as of the report date.

Table 8 shows the UI program's established annual targets which drive performance. The targets are based on the rate of recovery.

Table 8: Payment Recapture Audit Targets ($ in millions)

Type of Payment	Current Year 2013 Amount Identified	Current Year 2013 Amount Recovered	Current Year Recovery Rate (Amount Recovered / Amount Identified)	2013 Recovery Rate Target	2014 Recovery Rate Target	2015 Recovery Rate Target
UI Benefits	$2,579 [1,2]	$1,456 [2]	56.5% [2]	55%	58%	65%

Note: Amounts include State UI, UCFE, UCX, EB, and EUC programs.
[1]Excludes amounts waived for recovery.
[2]2013 amounts based on data for the period July 1, 2012 through June 30, 2013, the most recent period for which data are available.

Table 9 is an aging schedule of the amount of overpayments identified through the UI program's payment recapture audit program that are outstanding (i.e., overpayments that have been identified but not recovered).

Table 9: Aging of Outstanding Overpayments ($ in millions)

Type of Payment	Current Year Amount Outstanding (0-6 months)	Current Year Amount Outstanding (6 months to 1 year)	Current Year Amount Outstanding (over 1 year)
UI Benefits	$582.9 [1]	$471.7 [2]	$1,675.8 [3]

Note: Amounts include State UI, UCFE, UCX, and EB programs. Aging data are not available for EUC overpayments. Aging status is as of June 30, 2013.
[1]Amounts outstanding less than or equal to 180 days.
[2]Amounts outstanding more than 180 days and less than or equal to 360 days.
[3]Amounts outstanding more than 360 days.

Table 10 describes the purpose for which recaptured funds were used.

Table 10: Disposition of Recaptured Funds ($ in millions)

Type of Payment Agency	Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
UI Benefits				$1,456		

No UI benefit overpayments were recovered outside of payment recapture audits.

VI. UI Accountability

The ETA is responsible for Federal oversight of state unemployment insurance (UI) programs, including oversight of state activities to reduce and recover improper UI benefit payments. ETA has taken/continues to take the following steps to hold Federal managers accountable for reduction and recovery of improper UI payments by states. State workforce agencies administer the UI program and set operational priorities within the resources available. The Department has limited authority to link the performance of state workforce agency staff to improper payment reduction goals and targets. However, ETA has established a robust set of performance measures used to evaluate the states' overall operational performance. States not meeting the criteria set for these measures are expected to submit corrective action plans as part of their annual State Quality Service Plan submission. The UI Performs measures are summarized at http://workforcesecurity.doleta.gov/unemploy/pdf/Core_Measures.pdf.

In response to the level of improper payments in the UI program, ETA developed a Strategic Plan to address the several root causes of improper payments which were described in detail earlier in this document at Section III – UI Corrective Actions. In FY 2013, ETA continued 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.

- As part of their State Quality Service Plan (SQSP), states are required to prepare an Integrity Action Plan. The plan must identify the state officer(s) accountable for reducing improper payments, summarize the state's assessment of whether it has the internal controls, human capital, and information systems and other infrastructure needed to reduce improper payments to minimal cost-effective levels, and identify any statutory or regulatory barriers which may limit the agency's corrective actions in reducing improper payments. Additionally, the plan must discuss the root causes of improper payments and present the state's strategies to address these causes.
- ETA requires states to operate the BAM survey to measure and report the percent, dollar amount, and reasons for improper payments. Data are derived from investigations of a statistically valid sample of payments using federally prescribed procedures. ETA reviews this data for validity, analyzes the data for each state, and makes the data available publicly on ETA's Office of Unemployment Insurance (OUI) Web site http://oui.doleta.gov/unemploy/bam/2011/bam-cy2011.pdf. Data review, analysis and publication are included in the performance plan of the Administrator of ETA's OUI and in the elements and standards of numerous staff in that office.
- ETA has implemented a core performance measure for detection of overpayments by state UI programs. State performance data is available at http://oui.doleta.gov/unemploy/3yr_ranking.asp. States that fail to meet the performance criterion submit corrective action plans. Analysis of state performance and monitoring of states' corrective actions continue to be evaluation factors in OUI managers' performance plans.
- ETA has developed additional performance measures that require states to:
  - Reduce by 30% after the first year of implementation and by 50% after the second year of implementation those overpayments attributable to individuals who continue to claim UI benefits after they return to work;
  - Meet the less than 10% improper payment rate criterion included in IPERA; and
  - Meet a minimum UI overpayment recovery rate target.
- ETA has promoted and continues to promote cost effective methods for states to prevent, detect, and recover improper UI benefit payments. Development, delivery, and/or successful implementation of these initiatives by states have been and continue to be factors on which the OUI administrator and managers are evaluated. These initiatives were described in detail earlier in this document at Section III – UI Corrective Actions.
- *National Integrity Conference:* In order to provide a forum for disseminating successful practices for preventing, detecting, and recovering UI overpayments, ETA, working with the National Association of State Workforce Agencies (NASWA) sponsors a biennial National Unemployment Insurance Integrity Professional

Development Conference. The 2012 UI Integrity Summit was held in Arlington, Virginia, March 12-14, 2012. The next conference is scheduled for spring 2014.

As part of its monitoring and oversight responsibilities of the State's UI operations, the Department takes an active role in facilitating and promoting strategies to reduce improper payments and meet the payment accuracy and recovery targets required by IPERA. However, it should be noted that these strategies require the cooperation and implementation by individual states, including in some cases changes to state laws and regulations. The Department has no explicit authority over how states establish priorities in administering their UI programs and, therefore, can only make recommendations and provide technical assistance in the use of these strategies.

VII. UI Agency Information Systems and Other Infrastructure

States have internal controls, processes, programs, and staff in place throughout all operations of the UI program dedicated to protection from internal threats and vulnerabilities. These threats and vulnerabilities include physical damage and harm to staff and property, misuse of administrative funds and assets by agency staff, and misuse of UI funds by agency staff. It is incumbent upon the state agencies to have a series of protections in place addressing controls such as the granting of systems access, developing and upholding security policies and procedures, the proper configuration of hardware and software, basic physical safeguards, backup tests and disaster recovery provisions, regular audits, ongoing employee training, etc.

While state Internal Security (IS) programs are intended to identify and eliminate system vulnerabilities, the risk remains of losses from the issuance of improper UI benefit payments and misuse of administrative funds due to fraud, waste, and abuse. States are expected to review these controls and update them regularly to eliminate new threats and vulnerabilities as technology and business practices in the administration of the UI program evolve.

Although integrity is the responsibility of all agency staff, the states have dedicated staff conducting BPC activities to prevent, detect, and recover improper payments. These staffs work closely with agency management to assure that sufficient controls are in place to prevent improper payments, conduct complex fraud investigations, and operate the activities required to recover improper payments if they have been made.

ETA is also engaged with the states to monitor activity and provide technical assistance to ensure that states are able to utilize the integrity tools that are available. For example, as a result of ETA monitoring, states modified computer matching procedures to improve the productivity of NDNH as a resource to detect improper payments.

ETA is also working closely with the state agencies to develop the information systems and infrastructure to support SIDES and to access TOP for UI overpayment recovery.

State UI benefit and tax systems vary in terms of their performance capacities, capabilities, and their adaptability to new UI programs and integrity strategies. In response, between FY 2005 and FY 2012 the Department provided approximately $187.1 million to states in supplemental funding for integrity-related projects and awarded an additional $128.0 million in September 2011 and $92.8 million in September 2012 to three state consortia. (A description of these consortia is provided earlier in this document at Section III – UI Corrective Actions.) These resources will fund activities to support the prevention, detection, and recovery of improper UI benefit payments, improve performance, and address outdated IT system infrastructures, all of which are necessary to improve UI integrity.

UIPL No. 24-13, issued in July 2013 and available at http://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=6992, solicited state Supplemental Budget Request grant proposals. (UI integrity activities eligible for Supplemental Budget Request grants are discussed earlier in this document at Section III – UI Correction Actions.) Based on positive outcomes from previous investments in integrity efforts, UIPL No. 24-13 also invited states that commit to implementation of all core activities, or have already implemented the core activities, to submit Supplemental Budget Request grant proposals for consortium projects.

In September 2013, ETA awarded $176.4 million in supplemental funding to 40 states for the prevention, detection, and recovery of improper UI benefit payments; improve state performance; address outdated IT system infrastructures necessary to improve UI program integrity; and enable states to expand or implement REA programs. Included in these awards are three consortia grants totaling $98.8 million for projects designed to improve overall program quality, performance, and integrity.

VIII. UI Barriers

The UI program has several statutory barriers to reducing improper payments. States administer the UI program and set operational priorities. The Department has limited authority to ensure they pursue improper payment reduction activities. The most significant recent legislation affecting the UI program was *The Middle Class Tax Relief and Job Creation Act of 2012* (Public Law 112-96), February 22, 2012. A detailed description of the Act's provisions, DOL guidance, and other reference documents can be found on the OUI Web page:
https://www.oui.doleta.gov/unemploy/jobcreact.asp.

Other Barriers and Department Response

The Department of Treasury requires states to use merit-based state government staff to access TOP data. However, several states use contract staff to perform program activities that require accessing TOP data. Some states have reported difficulties in implementing the TOP program due to Treasury's mandate to use merit staff.

Treasury is working with the Department to provide customized technical assistance to resolve this issue.

ETA has developed Integrity legislation to mandate state implementation of TOP and SIDES, mandate state requirements related to NDNH, require states to implement specific corrective actions and use specified amounts of their grants to improve performance, and mandate that UI Penalty and Interest is UI Program Income. The package has been approved by the Department and ETA is drafting legislative specifications and language for clearance by OMB. Legislative language is expected to be transmitted to Congress, pending OMB approval.

Workforce Investment Act Grant Programs

Programs funded through the Workforce Investment Act of 1998 (WIA) form a comprehensive workforce investment grant strategy overseen by ETA for delivering employment and training services. WIA programs primarily provide grant funds to states, which in turn award the majority of the funds to local Workforce Investment Boards, which award sub-grants and/or contracts to One-Stop service centers/sub-grantees. WIA programs also provide grant funds to non-state grantees on a discretionary basis. The financial records and other documentation supporting WIA outlays at the state level, and lower tiers are located at the grantee and sub-grantee locations rather than at the DOL National Office.

I. WIA Risk Assessment

The group of programs funded through Workforce Investment Act of 1998[1] grants was classified as "at-risk" in OMB's Circular A-11, Section 57, in 2001. The Department's risk assessments over the past several years, however, do not support a high-risk designation, but the Office of the Chief Financial Officer (OCFO) and ETA continue to perform improper payments analysis each year.

While WIA is often referred to as one program, in actuality, WIA grants fund nearly a dozen different programs. Certain programs are considered a "cluster," defined as a grouping of closely-related programs with similar compliance requirements. Clusters are treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* which provides the implementing guidance for the Single Audit Act of 1984, as amended in 1996 (SAA). The SAA

[1] Public Law No. 105-220, 112 Stat. 936-1059; 29 U.S.C. 2811 *et seq*. Regulations are at 20 C.F.R. parts 660-671.

establishes uniform audit requirements for States, local governments, Indian Tribes and non-profit organizations (non-Federal entities) receiving Federal awards. One of the main purposes of the SAA is to promote sound financial management, including effective internal control, with respect to Federal awards. For purposes of improper payments analysis, OCFO and ETA focus on programs included in the A-133 "WIA Cluster," which consists of the WIA Adult Program (Catalog of Federal Domestic Assistance (CFDA) No. 17.258), WIA Youth Activities (CFDA No. 17.259) and WIA Dislocated Worker Formula Grants.[1] These programs are authorized by Title I of WIA.

DOL computed the estimated error rate for FY2013 based on an extensive analysis of all available sources of improper payment information, including questioned costs identified in OMB Circular A-133 Single Audit Act reports (SAA reports) for 2011 (the most recent year with complete information), recent Employment and Training Administration (ETA) regional monitoring reports, and DOL's Office of the Inspector General (OIG) audit reports issued for the three most recent years ending March 31, 2013.

Based on results of all analyses and assessments, the estimated rate of improper payments for WIA programs is about 0.194 percent—well under the established threshold of a risk-susceptible program. Applied to FY2013 outlays of $2.995 billion, the estimated dollar amount is approximately $5.8 million.

DOL remains consistent with how WIA funds are disbursed and monitored through established systems and processes. The Department continues to ensure that all grantees deliver agreed upon products and services, achieve negotiated performance outcomes, and operate in accordance with programmatic, administrative, and budgetary requirements, which minimizes and manages risk.

Specific objectives over grant performance include the following:

- Oversee grant compliance, progress, and achievement through the use of a variety of oversight tools.
- Identify grantees' individual and collective training and technical assistance needs and arrange for such training and technical assistance within the parameters of available resources.
- Develop and update monitoring plans to target at-risk grantees.

For FY 2013, the Department used the same methodology to estimate the improper payment rate for the WIA grant program as was used in FY 2012. This methodology is similar to previous measurements.

II. WIA Statistical Sampling

The following sampling was performed for the WIA grant program:

Sampling Process: Unlike DOL's benefit programs, data is not readily available to allow the Department to directly sample grant payments and develop a statistically valid estimate of improper payments. The grant programs' funding stream makes it very difficult to assess the improper payment rate on payments to final recipients. The Department provides grants to states, cities, counties, private non-profits, and other organizations to operate programs, and relies significantly on Single Audit Act reports (which are required by the Single Audit Act of 1996[2]) to monitor funding to all grant recipients. Based on a review of the definition of questioned costs in OMB Circular A-133 and OMB's IPIA implementation guidance, the Department determined that questioned costs can be used as

[1] Program clusters are found in the OMB Circular No. A-133 Compliance Supplement, which is updated regularly. Over the years, other CFDA numbers have been included in the WIA Cluster: CFDA No. 17.260 Dislocated Workers, National Emergency Grants and CFDA No. 17.255 Workforce Investment Act. To gather the most information possible, OCFO collected information on these additional programs.

[2] The Single Audit Act of 1996 provides for consolidated financial and single audits of state, local, non-profit entities, and Indian tribes administering programs with Federal funds. Non-Federal entities that expend $500,000 or more of Federal awards in a year are subject to a consolidated financial single audit; any non-Federal entities that do not meet this threshold are not required to have a single audit. All non-Federal entities are required to submit all single audit reports to a Federal Audit Clearinghouse (Clearinghouse) that is administered by the Census Bureau.

a proxy for improper payments. Therefore, in FY 2013 results of Single Audit Act (SAA) reports, along with other data, were utilized to determine the improper payment rate for the WIA grant program.

The Department reviewed FY 2011 (most recent available) Single Audit Act reports with DOL-related findings from the Federal Audit Clearinghouse (which is the national repository of Single Audit Act reports) and identified all WIA program questioned costs included in such reports. As additional evidence that no other audit reports included questioned costs for the DOL grant programs, the Department selected and reviewed random samples of audit reports classified in the Clearinghouse database as not having any questioned costs.

In addition to using the Single Audit Act reports, the Department performed additional analyses to assess the level of improper payments, including a review of the results of monitoring work performed by ETA regional staff responsible for managing the WIA program and DOL OIG audit reports issued for the WIA program. To determine an approximate rate of improper payments for the grant programs, the Department divided the average annual amount of questioned costs from these sources by the three-year average of direct program outlays leading up to that year. The resulting improper payment rate (assumed to be representative of the FY 2013 rate) was applied to the WIA program outlays for FY 2013 to determine the estimated improper payment amount for FY 2013.

The Department determined that it would not be cost effective to evaluate a statistically valid nationwide sample of WIA grantees and sub-grantees each year and perform detailed reviews focused on measuring the nationwide WIA improper payment rate. However, the Department continues to consider methods for improving its methodology for estimating the rate.

III. WIA Corrective Actions

The WIA estimated improper payment rate for FY 2013 of 0.19% applies to two of OMB's three categories of error, "Documentation and Administration Errors" at 0.17% and "Verification Errors" at 0.02%. No errors in the WIA program fit the definition of "Authentication and Medical Necessity Errors".

The improper payment rate estimate work indicated that the major types of errors found in the WIA program are primarily administrative in nature, including allowable costs/cost principles, participant eligibility, and sub-recipient monitoring.

Grant operations are monitored on a continuing basis to ensure that grant activities conform to requirements. Monitoring activities are carried out primarily at the regional level by Federal Project Officers (FPOs), and include annual risk assessments, on-site monitoring visits, as well as annual and quarterly desk reviews, all tracked electronically in the Grants Electronic Management System (GEMS). Once each year for formula funded grants, and upon award for discretionary grants, FPOs assess the risk of each grant assigned using reported information and knowledge of the grantees and the grant activities. This assessment is also used to determine the level of monitoring to be used in the future (i.e., site visits or technical assistance). For all grants that are considered high risk according to the annual risk assessments, on-site visits are conducted to give the FPO an idea of what activities are being carried out by the grantee, and whether or not the grantee is working within the legal limits of the grant. Quarterly reviews of financial and performance reports submitted by grantees are performed to ensure timeliness, accuracy, and satisfactory progress of completion toward program outcomes. At the end of each quarter, each grantee is required to submit a performance based progress report to the regional FPOs. Performance progress reports indicate participant service activity and accomplishments against project goals. The grant agreement outlines when the progress report is due (i.e., within 15 or 45 days), depending on the fund source. The FPO reviews this report to determine if the grantee is meeting projected goals and operating within the terms of the grant agreement. The review consists of the FPO comparing the report to the grant agreement to determine if the grantee has been performing according to its plan and will meet all goals for the grant as documented in the work plan. If there is a deviation, the ETA will work with the grantee to offer technical assistance and assist in getting the grant back on track.

All reviews are documented, and deficiencies may result in formal corrective active plans. The FPOs provide both written and verbal results of reviews to regional management staff and grantees. A record of all of the above reviews (e.g., risk assessments, on-site reviews, annual desk reviews, and quarterly reviews) is maintained in GEMS, which allows the FPOs to create an electronic working file of their grant management and oversight activity and also provides supervisors and program managers with key grants management information. Regional Administrators and their management team within the regional offices are responsible for ensuring that all required monitoring is conducted by FPOs.

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 Single Audit Act reports, which identify questioned costs and/or administrative weaknesses in need of correction. These items evaluated using the same determination process noted above; disallowed costs are forwarded for collection, and resolutions reported back to the OIG. In addition, these units participate in special grantee reviews and provide fiscal policy training for grantee and Federal staff.

Overpayment Prevention and Detection

DOL has established processes that help to prevent, detect and/or recapture overpayments for the WIA program. DOL's Employment and Training Administration (ETA) performs grant monitoring activities on direct grants on a periodic basis[1]. Similarly, for formula grants, the States monitor their sub-recipients (pass-through grantees), which in turn monitor their sub-recipient grantees. DOL regional monitoring teams also make on-site visits to select direct grantees and sub-recipients each year. This cascading monitoring structure results in all grantees and sub-grantees being monitored on a regular basis.

ETA also manages grant closeouts, reviewing final grantee reports, the grant closeout package, related recommendations, and other documents, to determine whether the objectives of the grants were accomplished and that all funds were expended as authorized. Questioned costs are resolved through the normal determination process.

In addition to these monitoring activities, DOL grant programs and their grantees and sub-grantees are subjected to numerous GAO audits, DOL OIG audits, and annual audits by CPA firms who perform Single Audit Act audits of Federal grantees. These audits address a wide range of issues, including program effectiveness, management and operational issues, financial statements, internal controls, and identification of unallowable costs (questioned costs/improper payments). Grants are also covered in the annual DOL internal control assessment, per OMB Circular A-123, Appendix A, which evaluates controls that could impact improper payments. All these monitoring activities and related audits and assessments serve as a basis for identifying and correcting issues that could potentially lead to improper payments. For FY 2013, DOL developed the *Grants and Cooperative Agreements Closeout Handbook* and tracked compliance through quarterly certifications to OCFO by ETA management.

Use of Single Audit Act Reports to Prevent, Reduce, and Recapture Improper Payments

All non-Federal entities that are subject to a Single Audit Act audit are required to submit summary level results from their audits and a copy of the audit report to the Federal Audit Clearinghouse (Clearinghouse), which is administered by the Census Bureau and operates on behalf of OMB. The Clearinghouse is a central repository of information on all Single Audits conducted each fiscal year. For findings noted in Single Audit Act reports, OMB

[1] Depending on the grant agreement, grant expenditures may be monitored either on a monthly or quarterly basis, in addition to annual reviews.

guidelines require a corrective action plan to be included in the report, and, in subsequent reports, the status of prior year findings is to be reported.

DOL leverages Single Audit Act audits to review and address issues reported relative to DOL grant funds using an established periodic review cycle. Additionally, in the summer of each year, ETA verifies that a random sample of grantees has conducted and obtained Single Audit Act audits. ETA personnel select the random sample using IDEA software. They then access the Clearinghouse and verify that the selected grantees have had Single Audit packages filed within the prior two years. If any control deficiencies were noted in the audit package and audit report, ETA personnel will contact the DOL OIG to verify that the OIG has the report in its tracking system and is following up for resolution. If no report is in the Clearinghouse, ETA personnel will follow up with the grantee to determine if a Single Audit was conducted. If a Single Audit Act audits was conducted, then ETA personnel request the grantee to submit the report to the Clearinghouse. If not, the grantee is referred to the Office of Grants and Contracts Management for follow-up.

For grantees with Single Audit Act reports identifying funding received directly from DOL and that also identify materials weaknesses or significant deficiencies, DOL OIG forwards the reports and finding details to the appropriate DOL agency for issue resolution. The responsible agency(s) then determines how to most appropriately resolve the questioned costs noted in the report. All findings for direct grantees are considered important to resolve, especially those deficiencies that are related to sub-recipient monitoring, and all findings are tracked through to resolution.

The report itself may describe corrective actions that have already been taken, and the A-133 auditor has accepted the actions taken as appropriate to resolve the finding. In this case, the agency simply verifies that the actions described in the report were taken.

With some questioned costs, a review must be conducted to determine the exact amount of questioned costs that are actually improper overpayments and therefore subject to recapture. These reviews may involve on-site visits to, or email exchanges and discussions with, the grantee to establish the facts related to the questioned costs. At the conclusion of this review, the grantee will be informed of the agency's final determination decision, and be required to take whatever corrective actions that may be required to resolve the questioned costs. The agency then verifies that the required actions were performed.

With most questioned costs, the amount of improper overpayments is clearly identified in the report, and the grantee is already engaged in the process of either reimbursing DOL for the overpayment or adjusting their drawdown for a subsequent period to reflect the fact that they have already received the funds to reimburse their subsequent grant expenditures. When refunds are collected, they are returned to the original year and appropriation from which the obligation was established. For cancelled appropriations, the refunds are returned to the U.S. Treasury.

For sub-grantees with A-133 Reports identifying funding received from direct grantees (e.g., states), monitoring of issue resolutions is the responsibility of the direct grantees that passed the funds through, although the appropriate DOL agency may also track resolution through their own grant monitoring and close-out processes.

For example, within ETA, once determinations are final, they are referred to ETA's accounting office to establish the debt. The ETA accounting office will perform standard collection activities to collect the debt, and if unable to do so, will refer the debt to Treasury for further collection efforts.

IV. WIA Accomplishments in the Area of Funds Stewardship Beyond the Primary Recipient

WIA grants support employment and training services by states and local entities and represent a major investment by the Federal Government for the benefit of the public. DOL oversees grantee and sub-grantee operations through regular monitoring reviews by its regional office staff, using established systems and processes. The reviews target at-risk grantees and focus on high-risk areas. The reviews assess performance and track data on quarterly financial reports back to the grantee's source records and systems to identify and report problem areas.

V. WIA Improper Payment Reduction Outlook

Table 11 shows the Improper Payment Reduction outlook, for the WIA program, for FY 2012 – FY 2016.

Table 11: Improper Payment Reduction Outlook FY 2012– FY 2016 ($ in millions)

Prog.	FY 2012			FY 2013[1]			FY 2014			FY 2015			FY 2016		
	Outlays	IP %	IP $	Outlays	IP%	IP$	Est. Outlays	IP % target	Est. IP $ target	Outlays	IP % target	Est. IP $ target	Outlays	Est. IP % target	Est. IP $ target
WIA	$3,406	0.22%	$7.5	$2,995	Target 0.44% **Actual 0.194%**	Target $13.2 **Actual $5.81**	$3,550	0.44%	$15.6	Projected $3,384	0.44%	$14.9	Projected $3,365	0.44 %	$14.9

[1]The 2013 WIA IP rate is comprised of 0.17% overpayments and 0.02% underpayments.

VI. WIA Recapture of Improper Payments Reporting

During FY 2012, a pilot feasibility study was conducted to establish the feasibility and cost-effectiveness of payment recapture audits at the grantee level for the WIA program. It was determined that payment recapture audits at the grantee level, while feasible for various types of outlays, would not be cost-effective; therefore, tables have not been provided. For WIA programs, identification of overpayments for recovery is primarily done through ETA's onsite monitoring activities, Single Audit Act reports, and OIG program audits. From FY 2009 through FY 2013, approximately $1.5 million has been recovered. **Table 12** displays overpayments recaptured outside of recapture audits.

Table 12: Overpayments Recaptured Outside of Payment Recapture Audits

Agency Source	Amount Identified (2013)	Amount Recovered (2013)	Amount Identified (2009-2012)	Amount Recovered (2009-2012)	Cumulative Amount Identified (2009-2013)	Cumulative Amount Recovered (2009-2013)
WIA Post-Payment Reviews	$244,644	$31,022	$24,651,194	$1,436,586	$24,895,838	$1,467,608

For sub-grantees with Single Audit Act reports identifying funding received from direct grantees (e.g., states), monitoring of issue resolutions is the responsibility of the direct grantees that passed the funds through, although the appropriate DOL agency may also track resolution through its own grant monitoring and closeout processes. For example, within ETA, once determinations are final, they are referred to ETA's accounting office to establish the debt. The ETA accounting office performs standard collection activities to collect the debt, and, if unable to collect, refers the debt to Treasury for further collection efforts.

VII. WIA Accountability

ETA revised and expanded training for all grant managers in FY2012. GEMS tracks the grant managers' grant review actions and provides the grant managers with financial and other information useful in managing the grants. The ETA Division of Policy Review and Resolution (DPRR) 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. As noted above, DOL also created the *Grants and Cooperative Agreements Closeout Handbook*, and tracks compliance through Quarterly Certifications provided to the OCFO by ETA management.

VIII. WIA Agency Information Systems and Other Infrastructure

WIA programs utilize various tools to execute the risk management process to assess and monitor grantees.

These tools include the Enterprise Business Support System (EBSS), in concert with GEMS. EBSS is a web-based solution used to track and manage grants. A component of the EBSS is the automated grant cost reporting system that captures grant costs and obligations, which improves fiscal integrity. The combination of the two is part of the cradle-to-grave electronic grants solution for the entire Department. The GEMS system, mentioned also in Section III of this document, is an online grants management tool meant to provide web accessible, role-based context access to grant-related information from multiple sources. The utilization of the GEMS system by the Federal Project Officers (FPO) and program management and financial staff allows ETA a coordinated and comprehensive repository of grant-specific information. ETA published a data validation supplement to the *Core Monitoring Guide* used by its FPOs. The supplement includes a “Resource and Tool Guide,” which provides step-by-step instructions and basic training on data validation for FPOs.

IX. WIA Barriers

No statutory or regulatory barriers exist that limit WIA's ability to address and reduce improper payments. WIA programs have the legal authority to establish receivables and implement actions to collect those receivables.

X. Other

<u>Federal Employees’ Compensation Act Program</u>

The Federal Employees’ Compensation Act (FECA) program is a workers’ compensation program covering more than three million federal and postal employees. The program provides medical benefits, income replacement, and support services to employees with work-related injuries or, in the case of death, survivor benefits to family members.

In FY 2011 and 2012, the Department conducted risk assessments of the FECA program to estimate the risk of improper payments. Based on these analyses, the FECA program was determined not to be susceptible to significant improper payments. The process involved the following:

- FECA managers quantitatively assessed the risk of improper payments based on outlays~~,~~as well as qualitatively assessing the risk of improper payments associated with
    - Payment processing controls;
    - Internal monitoring controls;
    - Human capital;
    - Program complexity; and
    - Nature of payments.

The results of these analyses are as follows:

- FECA managers rated the program as low risk for improper payments.

- The improper payment amount projected through analysis of a random sample of payments plus the estimated annual amount of improper payments due to fraud indicated that the improper payment rate was well under 2.5 percent of outlays and $100 million.

- To validate the results of the risk assessment, a limited scope pilot payment recapture audit of the FECA medical program in FY12 indicated that FECA medical payments appears low-risk for improper payments.

- In FY13, internal control testing included attributes to determine whether payments were proper. Results indicate that, while there is some room for improvement in processes, the vast majority of payments are proper. A revised Improper Payment Methodology will be implemented in 2014 to validate the results.

Contracts/Procurement Payments

Payment Recapture Audits

To implement the requirement for recapture audits for certain programs under IPERA, the services of a contingency contractor were secured during FY 2012 to perform payment recapture audits for:

- Payments for procurement contracts, services, operations and maintenance, equipment, land or structures;
- Payments for rent, communications and utilities;
- Payments for printing and reproduction services; and
- Payments for supplies and materials

The contractor's fees were based on overpayments identified and recaptured. The audit covered contract disbursements from October 1, 2007, through July 31, 2012, consisting of approximately 200,000 invoices totaling nearly $9 billion. The auditor analyzed disbursement data, vendor master data, and detailed purchase card data.

The audit firm assisted in the recapture of overpayments and provided a report, summarized below, listing areas for improvement in internal controls and identifying root causes of errors as well as best practice recommendations for preventing future disbursement errors.

Highlights of Recapture Audit Activities

A full review of DOL's contract payments from October 1, 2007, through July 31, 2012, identified $2.9 million in confirmed duplicate payments out of $8.96 billion in contract transactions – a rate of only 0.0325%. Of the $2.9 million, $2.77 million had already been recovered through normal business processes prior to the recapture audit. The audit recovered $82,894 of confirmed duplicate payments. (Payments totaling $989,752 are still under review as potential duplicates. If all are confirmed as duplicate payments, the rate would rise to 0.044%.) In addition to the work to identify duplicate payments, vendor statement audits of 789 DOL vendors were also performed. This additional step identified $65,658 in overpayments, which were recovered. As of November 1, 2013, the overall departmental confirmed overpayment rate of contract payments is 0.0325%. (See table below.)

Contracts/Accounts Payable Recapture Audit				
Contract Dollars Reviewed	Retrieved Overpayments (Pre-Audit)	Retrieved Overpayments (Post-Audit)	Total Confirmed Overpayment Rate	Total Potential Overpayments in Process
$8,964,459,789	$2,768,470	$148,552	0.0325%	$989,752
	Total Confirmed Overpayments			
	$2,917,022			

Even with the extremely low rate, the recovery audit contractor identified recommendations and best practices to assist DOL in its program integrity efforts. The following is a list of the most prevalent types of duplicate payments:

- **Keying errors**: Invoices keyed with slight variations or inconsistencies in vendor number, invoice number, invoice date, or invoice amount are the greatest causes of duplicate payments.

- **Multiple related vendors**: When the same vendor is set up with multiple vendor numbers on the vendor master file, a processor can easily select the wrong vendor number allowing for duplicate payments to be processed.

- **Multiple Accounts Payable systems**: The existence of multiple Accounts Payable systems or multiple instances of the same Accounts Payable system facilitates the creation of duplicate payments. DOL was subject to this risk during the crossover from its legacy financial management system, DOLAR$, to the New Core Financial Management System (NCFMS) on January 14, 2010.

In addition to the duplicate payment audit, the audit firm conducted a thorough vendor statement audit for high-dollar contracts. Through a vendor statement audit, DOL can determine delays in processing flows and identify outstanding credits owed. Although many of the factors that cause statement claims occur outside the direct responsibility of the Accounts Payable business process, this area does have the ability to ensure these types of items are realized by DOL prior to being written off by the respective vendors.

To conduct the vendor statement audit, the audit firm requested statements from 789 of DOL's vendors with an annual spend of more than $100,000. The audit firm sent three request letters to each vendor. The overall response rate accounts for 77% of the aggregate spend of the suppliers targeted. This audit procedure recovered $65,657.97 in overpayments.

Payment Recapture Audit Reporting	
Program or Activity	Accounts Payable
Type of Payment (Contract, Grant, Benefit, Loan, or Other)	Contract
Amount Subject to Review for 2013 Reporting	$8,964,459,789
Actual Amount Reviewed and Reported (2013)	$8,964,459,789
Actual Amount Reviewed and Reported (2013)	$149,448.40
Amount Recovered (2013)	$148,551.92
% of Amount Recovered out of Amount Identified (2013)	99%
Amount Outstanding (2013)	$896.48
% of Amount Outstanding out of Amount Identified (2013)	0.5999%
Amount Determined Not to be Collectable (2013)	$0.00
% of Amount Determined Not to be Collectable (2013)	0.0000%
Amounts Identified for Recovery (2010)	$5,900,000
Amounts Recovered (2010)	$5,600,000
Cumulative Amounts Identified for Recovery (2010+2013)	$6,049,448
Cumulative Amounts Recovered (2010+2013)	$5,748,552
Cumulative Amounts Outstanding (2010+2013)	$300,896
Cumulative Amounts Determined Not to be Collectable (2010+2013)	$300,000

Do Not Pay Plan

This section describes an important part of DOL's program integrity efforts designed to prevent, identify, and recapture improper payments. Specifically, the Do Not Pay (DNP) solution is a government-wide initiative mandated by the *Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012* (Pub. L. 112-248) to screen payment recipients before a grant, contract award or payment is made. Participation in the initiative is required under IPERIA and OMB guidance; the initiative is being managed by Treasury.

Overview of DNP

IPERIA and OMB directives require agencies to integrate the use of existing Federal databases (collectively known as the "Do Not Pay List") to verify eligibility for Federal payments in order to reduce and eliminate payment errors before they occur. DNP provides Federal agencies with a web-based single-entry access portal (Portal) to these existing databases and additional data analytics.

At DOL, the DNP Solution is being implemented in three phases over a three-year period and will be designed to address the Department's three major business areas affected: Benefit Programs, Grant Programs, and Contracts. In addition, DOL has participated in post-payment reviews for all contract and benefit payments since May 2013.

Approach for Implementing DNP

Incorporating the DNP Solution fully into DOL's business processes is a major undertaking involving the active cooperation of not only OMB, Treasury, and DOL component agencies, but also the states. The OCFO facilitated development of a Plan for enrollment and implementation with affected component agencies. DOL's Accountable Officer for Improper Payments, the CFO, is responsible for monitoring and concurring with any changes to the Department's DNP Plan. Component agencies work with OCFO to implement the DNP Solution in their business processes, provide status reports when requested, and clear any variations from the DNP Solution Plan with OCFO. Component agencies are responsible for implementation of DNP within their business processes and interfacing with state stakeholders where appropriate.

Phase 1 involved choosing the following pilot programs from each of three major business areas:

- **Benefits Programs** – UI and Office of Workers' Compensation Programs (OWCP) benefit programs
- **Grant Programs** – ETA grant programs
- **Contracts** – Department-wide procurement and contract payment activities

Lessons learned from Phase 1 and best practices gained from the experience of other Agencies have been incorporated into DOL planning for Phases 2 and 3. Phase 1 is expected to be completed by September 2013.
Phase 2 will include expanded rollout of the DNP Solution to more states in the UI and Grants Programs, and will emphasize the continued improvement of previously incorporated programs. During Phase 2, DOL will also evaluate DNP Solution applicability to additional aspects of Contracts pre-payment and pre-award processes. Phase 2 is expected to be completed in September 2014.

During Phase 3, DOL plans to implement DNP across all program areas that can gain value from its use, including expanding implementation to all remaining interested states and DOL Benefit and Grant Programs. DOL currently plans to complete the majority of this phase by September 2015.

DNP for UI

DOL is coordinating with OMB and Treasury to provide access to the DNP Solution to state agencies for identifying potential UI improper payments and/or fraud. Supporting implementation of the DNP Solution is being accomplished through two projects: "The Work Number" and the UI Integrity Center of Excellence.

DNP Pilot of "The Work Number"

DOL is testing the effectiveness of cross-matching UI claim records against selected data sources through DNP, specifically using "The Work Number" a real-time database compiled by Equifax, directly from payroll feeds of employers across the country. It includes current employment and income data on about one third of the U.S. workforce and is the largest database of its kind. It is currently used by some government agencies for employment and earnings verification. DOL recruited Arizona and Colorado to participate in this pilot. The pilot states will conduct a value test for the use of DNP to support existing processes to verify the eligibility of beneficiaries for continuing payments, and to study the feasibility of using the DNP Solution for pre-award activities. Arizona finalized an agreement with DNP and Equifax to access “The Work Number” for this pilot in February 2013, and an agreement for Colorado remains in development as of September 2013. In the meantime, DOL is moving forward with DNP, Equifax, and Arizona to commence the pilot with “The Work Number” during the first quarter of FY 2014 while Colorado finalizes its agreement. Once the full pilot is completed the results and feedback from state partners will be shared with the UI system to promote DNP adoption.

UI Integrity Center of Excellence

DOL selected the New York State Department of Labor to establish a UI Integrity Center of Excellence (Center) to support the development, implementation, and promotion of innovative program integrity strategies to reduce improper payments, including the prevention and detection of fraud, in the UI program. The Center will:

- Collaborate with Treasury’s DNP unit to develop data analytics and predictive modeling methodologies and tools to improve UI fraud prevention and detection.
- Develop a secure portal to routinely communicate fraud schemes among states.
- Identify and pilot new strategies to combat improper payments and fraud, building on the work of states, other Federal and state government agencies, and the private sector.
- Identify and disseminate promising practices for state fraud prevention across the UI program.
- Identify state training needs on fraud solutions and integrity strategies, develop a comprehensive training plan, and provide training.

As part of its work, the Center is working with the DNP Solution’s Data Analytics Services as both work to develop data analytics and predictive modeling methodologies and tools. The Center will be sharing these tools with all states across the UI system.

DNP for Benefit Programs

DOL performs weekly pre-award and pre-payment checks against the full version of the List of Excluded Individuals and Entities (LEIE), a database designed specifically for Federal health programs. While the public version of LEIE is included as part of the DNP database, the full version contains more detailed information, including Tax Identification Numbers and Provider Numbers that are not in the public version. Based on post-payment validations with DNP showing no instances of improper payments, DOL has found this pre-award and pre-payment review to be highly effective.

DNP for the Black Lung Program

The Black Lung Program is currently using the DNP Portal to perform single online searches of the Social Security Administration’s (SSA) Death Master File to identify potential improper payments. Since August 16, 2013, the Black Lung Program has been successfully submitting current payment files to the Portal. The Black Lung Program will be utilizing the Portal for continuous monitoring of payments against the Death Master File upon completion of remaining technical issues.

DNP for ETA Grants Programs

ETA was selected as the pilot grantor agency to implement the Do Not Pay initiative for DOL, as its grant programs are representative of the various other DOL grants. Furthermore, ETA awards more grant dollars and has more active grant programs than all other DOL grantor agencies combined.

Grants awarded by ETA come in two forms, non-competitive and competitive. Generally, most non-competitive grants are directed by law and regulation in the form of formula funding. Competitive grants are awarded by ETA according to criteria established by law and regulation. In 2013, the pre-award vetting process was updated for both types of grant awards (competitive and formula). This process includes using the public version of GSA's System for Award Management (SAM) which is accessible via the Portal along with other internal vetting procedures.

Once grants (both competitive and non-competitive) are awarded, the recipients are accountable for monitoring the use of grant funds. The recipients are responsible for: pre-award reviews of awards to contractors and sub-recipients; pre-payment reviews of payments to recipient employees, program participants, sub-recipients and contractors; and post-payment reviews of all payees.

DNP for Contracts

DOL contract officers check 100% of contracts against the General Services Administration (GSA)'s System for Award Management (SAM) prior to award. The SAM public list is the primary component of DNP and includes all data sources with the exception of the Death Master File.

DNP Post Payment Reviews

Since May 2013, as part of Treasury's post payment review process known as the "DNP Solution", the Department participates in monthly post-payment reviews for all contract and benefit payments. These payments are matched against DNP databases and results are adjudicated by the Department.

The Schedule of Spending presents an overview of how and where the Department is spending its money. It is presented on a budgetary basis, the same as the Combined Statement of Budgetary Resources (SBR). Amounts shown below as "Total amounts agreed to be spent" equal amounts shown as "Obligations incurred" on the SBR. FY 2012 amounts were changed to conform with revised OMB Circular No. A-136 presentation requirements.

To improve public transparency and the quality of data reported on USASpending.gov, DOL has begun reconciliation efforts between obligations reported on the financial statements and spending reported on USASpending.gov. Obligations included on the financial statements that are not included on USASpending.gov generally include: financial assistance direct payments, personnel compensation and benefits, leases, interagency agreements, travel, and training. Differences may also exist due to timing differences between obligations reported in DOL's financial reporting system and data transmitted to USASpending.gov through the Federal Procurement Data System.

(Dollars in millions)	2013	2012
Section I - What money is available to spend?		
This section presents resources that were available to spend by the Department.		
Total resources	$ 122,766	$ 160,676
Less amount available but not agreed to be spent	(3,125)	(1,821)
Less amount not available to be spent	(1,530)	(2,571)
Total amounts agreed to be spent	$ 118,111	$ 156,284
Section II - How was the money spent/issued?		
This section presents services or items purchased and grouped for the Department's major programs based on obligations incurred.		
Income maintenance		
Financial assistance direct payments	$ 71,168	$ 91,161
Net internal transfers between DOL funds	31,186	45,187
Personnel compensation and benefits	292	301
Contractual services and supplies	335	790
Grants, subsidies, and contributions	4,298	4,747
Interest	920	926
Other	448	2,899
Employment and training		
Personnel compensation and benefits	151	148
Contractual services and supplies	1,577	1,618
Grants, subsidies, and contributions	4,665	5,350
Other	273	299
Labor, employment and pension standards; worker safety and health; statistics; other		
Personnel compensation and benefits	1,473	1,462
Contractual services and supplies	989	1,053
Grants, subsidies, and contributions	303	298
Other	33	45
Total amounts agreed to be spent	$ 118,111	$ 156,284
Section III - Who did the money go to?		
This section identifies with whom the Department is spending money based on obligations incurred.		
Individuals	$ 71,222	$ 93,358
Net internal transfers between DOL funds	31,186	45,187
State and local governments	7,270	7,926
Other federal agencies	1,744	2,763
Vendors and other	2,877	2,796
Employees	1,771	1,874
Higher education	1,270	1,388
Not-for-profit organizations	771	992
Total amounts agreed to be spent	$ 118,111	$ 156,284

Open Government Links

Department of Labor

RSS Feeds http://www.dol.gov/rss/
DOL Blog http://social.dol.gov/blog/
Follow on Twitter http://twitter.com/#!/usdol
Follow on Facebook http://www.facebook.com/departmentoflabor
YouTube http://www.youtube.com/usdepartmentoflabor
Flickr http://www.flickr.com/photos/usdol
Newsroom http://www.dol.gov/dol/media/

Thomas E. Perez - Secretary of Labor

The Secretary's Page http://www.dol.gov/_sec/welcome.htm
Speeches, Testimony, and More - http://www.dol.gov/_sec/media/
Photos http://www.dol.gov/dol/media/photos/
Videos http://www.dol.gov/dol/media/webcast/
Read the DOL Newsletter http://www.dol.gov/_sec/newsletter/
Follow the Secretary on Twitter https://twitter.com/LaborSec

Subscribe to E-mail Updates - https://service.govdelivery.com/service/multi_subscribe.html?code=USDOL

Featured Initiatives

Green Jobs http://www.dol.gov/dol/green/
Open Gov http://www.dol.gov/open/
Career One Stop http://careeronestop.org/

Department of Labor Agency Pages

Bureau of International Labor Affairs http://www.dol.gov/ILAB/
Bureau of Labor Statistics http://www.bls.gov/
Employee Benefits Security Administration http://www.dol.gov/ebsa/
Employment and Training Administration http://www.doleta.gov
Mine Safety and Health Administration http://www.msha.gov
Occupational Safety and Health Administration http://www.osha.gov/index.html
Office of Disability Employment Policy http://www.dol.gov/odep/
Office of Federal Contract Compliance Programs http://www.dol.gov/ofccp/
Office of Labor-Management Standards http://www.dol.gov/olms/
Office of Workers' Compensation Programs http://www.dol.gov/owcp/
Veterans' Employment and Training Service http://www.dol.gov/vets/
Wage and Hour Division http://www.dol.gov/whd/
Women's Bureau http://www.dol.gov/wb/

DOL Regulations and Enforcement

DOL Regulations Search
http://www.regulations.gov/#!searchResults;rpp=25;po=0;s=Department%252Bof%252BLabor
DOL Enforcement Data
http://ogesdw.dol.gov/

Acronyms

ACSI	American Customer Satisfaction Index
AFR	Agency Financial Report
AMS	Acquisition Management System
ARRA	American Reinvestment and Recovery Act
BAM	Benefit Accuracy Measurement
BLDTF	Black Lung Disability Trust Fund
BLS	Bureau of Labor Statistics
BPC	Benefit Payment Control
BYE	Benefit Year Earnings
CAO	Chief Acquisition Officer
CFDA	Catalog of Federal Domestic Assistance
CFO	Chief Financial Officer
COLA	Cost of Living Allowance/Adjustment
CPIM	Consumer Price Index-Medical
CPI-U	Consumer Price Index-Urban
CSEOA	Community Service Employment for Older Americans
CSRS	Civil Service Retirement System
CY	Current Year
DNP	Do Not Pay
DOE	Department of Energy
DOL	U.S. Department of Labor
DPRR	Division of Policy Review and Resolution
DVOP	Disabled Veterans' Outreach Program
EB	Extended Benefits
EBSA	Employee Benefits Security Administration
EBSS	Enterprise Business Support System
EEOICPA	Energy Employees Occupational Illness Compensation Program Act
ERISA	Employee Retirement Income Security Act
ES	Employment Service
ESAA	Employment Security Administration Account
ETA	Employment and Training Administration
EUC	Emergency Unemployment Compensation
EUCA	Extended Unemployment Compensation Account
FAC	Federal Additional Compensation
FAUC	Federal Additional Unemployment Compensation
FASAB	Federal Accounting Standards Advisory Board
FCI	Facilities Condition Index
FEC	Federal Employees Compensation
FECA	Federal Employees' Compensation Act
FEHBP	Federal Employees Health Benefit Program
FEGLIP	Federal Employee Group Life Insurance Program
FERS	Federal Employee Retirement System
FFMIA	Federal Financial Management Improvement Act
FICA	Federal Insurance Contribution Act
FLC	Foreign Labor Certification
FLSA	Fair Labor Standards Act
FMFIA	Federal Managers' Financial Integrity Act
FPO	Federal Project Officer

FUA	Federal Unemployment Account
FUTA	Federal Unemployment Tax Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GEMS	Grants e-Management System
GSA	General Services Administration
HVRP	Homeless Veterans' Reintegration Program
ILAB	Bureau of International Labor Affairs
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
IS	Internal Security
IT	Information Technology
JVA	Jobs for Veterans Act
JVSG	Jobs for Veterans State Grants
LEIE	List of Excluded Individuals and Entities
LMRDA	Labor-Management Reporting and Disclosure Act
LPD	Lost Production Day
LVER	Local Veterans' Employment Representative
MEWA	Multiple Employer Welfare Arrangements
MSHA	Mine Safety and Health Administration
NASWA	National Association of State Workforce Agencies
NCFMS	New Core Financial Management System
NDNH	National Directory of New Hires
NIOSH	National Institute for Occupational Safety and Health
OASP	Office of the Assistant Secretary for Policy
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
ODEP	Office of Disability Employment Policy
OFCCP	Office of Federal Contract Compliance Programs
OIG	Office of Inspector General
OJC	Office of Job Corps
OLMS	Office of Labor-Management Standards
OMB	Office of Management and Budget
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OSHA	Occupational Safety and Health Administration
OUI	Office of Unemployment Insurance
OWCP	Office of Workers' Compensation Programs
PBGC	Pension Benefit Guaranty Corporation
PDO	Proposed Decision and Order
PFEI	Principal Federal Economic Indicator
PIV	Personal Identification Verification
PPACA	Patient Protection and Affordable Care Act
PP&E	Property Plant & Equipment
PY	Prior Year
RAE	Revised Annuity Employee

REA	Re-employment and Eligibility Assessment
RECA	Radiation Exposure Compensation Act
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
RTW	Return To Work
SAA	Single Audit Act
SAM	System for Award Management
SAVE	Systematic Alien Verification for Entitlement
SBR	Statement of Budgetary Resources
SCSEP	Senior Community Service Employment Program
SCSIA	Statement of Changes in Social Insurance Amounts
SDDS	State Dumping Detection System
SFFAS	Statement of Federal Financial Accounting Standards
SIDES	State Information Data Exchange System
SIP	Sample Investigation Program
SOSI	Statement of Social Insurance
SQSP	State Quality Service Plan
SSA	Social Security Administration
SST	Site Specific Targeting
SUIESO	State Unemployment Insurance and Employment Service Operations
SUTA	State Unemployment Tax Act
SWA	State Workforce Agencies
TAA	Trade Adjustment Assistance
TAACCCT	Trade Adjustment Assistance Community College and Career Training
TAP	Transition Assistance Program
TOP	Treasury Offset Program
TSP	Thrift Savings Plan
UC	Unemployment Compensation
UCFE	Unemployment Compensation for Federal Employees
UCX	Unemployment Compensation for Ex-Service Members
UI	Unemployment Insurance
UIPL	UI Program Letter
USC	United States Code
USERRA	Uniformed Services Employment and Reemployment Rights Act
USPS	United States Postal Service
UTF	Unemployment Trust Fund
VETS	Veterans' Employment and Training Service
VWIP	Veterans' Workforce Investment Program
WB	Women's Bureau
WCF	Working Capital Fund
WHD	Wage and Hour Division
WIA	Workforce Investment Act

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