U.S. DEPARTMENT OF LABOR

AGENCY FINANCIAL REPORT

FISCAL YEAR 2012

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Message from the Secretary of Labor

November 16, 2012

I am pleased to present the U.S. Department of Labor's Fiscal Year 2012 Agency Financial Report (AFR). 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.

Excellent financial management yields excellent results for the working people of our nation. The integrity of our business practices is critical to our ability to achieve our important mission: *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*.

It is with tremendous pride that I report that we have once again received a clean opinion on our financial statements. This is a clear reflection of our remarkable employees, who every day demonstrate talent, dedication, and professionalism in their service to the American people.

I am also proud of the efforts we have initiated that help us work better and smarter. The Department's worker protection agencies continue to develop improved strategies focused on evaluation, innovation, and improved implementation in an effort to reform how they operate. Central to the responsibility of securing worker protections is an increased emphasis on the enforcement of laws and regulations that protect workers. Worker protection agencies are improving performance measures to account to the public how well we are performing the crucial worker protection responsibilities and using data to better leverage resources.

Through the Workforce Innovation Fund, the Department continues to promote high-quality training in high-growth industries to help workers become more competitive and equip them with the credentials and skills needed to compete in the global labor market. The innovative approaches to the design and delivery of employment and training services generate long-term improvements in the performance of the public workforce system, both in terms of employment and training outcomes and cost-effectiveness.

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*. I am confident that the financial and summary performance data included in this AFR are complete and reliable in accordance with federal requirements.

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

In 2013, the Department of Labor will celebrate its 100th Anniversary. As we reflect on a past filled with extraordinary accomplishments, we look to a future in which sound financial and managerial stewardship will allow us to do even more for working families across our nation.

Hilda L. Solis

HILDA L. SOLIS
U.S. Secretary of Labor

MANAGEMENT'S DISCUSSION & ANALYSIS

Agency Financial Report

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

Mission Statement and Organizational Structure[1]

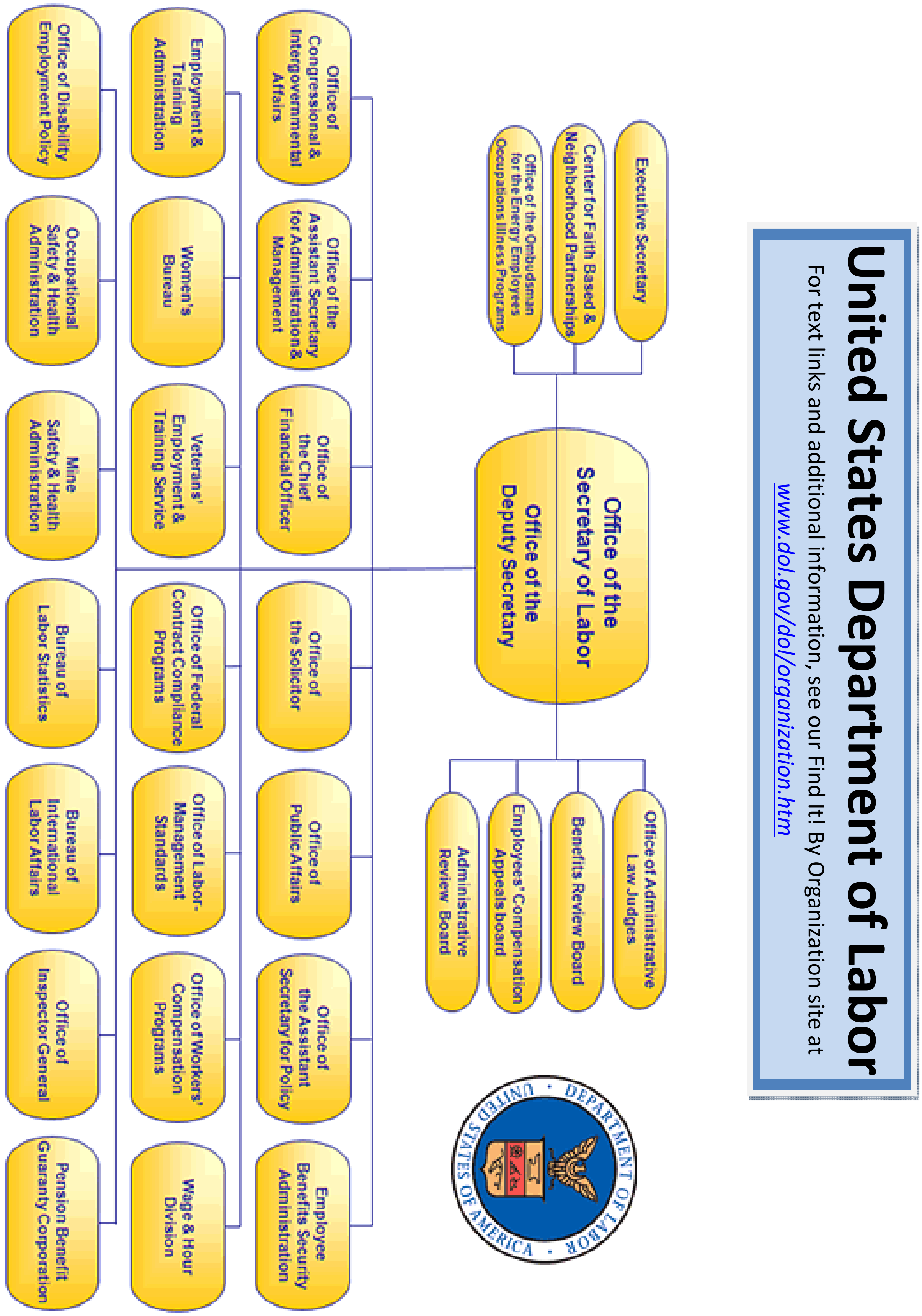
DOL's mission remains as relevant today as at the Department's founding in 1913: *to foster, promote, and develop the welfare of the wage earners, job seekers, and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits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

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

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

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

[2] In FY 2010, DOL dissolved the Employment Standards Administration (ESA) and established its four component offices/divisions: the *Office of Federal Contract Compliance Programs*, the *Office of Labor-Management Standards*, the *Office of Workers' Compensation Programs*, and the *Wage and Hour Division,* as stand-alone agencies reporting directly to the Office of the Secretary. This reorganization was reflected in DOL's FY 2011 and 2012 budgets, in which funding previously requested for ESA was requested separately for these four component agencies, and was acted upon by Congress in FY 2012. Presentation of the financial data for FY 2012 reflects the four component agencies and the FY 2011 presentation was reclassified to conform to the FY 2012 presentation.


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

Program Performance Overview

The Program Performance Overview offers an opportunity to present DOL performance goals, objectives and results and to provide a discussion of key performance measures. This section includes performance of measures that can be 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 2013 with the FY 2014 Congressional Budget Justification. A third report, the *Summary of Performance and Financial Information for Fiscal Year 2012*, will be available on February 15, 2013.

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

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

This goal framework signals the Secretary's commitment to leading a stronger, more effective Department of Labor. An important innovation of the goal structure is the Department's commitment to measuring activities intended to positively impact the day-to-day lives of working families and use them to track progress in implementation of the outcome and strategic goals listed above. The table below organizes DOL program agencies into five categories. This report provides FY 2012 performance data for activities that support the

Secretary's vision from each agency listed here. The Department's mission is also supported by administrative, policy, legal, public affairs, and congressional liaison offices.

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

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

EMPLOYMENT & TRAINING

Employment and Training Administration (ETA)

ETA provides high-quality employment assistance, labor market information and job training through the administration of programs authorized by the Workforce Investment Act of 1998 (WIA) for adults, youth, dislocated workers and other targeted populations. ETA also administers Job Corps; Trade Adjustment Assistance 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. TAA helps achieve the Secretary's Strategic Goal 1, to *prepare workers for good jobs and ensure fair compensation* and the associated Outcome Goals. Numerous measures help ETA track outputs for these programs; below are descriptions and available data for just a few:

- *Percent of Initial Risk Assessments Conducted for New Grants Managed by Regional Offices within 45 Days of Award*[1] – Federal staff conduct risk assessments of grantee work plans and award documents to ensure procedures and performance expectations are clearly outlined and to assess grantees' ability to

[1] Prior to FY 2012, ETA reported the Number of Risk Assessments Conducted for Grant Programs (WIA, ES, and CSEOA). In FY 2012, ETA began tracking progress on this activity as a percentage, rather than as a count – to capture workload and production.

carry out all tasks. Risk assessments are conducted at the onset of a grant and documented in ETA's Grants Electronic Management System (GEMS). ETA conducted 3,004 risk assessments in FY 2011 and 2,006 risk assessments in FY 2012 – a 33% decrease that corresponds to the Department's expired grants and new investments for this period.

- *Average petition processing time in days for TAA* – The Trade Adjustment Assistance for Workers (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 made significant progress from FY 2011 as the Average Processing Time was reduced by approximately 13 days. The measure's projected annual average target of 54 days was surpassed in FY 2012. Over the last 3 years the Office of Trade Adjustment Assistance has dealt with external factors such as an unstable labor market and recessionary business cycle shocks, three legislative changes that substantially altered the framework through which TAA operated and was administered, and large fluctuations and turnover of experienced staff. The steady output that has been reported over the past several quarters of FY 2012 reflects enhanced procedures that improved timeliness and efficiency of investigations and provided better data integrity methods. Petition filings have moderately declined over the last year.

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Average Petition Processing Time (in days)	33	35	48	143	65	52

- *Number of regional office desk audits and Contractor Past Effectiveness Ratings (CPER) updates completed for Job Corps* – Regional Office Desk Audits are conducted monthly using Job Corps reports to assess contract operations. CPERs are updated every six months within the contract period and are included in each Option Year package - a request to extend the contract. In FY 2011, Job Corps conducted 5,089 regional office desk audits and CPER updates; and in FY 2012, ETA conducted 2,334 regional office desk audits and CPER updates. Beginning in FY 2012, desk audits were standardized to provide a comprehensive monthly review of all contract operations; this accounts for the decrease in the number of audits from FY 2011.

By September 30, 2013, DOL will improve opportunities for America's workers to succeed in a knowledge-based economy through industry-recognized credentials by increasing the percent of training program exiters who earn industry-recognized credentials by 10 percent.

Veterans' Employment and Training Service (VETS)

VETS helps veterans obtain positive employment outcomes through services provided at American Job Centers and other locations. VETS helps achieve the Secretary's Strategic Goal 1, *prepare workers for good jobs and ensure fair compensation*. Grants are provided to State Workforce Agencies and other service providers to support staff dedicated to serving veterans, including those who require special assistance due to disabilities or other barriers to employment. VETS also protects the employment and reemployment rights of veterans and other service members under the provisions of the Uniformed Services Employment and Reemployment Rights Act (USERRA) program so that they can serve in the uniformed services without harm to their civilian employment; and by assuring 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. VETS' response to this 2008 legislation has improved case timeliness, compared to prior years.

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Percent of USERRA Investigations Completed within 90 Days	78%	78%	86%	84%	87%	89%
Percent of USERRA Referrals Made within 60 Days	--	--	56%	62%	57%	83%

By the end of 2013, the Transition Assistance Program (TAP), with redesigned curriculum and facilitated solely by contract staff, will be fully implemented at all 188 domestic and 50 international sites. Based on consultations with the Department of Defense, in FY 2013, VETS is planning approximately 5,700 TAP DOL Employment Workshops with 200,000 transitioning service members expected to participate. Due to the combination of an increased number of separations, and the implementation of mandatory attendance requirements by the military services, FY 2013 will be a period of peak demand for workshops. VETS is implementing a redesigned curriculum and transitioning to contract facilitators to improve workshop quality. It will also aim to achieve improved experiential learning by limiting the number of participants per workshop.

WORKER PROTECTION

Office of Federal Contractor Compliance Programs (OFCCP)

OFCCP is a worker protection agency that ensures that employers doing business with the Federal Government comply with their obligations to recruit, hire, promote, train, terminate, and compensate America's workers in a fair and equitable manner. OFCCP enforces three legal authorities that apply to federal contractors: Executive Order 11246, as amended, which prohibits employment discrimination on the basis of race, religion, color, national origin and sex; Section 503 of the Rehabilitation Act of 1973, as amended, which prohibits employment discrimination against individuals with disabilities; and the Vietnam Era Veterans' Readjustment Assistance Act of 1974, as amended, which prohibits employment discrimination against certain protected veterans. OFCCP supports the Secretary's Strategic Goal 3, *assure fair and high quality work-life environments* and the associated Outcome Goal 3.1*, break down barriers to fair and diverse work places so that every worker's contribution is respected*. The compliance evaluations and investigations conducted by OFCCP play a critical role in measuring Federal contractor compliance with their legal obligations under these authorities.

In FY 2011, OFCCP reduced the target goal of compliance evaluations to increase the focus on audit quality, and this helped, in part, the agency to achieve a 36.7% increase from FY 2010 cases closed with a financial remedy. The target also was held steady in FY 2012 to help continue a strong quality focus. FY 2012 was a year of measure development for OFCCP in terms of establishing new measures to represent the important work of the agency, collecting data on contextual measures to diagnose and learn from quarterly results, and benchmarking measures for setting meaningful future targets. OFCCP made progress in establishing measures to capture many facets of the program, understanding and improving the validity and reliability of the measures, and balancing quality and quantity.

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Compliance Evaluations	4,923	4,333	3,917	4,960	4,014	4,017

In FY 2013, OFCCP will place greater emphasis on enforcement and focusing on identifying and resolving both individual and systemic discrimination. OFCCP will provide increased attention to countering discrimination against individuals with disabilities and covered veterans.

Occupational Safety and Health Administration (OSHA)

OSHA was established by the Occupational Safety and Health Act of 1970 with the mission to assure, so far as possible, that every working man and woman in the American workplace has safe and healthful working conditions. OSHA ensures the safety and health of America's workers by setting and enforcing workplace safety and health standards; delivering effective enforcement; providing training, outreach, and education; and encouraging continual improvement in workplace safety and health. Through these efforts, OSHA aims to reduce the number of worker illnesses, injuries, and fatalities and contribute to the broader goals aimed at promoting economic recovery and the competitiveness of our nation's workers. OSHA supports the Secretary's Strategic Goals 2, 3 and 4, specifically as relates to Outcome Goals 2.1, *secure safe and healthy workplaces, particularly in high-risk industries;* 3.3, *ensure worker voice in the workplace;* and 4.1, *facilitate return to work for workers experiencing workplace injuries or illnesses who are able to work*. The most recent data for key measures of OSHA's activity – the number of safety, health, and construction industry inspections – are presented in the table below.

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

Health inspections are conducted by industrial hygienists and address hazards such as chemical hazards, biological hazards (e.g., bloodborne pathogens and tuberculosis), physical hazards (e.g., noise, radiation, and heat and cold stress), and ergonomic hazards (e.g., patient handling, repetitive motion, excessive force, and awkward postures). Although the number of health inspections declined from FY 2005 through FY 2008, there were increases in FY 2009 through FY 2011, and OSHA maintained the upward trend in FY 2012.

OSHA tracks safety and health inspections of construction worksites separately because construction is a large industry that exposes workers to serious hazards, such as falling from rooftops, unguarded machinery, being struck by heavy construction equipment, electrocutions, silica dust, and asbestos. According to recent OSHA data, the industry's fatality rate is almost eight times the rate for all workers. The number of construction inspections fell in FY 2011 and FY 2012 due to a reprioritization of Agency resources to more effectively target inspections across a variety of occupational hazards. Because OSHA carries out more than half of its inspections in the construction industry, the total number of safety inspections also decreased over the same period. Health inspections continued to increase but not enough to offset the decline in safety inspections; they are more complex and time-consuming than safety inspections, on average.

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012*
Total Number of Safety Inspections Conducted	33,063	33,074	33,221	34,320	34,293	33,449
Total Number of Health Inspections Conducted	6,316	5,517	5,783	6,649	7,202	7,269
Number of Safety and Health Inspections Conducted in Construction Industry	23,192	23,062	23,754	24,326	23,520	22,398

*Preliminary data. Complete annual performance results for FY 2012 will not be available before late November 2012.

By September 30, 2013, in accordance with DOL's agency priority goals, OSHA will seek to reduce worker fatalities resulting from common causes by two percent in OSHA-covered workplaces and to reduce total and lost time injury and illness rates by at least four percent per year.

Wage and Hour Division (WHD)

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

The agency uses directed investigations to increase WHD presence in high-risk, fissured industries and among vulnerable worker populations. Fissured industries rely on subcontracting, franchising, temporary employment, and independent contracting which creates a distance between the beneficiary of labor and the workers who actually provide that labor. Vulnerable workers are those who are at risk of exploitation at work because they are reluctant to complain when they are subject to violations for fear of retaliation. Directed investigations have a higher rate of return when measured as the number of workers helped for every enforcement hour expended; and, when undertaken as part of a planned initiative, have the effect of producing a positive ripple effect on compliance within the same industry and geographic area.[1] The first measure below is directed investigations as a percentage of all compliance actions conducted. In FY 2012, 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 – as more and more industries are moving to the fissured business model. The investigations WHD planned for FY 2012 did not include the janitorial industry, which was the focus in FY 2011 (WHD cannot investigate establishments two years in a row). This reduced the opportunity for directed misclassification investigations. As American Recovery and Reinvestment Act funded construction ended, in FY 2012, WHD shifted resources from directed Davis Bacon construction investigations to Service Contract Act investigations, which also reduced the number of directed misclassification investigations. These shifts impacted the FY2012 result.

[1] Paper by David Weil: *Improving Workplace Conditions Through Strategic Enforcement* (May 1, 2010). Boston U. School of Management Research Paper No. 2010-20. Available at: http://ssrn.com/abstract=1623390 or http://dx.doi.org/10.2139/ssrn.1623390

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Percent of Directed Investigations*	35%	36%	35%	27%	29%	40.63%
Percent of Directed Investigations in Industries with a High Prevalence of Employees Misclassified as Independent Contractors	9%	13%	10%	17%	21%	19.98%

*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.

In FY 2013, WHD will increase outreach activities in support of the Department's We Can Help nationwide campaign, which will connect workers with a broad array of services offered by the agency and address such topics as rights in the workplace and how to file a complaint with WHD.

Employee Benefits Security Administration (EBSA)
EBSA protects workers and their families' retirement, health, and other welfare benefits security through administration, including regulatory work, and enforcement of the Employee Retirement Income Security Act of 1974 (ERISA). EBSA provides proactive enforcement, outreach and education programs that protect the most vulnerable populations while ensuring broad compliance with ERISA and related laws. EBSA is charged with protecting more than 141 million workers, retirees, and their families that are covered by over 707,000 private retirement plans, 2.3 million health plans, and similar numbers of other welfare benefit plans which together hold estimated assets in excess of $6 trillion. As such, EBSA supports the Secretary's Strategic Goal 4, to *secure health benefits and, for those not working, provide income security* and the specific Outcome Goal 4.3, *improve health benefits and retirement security for all workers*.

Historical data for two key performance measures, "Number of Criminal Investigations Processed" and "Number of Civil Investigations Processed" are shown in the table below. EBSA's investigation program is designed to deter and correct violations of ERISA. In FY 2012, EBSA continued to focus on a high priority national criminal enforcement project. EBSA also devoted significant investigative resources to high profile, complex, document intensive, and team oriented investigations involving Employee Stock Ownership Programs (ESOPs), financial institutions, and investment managers, which contributed to an increase in civil investigations processed. The number of criminal and civil cases that EBSA investigates each year is also influenced by other unforeseeable factors, such as policy direction and economic changes in the regulated community.

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Number of Criminal Investigations Processed	188	212	287	281	302	318
Number of Civil Investigations Processed	3,236	3,570	3,669	3,112	3,472	3,566

In FY 2013, EBSA will develop investigative approaches for conducting health care investigations that focus on identifying systematic denials of promised health benefits and supporting EBSA's outcome goal of improving health benefits security for all workers.

Mine Safety and Health Administration (MSHA)
MSHA protects the safety and health of the nation's miners under the provisions of the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response (MINER) Act of 2006. The purpose of MSHA is to prevent death, disease, and injury from mining and to promote safe and healthful workplaces for the nation's miners through the enactment and enforcement of mandatory safety and health standards. MSHA supports the Secretary's Strategic Goal 2, *ensure workplaces are safe and healthy* and Strategic Goal 3, *assure fair and high quality work-life environments,* and related Outcome Goals 2.1, *secure safe and healthy workplaces, particularly in high-risk industries* and 3.3, *ensure worker voice in the workplace*. MSHA's

mandated inspections require four complete inspections annually at active underground mines and two complete inspections annually at active surface mines, and miner training and compliance assistance. A key measure for MSHA is "Total Number of Regular Mandated Inspections." The mining industry is influenced by economic and product need causing continual fluctuations in the number of mines operating during any given time period.

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Coal Safety and Health	4,822	5,385	5,526	5,121	5,139	5,117
Metal and Nonmetal Safety and Health	15,945	18,235	17,168	16,127	16,269	16,620

By September 30, 2013, DOL will reduce worker fatalities rates in mining by five percent per year based on a rolling five-year average.

Office of Labor-Management Standards (OLMS)

OLMS administers the Labor-Management Reporting and Disclosure Act (LMRDA) and related laws. These laws establish safeguards for union democracy and union financial integrity and require public disclosure reporting by unions and other entities. OLMS supports the Secretary's Strategic Goal 3, *assure fair and high quality work-life environments*, and specific Outcome Goal 3.3, *ensure worker voice in the workplace*. For OLMS, key measures are "Percent of Audits Resulting in a Criminal Case (Fallout Rate)," "Number of Days to Resolve Union Officer Election Complaints," and the "Percent of LMRDA Required Forms Filed Electronically."

OLMS conducts criminal investigations to determine if criminal violations of the LMRDA have occurred. Most OLMS criminal investigations involve embezzlement of union funds. Evidence of suspected embezzlement is obtained through a variety of sources, including the OLMS compliance audit program. OLMS uses advanced audit targeting techniques to bolster the number of criminal investigations by focusing reduced audit resources on unions most likely to be in violation of the law. The success of audit targeting strategies is measured by "Percent of Audits that Resulting in a Criminal Case (Fallout Rate)."

The LMRDA allows a union member to file a complaint with the Secretary of Labor challenging the conduct of a union officer election. The LMRDA provides for the Secretary to investigate each complaint and, if necessary, to file suit to overturn the election within 60 days. This requires OLMS to investigate expeditiously. Although waivers to the 60-day requirement can be obtained, OLMS believes that adherence to the 60-day rule promotes union democracy. OLMS established a goal to reduce the time taken to investigate and resolve complaints. Since 2008, OLMS has dramatically reduced the average number of elapsed days per case.

Lastly, financial transparency is enhanced when union members and other interested parties have swift and easy access to financial reports. Electronic filing of these reports reduces costs, increases the accuracy of the reported information through checks built into the electronic filing system, and eases access to the filed reports as the reports become available via the Internet almost immediately upon e-filing. To promote transparency, OLMS has established a goal of increasing the percent of forms filed electronically. OLMS has been able to increase electronic filing since the establishment of this measure.

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Percent of Audits Resulting in a Criminal Case (Fallout Rate)	--	--	--	--	14.9%	13.8%
Number of Days to Resolve Union Officer Election Complaints	86	92	70	81	79	71
Percent of LMRDA Reports Filed Electronically	--	--	--	--	21.4%	37.8%

POLICY

Women's Bureau (WB or Bureau)

The Bureau is the only Federal office dedicated to serving and promoting the interests of women in the workforce. As such, it develops promising policies and standards and conducts inquiries to safeguard the interests of working women; advocates for their equality and economic security for themselves and their families; and promotes quality work environments. The Bureau supports the Secretary's Strategic Goal 1, to *prepare workers for good jobs and ensure fair compensation* and Strategic Goal 3, *assure fair and high quality work-life environments* and their associated Outcome Goals. In FY 2012, the Bureau collected baseline data on its two new outcome measures: the percent of active collaborators who implement recommended policies/strategies and the percent of active collaborators who take an action to increase awareness and education on WB's behalf.

An active collaborator is an external entity that is receiving technical assistance (e.g. guidance, support, and feedback) from the Bureau to implement recommended policies, strategies, or practices that improve working women's employment opportunities, economic security, and working conditions. Collaborators include DOL agencies; other Federal, state, or local government agencies; community-based organizations; service providers; industry associations; labor organizations; women's organizations; and educational institutions. In FY 2012, these collaborators included DOL sister agencies, such as the ETA and VETS; other Federal agencies, such as the Department of Veterans Affairs and the Equal Employment Opportunity Commission (EEOC); as well as service organizations, such as the National Association of State Women Veterans Coordinators.

Office of Disability Employment Policy (ODEP)

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

ODEP develops, evaluates and disseminates policy strategies and effective practices to reduce the employment disparity that exists between people with and without disabilities. As such, ODEP's initiatives seek to increase the labor market participation rate of people with disabilities. ODEP's key measures are "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. Examples of policy outputs are legislation, regulations, policy guidance and Executive Orders or Memoranda. Effective Practices are ODEP developed strategies, models or theories that lead directly to an identified outcome and have a documented record of success or validated effectiveness. Formal Agreements are collaborations that are formalized through a Memoranda of Understanding, Inter/Intra-Agency Agreements, Public Private Partnership Agreements or Alliance Agreements.

As indicated by the table, Policy Outputs and Effective Practices rose from FY 2006-2008 as ODEP's policies and strategies were developed based on its initial investments in demonstration projects and research from ODEP's first five years (FY 2001-2005). The number of Policy Outputs and Effective Practices dropped in FY 2009 as ODEP worked to cultivate new approaches that promote the employment of people with disabilities. In FY 2011, ODEP maintained its investment in developing innovative approaches that leads to the adoption and implementation of policy that increases the participation of people with disabilities in the labor market. The result, in FY 2012 ODEP greatly exceeded its Effective Practices performance target. ODEP uses formal agreements to support projects and initiatives which produce and implement its policy strategies and effective practices. ODEP began collecting data on its formal agreements in FY 2008. While there was a 16 percent decrease in results and targets between FY 2008 and 2009 and an increase of 29 percent between FY 2009 and 2010, ODEP only slightly exceeded its annual target in FY 2011 and achieved its annual target for FY 2012.

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Policy Outputs	34	44	39	35	42	39
Effective Practices	24	27	15	23	44	131
Formal Agreements	--	36	17	30	29	30

In FY 2013, ODEP will focus on three 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; and expanding access to employment supports and accommodations.

Bureau of International Labor Affairs (ILAB)

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

ILAB tracks the number of countries engaged in policy dialogue or negotiation as a measure of its scope of influence and opportunities to 1) improve labor rights and living standards of workers in the global economy, and 2) reduce the prevalence of the worst forms of child labor and forced labor. In prior years, ILAB measured engagement through policy dialogue, negotiation and collaboration. This past year, ILAB finished its first year in reporting on new output measures for policy dialogue and negotiation, distinct from collaborative activities to better capture the elements of its core mission. In FY 2012, ILAB engaged 38 countries in policy dialogue or negotiation.

In FY 2013, 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 which provide workers' compensation benefits. The Federal Employees' Compensation Act (FECA) program provides monetary wage-loss compensation and medical benefits to civilian employees of the Federal Government injured at work, and to certain other designated groups, as well as survivor benefits for a covered employee's employment-related death. The Longshore and Harbor Workers' Compensation Act program provides similar benefits to injured private sector workers engaged in certain maritime and related employment, certain other employment covered by extensions such as the Defense Base Act, and also provides monetary benefits to the survivors of deceased workers. The Black Lung Benefits program provides monetary and medical benefits to totally disabled miners suffering from coal mine pneumoconiosis stemming from mine employment, and monetary benefits to their dependent survivors. The Energy Employees Occupational Illness Compensation Program Act (EEOICPA) provides monetary compensation and/or medical benefits to employees or survivors of employees of the Department of Energy (DOE) and certain contractors or subcontractors with DOE who have been diagnosed with cancer or other occupational diseases due to exposure to radiation or toxic substances at covered facilities. OWCP supports the Secretary's Strategic Goal 4*, secure health benefits and, for those not working, provide income security,* and Outcome Goals 4.1, *facilitate return to work for workers experiencing workplace injuries or illnesses who are able to work* and 4.2, *ensure income support when work is impossible or unavailable*.

Key measures for OWCP 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 employers' return to work. OWCP uses field nurses to provide early assistance in more severe injury cases to coordinate medical care and return to work assistance services. OWCP also assists Federal employers with accommodation and reemployment of their injured workers. These strategies have contributed to a greater than 30% reduction in the Government-wide LPD rate since FY 2006. During this period, successive initiatives jointly directed by OWCP and OSHA, the "Safety, Health and Return to Employment" initiative, and the "Protecting Our Workforce and Ensuring Re-employment (POWER)" also contributed significantly to this success by assigning performance goals to Federal employers to reduce injuries and improve their compensation case handling and return to work activities.

To support DOL Outcome Goal 4.2, 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 timeliness of notice of injury and payment of compensation directly impact the delivery of benefits and the quality of customer service. The Percent of First Payment of Compensation for Defense Base Act cases is 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 2013.

The Black Lung program's performance improvement priority is 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 (BL) claims. The Patient Protection and Affordable Care Act (PPACA) of 2010 had a significant effect on the workload for the Black Lung Program, as it reinstated two provisions in the Black Lung Benefits Act that had been removed in 1981 for claims filed on or after 1/1/82. As a result of these provisions, there has been an increase in claims received. Compared to the pre-PPACA level of 4,354 claims filed in FY 2009, claims filings increased by 62% (7,044 claims) in FY 2010, increased by 42% (6,181 claims) in FY 2011, and increased by an estimated 22% (5,300 claims) in FY 2012. 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. As aged claims are processed in FY 2013, the program expects the average PDO timeliness to decrease.

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012*
Government-Wide LPD Rate in Non-Postal Agencies	46.3	41.3	35.8	34.6	33.4	34.6
Government-Wide Share of Injured Workers Returned to Work within two years of injury	--	--	--	89.7%	91.6%	91.5%
Percent of First Payment of Compensation issued within 30 days for Defense Base Act cases	--	--	43%	55%	56%	63%
Average time to render Proposed Decision and Order (PDO) on Black Lung (BL) claims (days)	--	205	201	210	238	262

*Preliminary data. Complete annual performance results for FY 2012 will not available before late November 2012.

DOL is working to reduce the time lost to injury and illness for federal workers. DOL will create a model return-to-work program to reduce lost production day rates by one percent per year by September 30, 2013.

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	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
First Payment Timeliness*	88.4%	86.8%	83.8%	82.2%	84.0%	83.7%
Total Unemployment Rate	4.5%	5.3%	8.5%	9.7%	9.2%	8.3%

*Years ending June 30th.

In FY 2013, UI will place a priority on program integrity, especially improper payments, and claimant reemployment.

STATISTICS

Bureau of Labor Statistics (BLS)

In support of the Secretary's Strategic Goal 5, to *produce timely and accurate data on the economic conditions of workers and their families*, BLS produces timely, accurate, and relevant statistics reflecting labor market activity, working conditions, and price changes in the economy. Statistics produced by BLS support the formulation of economic and social policy affecting virtually all Americans. In 2012, BLS reached 100 percent of the underlying *timeliness*, *accuracy* and *relevance* targets for all but one of its Principal Federal Economic Indicators. Prices and Living Conditions reached 100 percent of its underlying timeliness and accuracy targets, but missed one of its underlying relevance targets because of the transition to an updated industry classification system that had fewer industries. Results for the Labor Force Statistics as well as the Prices and Living Conditions Principal Federal Economic Indicators (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	FY 2009	FY 2010	FY 2011	FY 2012
Percent of timeliness targets achieved for the Labor Force Statistics Principal Federal Economic Indicators (PFEIs)	--	100%	100%	100%
Percent of accuracy targets achieved for the Labor Force Statistics PFEIs	--	100%	100%	100%
Percent of relevance targets achieved for the Labor Force Statistics PFEIs	--	100%	100%	100%
Percent of timeliness targets achieved for the Prices and Living Conditions PFEIs	--	100%	100%	100%
Percent of accuracy targets achieved for the Prices and Living Conditions PFEIs	--	100%	100%	100%
Percent of relevance targets achieved for the Prices and Living Conditions PFEIs	--	100%	100%	83%
Customer Satisfaction with BLS Web Site as measured by the ACSI Score*	75	75	75	77

* ACSI Score is calculated on a 100 point scale.

American Recovery and Reinvestment Act of 2009 (Recovery Act)

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

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 2012, DOL used managerial cost accounting for costing programs and performance indicator results in accordance with the Federal Accounting Standards Advisory Board's (FASAB's) Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts for the Federal Government*, as amended by SFFAS No. 30, *Inter-Entity Cost Implementation*. The 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 for FY 2012 was $105.7 billion.

Analysis of Financial Statements and Stewardship Information

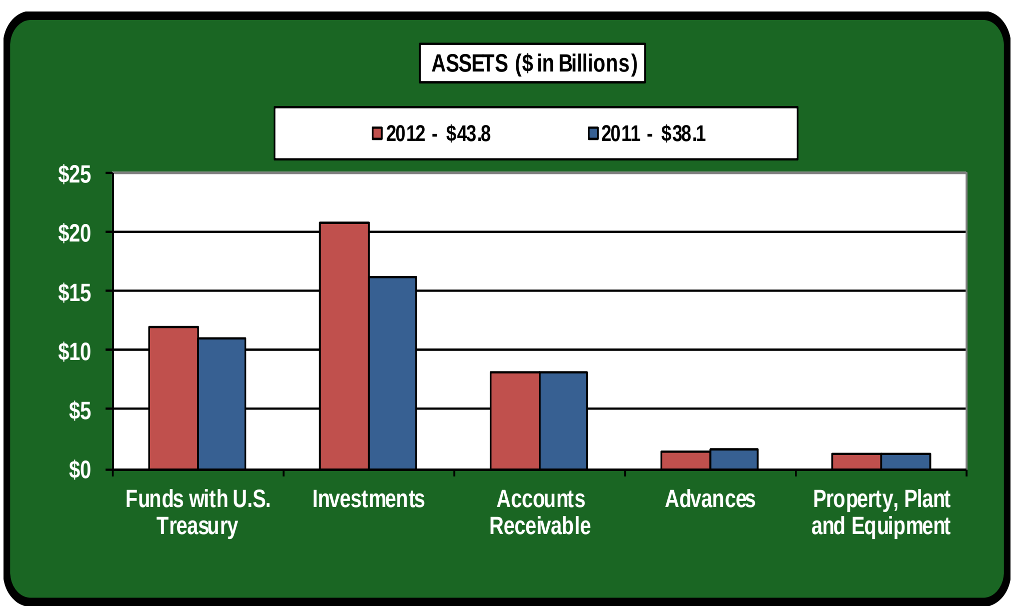
The principal financial statements summarize the Department's financial position, net cost of operations, and changes in net position, and provide information on budgetary resources and social insurance.

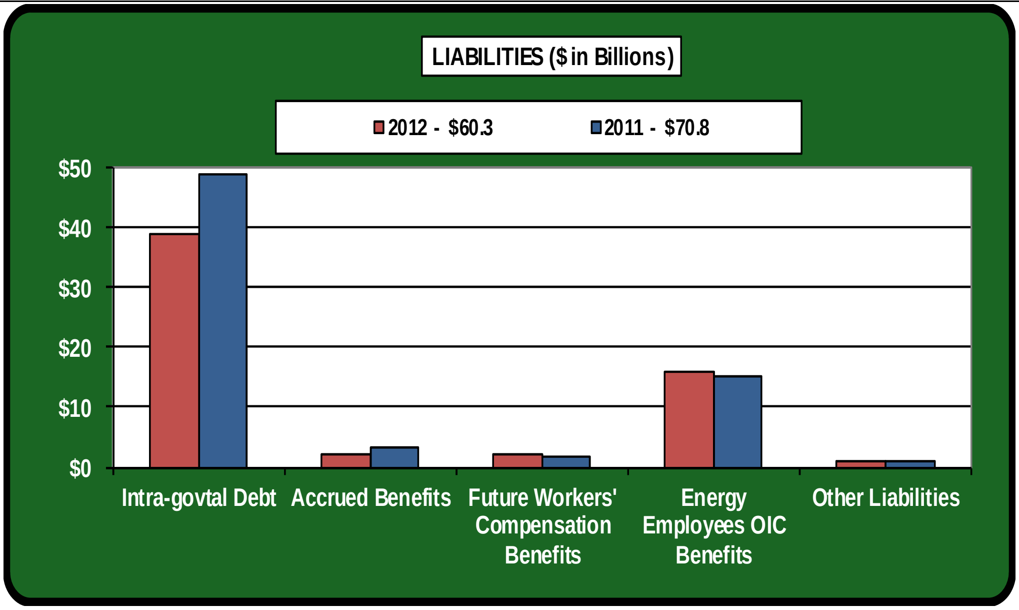
Summary of Selected Financial Data

(Dollars in Billions)	2012	2011	Change Amount	Change Percent
Financial position				
Total assets	$ 43.8	$ 38.1	$ 5.7	15.0%
Investments	20.8	16.2	4.6	28.4%
Total liabilities	$ 60.3	$ 70.8	$ (10.5)	-14.8%
Intra-governmental debt	39.0	48.9	(9.9)	-20.2%
Net cost of operations				
Net cost of operations	$ 105.7	$ 135.1	$ (29.4)	-21.8%
Income maintenance	96.3	124.9	(28.6)	-22.9%
Employment and training	6.7	7.6	(0.9)	-11.8%
Budgetary Resources				
Obligations incurred	$ 156.3	$ 191.9	$ (35.6)	-18.6%

Financial Position

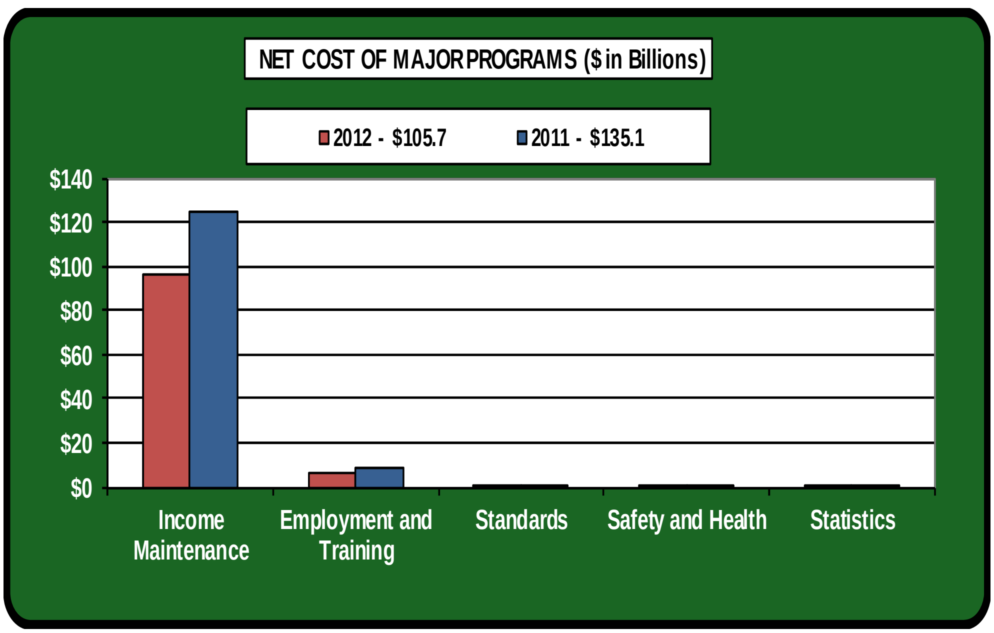
The Department's Balance Sheet presents DOL's financial position through the identification of agency assets, liabilities, and net position, as shown below. The Department's total assets increased from $38.1 billion in FY 2011 to $43.8 billion in FY 2012, an increase of 15.0%, primarily due to an increase in investments. Investments increased primarily due to net inflows in the Unemployment Trust Fund in excess of immediate program needs for benefit payments and administrative costs. Liabilities decreased from $70.8 billion at the end of FY 2011 to $60.3 billion at the end of FY 2012, a decrease of (14.8%). This decrease was primarily due to a decrease in intra-governmental debt [(20.2%)] due to Unemployment Trust Fund repayments of borrowings from the General Fund of the Treasury as tax collections by the states exceeded the requirements for benefit payments.





Net Cost of Operations

The Department's net cost of operations for the year ended September 30, 2012 was $105.7 billion, a decrease of ($29.4) billion [(21.8%)] from 2011. This decrease was attributable to the major programs discussed below:



Income Maintenance programs continue to comprise the major portion of departmental costs. These programs include unemployment benefits paid to covered individuals who are out of work and seeking employment, as well as payments to individuals who qualify for disability benefits due to injury or illness suffered on the job, and the costs to administer these programs. Income maintenance net costs were $96.3 billion, a decrease of (22.9%) from FY 2011. This decrease was primarily due to decreases in unemployment benefits provided under existing legislation which decreased the length of coverage and due to lower levels of unemployment as compared to FY 2011.

Employment and Training programs comprise DOL's second largest cost. These programs are designed to help individuals deal with the loss of a job, identify new occupational opportunities, find training to acquire different skills, start a new job, and make long-term career plans, as well as connect employers to workers with the skills they need. Employment and training costs were $6.7 billion in FY 2012, a decrease of (11.8%) from FY 2011. This decrease was due to reductions in amounts appropriated for the 2011 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 2012 and FY 2011, as well as the status of these resources at the end of each fiscal year. The Department had total obligations incurred of $156.3 billion in FY 2012, a decrease of ($35.6) billion [(18.6%)] from FY 2011. 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

The Federal Accounting Standards Advisory Board (FASAB) has classified the Black Lung Disability Benefit Program as a social insurance program that is required to report a Statement of Social Insurance (SOSI) 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 administrative costs, less the present value of coal excise tax income. For FY 2008 through FY 2012 as presented in the SOSI, the present value of the coal excise tax income has been greater than the sum of the actuarial present value of the future benefits and the present value of administrative costs. This amount is also called the open and closed group measure.

Black Lung Disability Benefit Program – Table of Key Measures

(Dollars in Millions)	2012	2011	Change Amount	Change Percent
Costs and Changes in Net Position				
Net cost of operations	$ (441.1)	$ (429.3)	$ (11.8)	2.7%
Total financing sources	562.8	568.6	(5.8)	-1.0%
Net change of cumulative results of operations	$ 121.7	$ 139.3	$ (17.6)	-12.6%
Net Position				
Total assets	$ 102.5	$ 63.8	$ 38.7	60.7%
Less: total liabilities	(6,080.1)	(6,163.1)	83.0	-1.3%
Net position (assets net of liabilities)	$ (5,977.6)	$ (6,099.3)	$ 121.7	-2.0%
Social Insurance				
Open and closed group measure, beginning of year	$ 4,720.2	$ 5,450.5	$ (730.3)	-13.4%
Open and closed group measure, end of year	$ 4,658.5	$ 4,720.2	$ (61.7)	-1.3%

The increase in the net cost of operations for the year ended September 30, 2012 of $11.8 million [2.7%] from FY 2011 was mainly due to higher benefit costs. FY 2012 total financing sources decreased ($5.8) million [(1.0%)] from FY 2011 mainly due to decreases in taxes and interest. The resulting net change of cumulative results of operations for FY 2012 was $121.7 million, a decrease of ($17.6) million [(12.6%)] from FY 2011.

Total assets increased $38.7 million [60.7%] in FY 2012 primarily due to an increase in the Funds with U.S. Treasury balance. Liabilities decreased ($83.0) million [(1.3 %)] in FY 2012 due to repayments of debt. The resulting net position (deficit) decreased $121.7 million in FY 2012.

During FY 2012, the open and closed group measure decreased ($61.7) million [(1.3%)] and during FY 2011 decreased ($730.3) million [(13.4%)]. Reasons for the net decreases in the measures for FY 2012 and FY 2011 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
- Decreases in discount rates leading to increases in the measures (described as a change in assumption about interest rate on the SCSIA).

The total of open and closed group measure plus fund assets as of September 30, 2012 of $4,761.0 million represents a projected net positive cash flow that may be used to liquidate the liabilities of the BLDTF, which were $6,080.1 million as of September 30, 2012.

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

Limitations on the Principal Financial Statements

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

Reducing Improper Payments

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

In accordance with the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, and as implemented by OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, the Department reviews its programs and activities annually to identify programs that may be susceptible to significant improper payments. For programs and activities deemed risk susceptible, the Department performs testing 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 Unemployment Insurance (UI) benefit program and the Workforce Investment Act (WIA) grant program. The table below shows the target and projected improper payments error rates for the programs classified as at-risk:

DOL Program	FY 2011		FY 2012		FY 2013	FY 2014	FY 2015
	Target	Actual	Target	Actual	Target	Target	Target
Unemployment Insurance (UI)	9.8%	12.0%	9.7%	11.42%	*	*	*
Workforce Investment Act (WIA)	0.07%	0.31%	0.44%	0.22%	0.44%	0.44%	0.44%

*Integrity rate targets for FY 2013 to FY 2015 will be set based on an alternative methodology explained in section II of "Improper Payments Reporting Details" - UI Statistical Sampling.

The FY 2012 error rate target for UI's improper payments was 9.7% as compared to the actual error rate of 11.42% (10.81% overpayment rate plus 0.61% underpayment rate) for the period July 2011 to June 2012, the most recent period for which data was available.

The UI improper payment rate decreased from 12.0% for the 2011 reporting period (11.35% overpayments and 0.65% underpayments). This decrease is primarily the result of decreases in overpayment rates for several root causes, especially Employment Service (ES) registration (which declined from 1.03% to 0.74%) and Benefit Year Earnings (BYE) which decreased from 3.44% to 3.23%.

As a result of the Department's efforts to improve the accuracy of the measured rate, OMB approved a revised WIA annual target rate beginning with FY 2012. The Department initially based its WIA improper payment rate on analysis of Single Audit Act reports, using questioned costs as a proxy for improper payments. The target rate was set based on these estimates. The use of Single Audit Act reports was later expanded to include other sources of data; however, the target rate was not adjusted accordingly until 2012.

The Department has implemented various corrective actions to address the causes and reduce improper payments in both of these programs. Like many other Federal agencies, the Department faces challenges in meeting its improper payment reduction and recovery targets, particularly with programs that are sensitive to economic fluctuations or natural disasters, such as the UI program. Furthermore, meeting improper payment reduction and recovery targets of programs such as UI and WIA are contingent upon the cooperation and support of State agencies and other outside stakeholders who are intricately involved in the day-to-day administration and management of these programs' activities.

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

Financial Management Systems and Strategy

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

The Department implemented a new, then Financial Systems Integration Office compliant, off the shelf, agency wide financial management system utilizing Oracle Federal Financials through a commercial Shared Service Provider (SSP) in January 2010. The New Core Financial Management System (NCFMS) established on-line real time interfaces with major Departmental support system including procurement and e-Travel. The system has been deemed to be largely and substantially compliant in terms of FFMIA Act and A-123 (Internal Controls).

The Department is replacing its existing procurement, travel and payroll/personnel systems over the next 12 to 24 months. Real time interfaces will again be developed within the framework of NCFMS to accept and record financial transactions in the system. Taken as a whole, these systems represent the Department's financial system and supporting system.

FY 2012 saw a transition from a normalization phase to one of optimization of NCFMS, which was introduced in FY 2010 as the financial system of record. Building upon our normalization efforts in FY 2011, paperless invoices were introduced in FY 2012 with a target of full utilization during FY 2013. An executive management reporting initiative was begun in FY 2012 to provide enhanced financial management reports throughout DOL to assist in agency and departmental decision making processes.

Continued efforts to fully utilize the capabilities of NCFMS coupled with new technology will continue in the future. A skills assessment of DOL financial management personnel has also been initiated to enable financial users to more fully leverage 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 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 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, 2012. No material weaknesses were found in the design or operation of the internal controls.

In addition, DOL conducted an 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, 2012 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 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, 2012.

Hilda L. Solis Secretary of Labor	Seth D. Harris Deputy Secretary of Labor
James L. Taylor Chief Financial Officer	T. Michael Kerr Assistant Secretary of Administration and Management/Chief Information Officer

November 16, 2012

FINANCIAL SECTION

Message from the Chief Financial Officer

For FY 2012, the Department of Labor continued its high standard of financial management by receiving an unqualified (clean) audit opinion on our financial statements for the 16th year. The FY 2012 financial statements are only the second produced entirely from the Department's new core financial system, and I am pleased to report that the Department has obtained this clean audit opinion. This provides independent confirmation that the Department's financial statements are presented fairly, transparently, and in conformity with U.S. generally accepted accounting principles.

For the 11th year, the Association of Government Accountants awarded DOL the Certificate of Excellence in Accountability Reporting for our FY 2011 AFR, clearly demonstrating the quality of our reporting and transparency. Accurate and timely financial information improves DOL's accountability to its stakeholders and the operational, budget, and policy decision-making processes that are the foundation for the services the Department delivers to the public.

During the past year, the Department took numerous corrective actions to address the material weaknesses identified by the auditors in FY 2011. I am happy to announce that this resulted in the elimination of all material weaknesses for the Department of Labor. We will continue our efforts to further improve internal controls across the Department.

As part of the Administration's Accountable Government Initiative for the Improper Payments Elimination and Recovery Act (IPERA), we performed audits which took steps to prevent and recover improper payments; please see the Improper Payments Reporting Details section of this report for in-depth discussion. In another effort, my office worked with the Office of Management and Budget (OMB) and the Department of the Treasury to strengthen controls on the use of Federal funds through the development of a Do Not Pay Solution plan. Do Not Pay is a one-stop shop that allows the Department to check various databases before making payments or awards in order to identify ineligible recipients and prevent fraud or errors from being made. Furthermore, in support of the Vice President's Campaign to Cut Waste initiative, we have led the Department's efforts to increase controls and make across-the-board reductions in expenses. These reductions specifically include cutting travel and conference expenses by at least 30 percent. We have identified strategies to achieve this goal by FY 2013, while implementing a strict conference review process to ensure taxpayer dollars are spent wisely.

I am proud of the Department's financial management accomplishments in FY 2012. 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.

James L. Taylor
Chief Financial Officer
November 16, 2012

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

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of Labor (DOL) as of September 30, 2012 and 2011; 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, 2012, 2011, 2010, 2009, and 2008; and the statements of changes in social insurance amounts for the years ended September 30, 2012 and 2011 (hereinafter referred to as "consolidated financial statements" or "basic financial statements"). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year (FY) 2012 audit, we also considered DOL's internal control over financial reporting and tested DOL's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

We have also examined DOL's compliance with section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA) as of September 30, 2012.

SUMMARY

As stated in our opinion on the financial statements, we concluded that DOL's consolidated financial statements present fairly, in all material respects, the financial position of DOL as of September 30, 2012 and 2011; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance program as of September 30, 2012, 2011, 2010, 2009, and 2008; and the changes in social insurance amounts for the years ended September 30, 2012 and 2011, in conformity with U.S. generally accepted accounting principles.

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

Also, as discussed in our opinion on the financial statements, DOL changed its presentation for reporting the combined statement of budgetary resources in FY 2012.

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

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

2. Lack of Sufficient Controls over Grants

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

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control over Financial Reporting section of this report.

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

As stated in our opinion on DOL's compliance with section 803(a) of FFMIA, we concluded that DOL complied, in all material respects, with the requirements of section 803(a) of FFMIA as of September 30, 2012.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Department of Labor as of September 30, 2012 and 2011; the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended; the statements of social insurance as of September 30, 2012, 2011, 2010, 2009, and 2008; and the statements of changes in social insurance amounts for the years ended September 30, 2012 and 2011.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor as of September 30, 2012 and 2011; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance program as of September 30, 2012, 2011, 2010, 2009, and 2008; and the changes in its social insurance amounts for the years ended September 30, 2012 and 2011, in conformity with U.S. generally accepted accounting principles.

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 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.

As discussed in Note 1-Z to the consolidated financial statements, DOL changed its presentation for reporting the combined statement of budgetary resources in FY 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, DOL's combined statement of budgetary resources for FY 2011 has been adjusted to conform to the current year presentation.

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 financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audits of the basic 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.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our FY 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider to be significant deficiencies in internal control over financial reporting. 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.

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

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

COMPLIANCE AND OTHER MATTERS

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

Other Matters. DOL is currently reviewing 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.

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

OPINION ON COMPLIANCE WITH FFMIA

DOL represented that, in accordance with the provisions and requirements of FFMIA, the Secretary of Labor determined that DOL's financial management systems were in substantial compliance with FFMIA as of September 30, 2012.

We have examined the U.S. Department of Labor's compliance with section 803(a) of the *Federal Financial Management Improvement Act of 1996* as of September 30, 2012. Under section 803(a) of FFMIA, the U.S. Department of Labor's financial management systems are required to substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. We used OMB's *Implementation Guidance for the Federal Financial Management Improvement Act*, dated January 9, 2009, to determine compliance.

In our opinion, the U.S. Department of Labor complied, in all material respects, with the aforementioned requirements as of September 30, 2012.

* * * * * * *

RESPONSIBILITIES

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the FY 2012 and 2011 consolidated financial statements of DOL based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but

not for the purpose of expressing an opinion on the effectiveness of DOL's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our FY 2012 audit, we considered DOL's internal control over financial reporting by obtaining an understanding of DOL's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether DOL's FY 2012 consolidated financial statements are free of material misstatement, we performed tests of DOL's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DOL. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Our responsibility also included expressing an opinion on DOL's compliance with FFMIA section 803(a) requirements as of September 30, 2012, based on our examination. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence about DOL's compliance with the requirements of FFMIA section 803(a) and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on DOL's compliance with specified requirements.

DOL's written response to the findings identified in our audit and presented in Exhibit I was not subjected to the auditing procedures applied in the audit of DOL's consolidated financial statements, and accordingly, we express no opinion on it.

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

KPMG LLP

November 16, 2012

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

In fiscal year (FY) 2012, U.S. Department of Labor (DOL) agencies completed corrective action to address certain previously-identified control deficiencies. Additionally, the Office of the Chief Information Officer (OCIO) issued an updated department-wide Computer Security Handbook to incorporate current National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, information technology (IT) requirements on August 1, 2011, which was effective for FY 2012.

During FY 2012, we also noted improvements in DOL's manual compensating controls that mitigate certain IT security control weaknesses. These controls had deteriorated when DOL's control environment was significantly altered as a result of implementing the New Core Financial Management System (NCFMS) in FY 2010, but we determined most of these controls to be operating effectively during FY 2012.

However, during our FY 2012 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 are designed to help prevent unauthorized access to IT systems. 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;
- Shared, generic, and multiple user accounts for the same user existed;
- Incidents were not timely reported;
- Developer, test, and production roles were not separated; 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 OCIO Computer Security Handbook; and
- Inadequate system configurations were in place.

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

System Audit Logs 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. In addition, audit logging duties were not appropriately segregated for one system. 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 2012 vulnerability assessments, we identified the following deficiencies:

- Numerous critical and high-risk application and operating system patches were not implemented;
- Numerous servers and workstations were not compliant with minimum security baselines;
- Passwords did not meet the minimum security baseline requirements; and
- Logical access control weaknesses, such as the ability to enumerate local users without credentials and 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 related to patch and configuration management weaknesses we identified in FY 2011 for two 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, 2012.

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.

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 access and vulnerability management control deficiencies in financial and support systems;

b) Monitor the agencies' progress to ensure that procedures and controls are appropriately implemented and maintained; and
c) Coordinate with the applicable agencies to ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address access and vulnerability management control deficiencies.

Management's Response: The Office of the Assistant Secretary for Administration and Management (OASAM) will ensure proper resources are prioritized to address the security control weaknesses outlined above. In management's view, DOL policies, procedures, and physical and logically separated systems with supporting boundary controls, collectively provide compound safeguards and redundant security measures to ensure the integrity of DOL financial systems. Management will increase communication with DOL Agencies to ensure they give priority attention and sufficient resources to prioritize and complete the corrective actions required to address the weaknesses.

We appreciate the importance of properly managing IT Security Risks within our major information systems. In FY 2011, the Office of the Chief Information Officer expanded upon the DOL Enterprise Risk Management Strategy by implementing Department-wide and agency specific IT Security Performance Metrics. One of the performance metrics: – *Percentage of Agency audit recommendations related to DOL Security Significant Deficiencies closed within 90 days* –, has also been added to each Agency's FY 2013 Operating Plan. Additionally, the OCIO completed the following actions:

- In the last two weeks of July 2012, the OCIO held meetings with each Agency to discuss their IT Security Performance Metrics and provided recommended actions to ensure they achieve their FY 12 and FY 13 targets.
- On August 14, 2012, the DOL Chief Information Security Officer, provided an IT Security Risk Management briefing to the DOL Agency Heads regarding the importance of Risk Management as well as discussed the Departmental IT Security Risk Management metrics.
- On August 23, 2012, OCIO provided a 2 hour training session for Agency representatives responsible for managing their Agency IT Security risks.
- On September 19, 2012, the CIO distributed Agency IT Security Performance Metrics to each DOL Agency Head.

The OCIO will monitor agency progress on achieving the IT Security Performance metrics via periodic status meetings as well as agency Operating Plan status updates. To ensure we continue to safeguard our financial systems, OASAM will evaluate its current efforts to deploy policies, procedures and automated tools to seek ways we can improve current continuous monitoring processes to strengthen the overall security posture of DOL's information systems.

Auditors' Response: We will conduct follow-up procedures in FY 2013 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 2012 audit procedures, we identified deficiencies in certain controls over grants, as described below.

Grant Expenses

As part of our audit procedures over grant controls as of March 31, 2012, we selected a sample of 32 grants from the population of grant expenses recorded in the NCFMS to determine if Federal Project Officers' (FPO) desk reviews were properly performed and documented in the Grants Electronic Management System (GEMS). However, 8 of the 32 grants selected were not listed in GEMS. ETA management communicated to us that these 8 grants were related to projects in GEMS that were reviewed timely, but based on the documentation provided, we noted no connection between these grants and the related projects communicated by management. As such, sufficient documentation evidencing the FPO desk reviews of the specific grants could not be provided. ETA did not have policies and procedures in place to ensure that all grants were properly included in GEMS.

In addition, we noted that supervisors were able to access exception reports in GEMS to identify FPO desk reviews that were not completed timely; however, the reviews of these reports were not required to be documented. Further, although the related ETA written policies and procedures were updated in August 2011, they did not include any guidance on monitoring the timely completion of FPO desk reviews. The policies and procedures related to GEMS were written to focus on the FPO's grant responsibilities, not on supervisory responsibilities.

We also tested the December 31, 2011, Delinquent Reporting Analysis and noted that the analysis did not identify all grantees that were delinquent in filing their cost reports. The analysis only identified those grantees that were delinquent and had a cash advance balance over a certain threshold. ETA's *Delinquent Filers Monitoring Procedures* were not designed to identify grantees without a cash advance that were delinquent in filing their quarterly cost reports. Further, the cash advance balances in the analysis were not calculated using the most current information available; ETA used the cumulative cash receipts data from the grantees' latest submitted cost reports rather than current data from the U.S. Department of Health and Human Services (HHS)-Payment Management System (PMS). We also noted that ETA did not update the *Delinquent Filers Monitoring Procedures* to include deadlines for required follow-up by the appropriate parties, or a control procedure designed to ensure that the quarterly notification of delinquent filers was distributed timely, as recommended in the prior year audit report.

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. As a result, grant-related expenses, advances, payables, and undelivered orders could be misstated.

The DOL *FPO Grant Management Responsibilities Related to the GEMS* memorandum states:

> A quarterly desk review is required on all projects in GEMS. Desk reviews must be completed within 30 days from the date on which the grantee submits its certified report and/or not later than 75 days from the quarter-ending date.
>
> …FPOs with grant monitoring responsibilities must use GEMS to conduct and record results for initial and/or annual risk assessments, complete quarterly desk reviews,

> and include official site visit or desk record reviews. Other GEMS features available for optional use include work plans and budget records.

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

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

The Standards also states:

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

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 testwork over the accuracy analysis for the grant accrual as of September 30, 2011, we identified several errors in the data underlying the accuracy analysis. To test the accuracy analysis, we obtained an extract from E-Grants, the tracking and management system for ETA grants, of all cost reports for the quarter ended September 30, 2011. We then compared the accuracy analysis to the extract of cost reports to determine the completeness and accuracy of the data used in the analysis. As a result of our procedures, we identified the following:

- 167 grants were improperly excluded from the accuracy analysis, and
- 77 grants had expenses in the accuracy analysis that did not agree to the related cost reports.

Certain grants were excluded because the methodology used in preparing the grant accrual accuracy analysis was not designed to capture grants that had cost reports submitted with cumulative expenses of $0 or with cumulative expenses that had not changed since the prior period. Additionally, the reported expenses that ETA used in the analysis did not include all adjusting entries from the general ledger, which caused the reported expenses in the accuracy analysis to be greater than the amounts actually reported by the grantees. If all relevant grant data is not properly captured in the grant accrual accuracy analysis, ETA will not be able to adequately assess if the grant accrual methodology is accurately estimating the accrual. In addition, without adequate controls over the data used in the accuracy analysis, errors could occur in the cost-to-payment ratios that result in a misstatement of the grant accrual.

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

> The agency head must establish controls that reasonably ensure that revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

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.

Other Grant Controls

On a quarterly basis, ETA generates separate HHS-PMS Synch Reports for Office of Job Corps (OJC) grants and all other ETA grants. These reports identify differences between the authorized amount (obligation amount) and the advance amount (disbursement amount) reported in HHS-PMS and DOL's NCFMS. During our testwork over the OJC HHS-PMS Synch Report for the quarter ended December 31, 2011, we noted that ETA did not document explanations evidencing investigation and resolution for any of the differences identified. These differences totaled $27.4 million for obligations and $15.5 million for disbursements.

ETA did not document explanations evidencing investigation and resolution of differences because significant mapping issues between HHS-PMS and NCFMS for OJC-related grants continued to exist as of September 2012. ETA management informed us that they did not have the resources necessary to fully resolve these mapping issues, which were more complex than originally anticipated. Furthermore, related policies and procedures were not developed to assign responsibility within ETA to ensure that all differences on the OJC HHS-PMS Synch Report were investigated, resolved, and documented. Without adequate reconciliation controls, errors could occur and not be detected or corrected, resulting in a misstatement of OJC grant-related expenses, advances, payables, and undelivered orders.

In addition, we selected a sample of 45 expired grants from the Closeout Inventory Tracking System as of June 30, 2012, to determine if grants were properly and timely closed out. Based on our testing, we determined that 1 of the 45 grants should have been closed out as of April 2012, but remained open as of September 2012.

This situation occurred because ETA's Grant Closeout Unit did not follow-up timely on matters related to the grantee's performance certification submitted by the FPO, which had to be addressed before the grant could be closed out. As a result, the performance certification was not finalized, and the final closeout modification could not be created in E-Grants. ETA's management informed us that this grant's closeout was suspended until the required issues could be resolved. Without adequate controls to timely close out expired grants and deobligate any remaining funds, undelivered orders may be overstated.

We also selected a sample of 25 grants from the population of on-site monitoring reviews planned in FY 2012 by each of the six regions to determine if the on-site monitoring reviews were properly performed and documented in the GEMS. Based on our testwork, we determined that Monitoring Review Reports were not completed timely. Specifically, the Monitoring Review Reports for 8 of 25 on-site monitoring reviews were issued more than 45 days after the exit date of fieldwork, ranging from 46 to 120 days. The reports were not issued on time because the Core Monitoring Guide (Guide), dated April 2005, did not specify a timeline for completing and filing Monitoring Review Reports. Each region had its own internal guidelines, but those guidelines were not properly monitored.

In addition, we noted for all 25 on-site monitoring reviews, proper documentation to support the conclusions reached as outlined in the respective Monitoring Review Reports was not preserved in GEMS. The Guide did not specify the documentation that is required to be retained in GEMS to support the results outlined in the Monitoring Review Reports.

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. In addition, without adequate controls in the grant reporting 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:

> 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 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.
>
> 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.
>
> 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.

ETA's Standard Operating Procedures (SOP) *Closing out ETA's Expired Grants and Agreements* provides internally-developed closeout procedures and documentation on the timeframe for the assignment of grants scheduled to be closed, the receipt of closeout documents from the grantee, and the reconciliation of the closeout documents by the closeout grant officer. The SOP indicates that the timeframe from closeout completion is "no later than 12 calendar months after the expiration date of the grant or agreement."

In addition, the SOP states:

> Obtain a performance certification from the national and regional program officers within 45 days after closeout documents are received. Requests from Regional Office FPOs must be forwarded to the Closeout Grant Officer for handling. Once a financial reconciliation is reached and internal certifications are completed final closeout modification is created in E-Grants. Modifications must be certified by the Closeout Grant Officer and forwarded to the DFAS for financial certification.

The Guide states that "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."

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

a) Develop and implement policies and procedures to ensure all grants are properly and timely added to GEMS. Specifically, the policies and procedures should require the FPOs to 1) notify the GEMS Point of Contact when a new grant needs to be added to GEMS and 2) review GEMS on a monthly basis to confirm all grants have been properly included;
b) Update written policies and procedures to include specific guidance on monitoring the timely completion of FPO desk reviews. The guidance should require supervisors to periodically review the GEMS exception report and document these reviews;
c) Revise the *Delinquent Filers Monitoring Procedures* to include 1) a control procedure designed to ensure that the quarterly notification of delinquent filers is distributed timely, 2) deadlines for required follow-up of delinquent filers, 3) procedures to identify all grantees that are delinquent in filing their costs reports, and 4) procedures that require the use of the most current appropriate data in the delinquent monitoring analysis;
d) Revise the methodology for calculating the grant accrual accuracy analysis to capture all submitted cost reports as of September 30, including those that report cumulative costs of $0;
e) Develop and implement policy and procedures to reconcile the expenses obtained from the general ledger to the expenses reported by the grantees in E-Grants prior to uploading the expenses into the grant accrual accuracy analysis; and
f) Enhance policies and procedures related to closing out grants to ensure that issues identified during the closeout process are resolved and grant closeout documentation is finalized in a timely manner.
g) Allocate the necessary resources to timely resolve the mapping issues between HHS-PMS and NCFMS to allow the systems to communicate properly;
h) Develop and implement policies and procedures designating roles and responsibilities for reviewing the OJC HHS-PMS Synch Report to ensure that differences for authorized amount (obligation amount) and the advance amount (disbursement) are properly identified, resolved, and documented;
i) Update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring, including establishing a specific timeline to complete the Monitoring Review Reports;
j) Update written policies and procedures to include specific documentation requirements in GEMS to support the conclusions included in the Monitoring Review Reports; and

k) Develop monitoring controls to determine that Monitoring Review Reports are issued timely and are properly supported with documentation in GEMS.

Management's Response: We believe that ETA has established and maintains strong internal controls over grants management. The exceptions covering desk reviews, delinquent cost reports, HHS/PMS Synch Report, and closeout noted by the auditors cover procedures relating to the analysis, review and documentation of recorded grant costs. ETA continues to improve its internal controls over grants and has already addressed some of the recommendations and will address in FY 2013 the other recommendations noted by the auditors. Specifically, ETA's Office of Grants Management will work with the appropriate offices to determine the best process for ensuring that all related document IDs are properly and timely added to GEMS. Additionally, ETA will update the memorandum on *Federal Project Officer Grant Management Responsibilities Related to the Grants Electronic Management System* to instruct FPO supervisors to maintain documentation of periodic review of the timely completion of desk reviews. To address the issues relating to the delinquent reporting analysis, ETA will establish due dates for responses to ensure timely update of cost information and revise the current policy to include all grantees with delinquent cost reports for timely follow up. Procedures will be reviewed and updated, as needed, regarding the regional on site monitoring and inclusion of related documentation in GEMS.

Regarding the accrual accuracy analysis, ETA has already begun implementing corrective actions. ETA has revised the methodology for calculating the grant accrual accuracy analysis to capture all submitted cost reports, including those that report cumulative costs of $0 and implemented changes to ensure all data used for the grant accrual accuracy analysis is complete. ETA will enhance its policies and procedures related to closing out grants to ensure that issues identified during the closeout process are timely resolved. ETA has established a re-engineering team comprised of both National and Regional office staff who, among other things, will address the timely close out issues and will develop a trigger to send a list of delinquent closeouts to the Regional Administrators.

ETA has been working with the NCFMS system operator to resolve the HHS/PMS Synch Report mapping issues. In June 2012, ETA implemented an alternative PMS reconciliation that is performed each quarter. The reconciliation compares obligation, disbursements and cost data recorded in PMS and NCFMS for all OJC contracts, and computes variances. These reconciliations are manually prepared based on reports obtained from the two systems, and will continue to be prepared until such time as the Synch Report mapping issues are fully resolved. Additionally, ETA will develop and implement policies and procedures designating roles and responsibilities for reviewing the OJC HHS-PMS Synch Report and the manual reconciliations to ensure that differences for authorized amount (obligation amount) and the advance amount (disbursement amount) are properly identified, resolved, and documented.

Auditors' Response: We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

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

DOL records manual journal entries throughout the year to account for certain accounting transactions and to make corrections to general ledger account balances, as necessary. During FY 2012, the Office of the Chief Financial Officer (OCFO) provided trainings to DOL staff to address the minimum documentation requirements needed to sufficiently support journal entries and the requirements for adequately reviewing journal entries and the related documentation. In addition, we noted that the OCFO implemented a process that required the JV Controller from the Division of Central Accounting Operations to review a sample of posted journal entries at least on a quarterly basis. The JV Controller is required to prepare a report for the OCFO that documents the findings and results of the review, and provide recommendations for improvement. The results and recommendations are also communicated to the preparers and approvers of the selected journal entries. The OCFO uses the report to implement corrective actions, including the coordination of training, as necessary.

As a result of the items above, we noted improvements in the preparation and review of journal entries during our fiscal year 2012 audit testing. However, we continued to identify certain deficiencies during our testing of a sample of 410 journal entries recorded in NCFMS for the period October 1, 2011, through September 30, 2012. In summary, we determined that 42 of the 410 journal entries contained one or more deficiencies. Specifically, we noted the following:

- 3 instances where the entry was not recorded in the correct accounting period and/or at the appropriate amount;
- 32 instances where the entry was not recorded in accordance with the United States Standard General Ledger (USSGL) and/or applicable Federal accounting standards;
- 4 instances where a generic account was used to approve a journal entry that was created by DOL's shared service provider;
- 1 instance where the approver was not documented in NCFMS; and
- 7 instances where the entry did not reflect the underlying events and transactions.

Certain errors above were caused by insufficient review of journal entries by authorized DOL supervisors to ensure the journal entries were properly prepared and supported before posting them to the general ledger. In addition, DOL did not have formal policies and procedures in place during the first half of FY 2012 that required the approver's name for manual journal entries created by the shared service provider to be documented in NCFMS to evidence that the appropriate entry was recorded. However, we noted that DOL implemented a process in March 2012 that allowed the names of individuals approving journal entries prepared by the contractor to be documented in NCFMS, which allowed a clear approval chain to be documented strictly through the system.

Without proper review and approval of transactions, the risk increases that a material error would not be prevented or detected and corrected in a timely manner. Further, without formal policies and procedures for assigning journal entry preparing and approving rights, an increased risk exists that an unauthorized journal entry may be posted to the general ledger.

The Standards state:

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

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

a) Formalize and implement policies and procedures for assigning preparer and approver rights to individuals for posting journal entries in NCFMS; and

b) Continue to monitor journal entries and provide training to applicable supervisors to ensure they are performing sufficient reviews of journal entries and related documentation before the entries are posted.

***Management's Response*:** Management recognizes there is room for improvement and will continue to reinforce policies and procedures and provide additional training, as needed, to further enhance performance in this area. As noted by the auditors, the additional training and the review process implemented in FY 2012 resulted in further improvement in the preparation and review of journal entries. We cannot specifically respond to the deficiencies noted or to the level of deficiency as we did not have adequate time to review the majority of these items. We will review these items and implement changes as needed. Although we believe that journal entries are properly reviewed by the supervisors, we will continue to work to enhance the supporting documentation. We agree that prior to March 2012 a generic designation was included in the system for certain types of journal entries, however all such journal entries were specifically approved by a DOL employee in accordance with procedures in place at that time.

Auditors' Response: We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

The following table provides the fiscal year (FY) 2012 status of all recommendations included in the Independent Auditors' Report on the U.S. Department of Labor's FY 2011 Consolidated Financial Statements, Report No. 22-12-002-13-001 (November 15, 2011).

Fiscal Year 2011 Finding	FY Finding Originated	FY 2011 Recommendations	FY 2012 Status
Internal Control			
1. Lack of Sufficient Controls over Financial Reporting – Material Weakness	2009 (as a Significant Deficiency)	**Recommendation (a):** The Chief Financial Officer (CFO) should develop and implement procedures to properly complete and document the monthly Government-wide Accounting System (GWA) Fund Balance with Treasury (FBWT) reconciliations, including 1) reinstatement of the previous reconciliation process that reconciled the ending balances reported on the GWA Account Statements to the ending FBWT balances recorded in the general ledger and 2) documented research and resolution of identified differences.	Partially Open and Revised to Control Deficiency
		Recommendation (b): The CFO should dedicate adequate resources to complete the monthly FBWT reconciliations and supervisor reviews timely.	Closed
		Recommendation (c): The CFO should perform, document, and review timely the monthly FMS 6652 reconciliations to demonstrate that the differences identified on the FMS 6652 reports have been resolved.	Open and Revised to Control Deficiency
		Recommendation (d): The CFO should update policies and procedures to properly complete and document the monthly FMS 6652 reconciliations, including documented research and resolution of all identified differences.	Open and Revised to Control Deficiency
		Recommendation (e): The CFO should formalize procedures for generating data extracts of detailed general ledger transactions from New Core Financial Management System (NCFMS), and enhance the procedures for reviewing data extracts prior to submission for audit to ensure they reconcile to the consolidated trial balance.	Closed
		Recommendation (f): The CFO should develop and implement a formal process for promptly researching and resolving significant financial reporting issues that are identified. In addition, resolution of each issue should be formally documented and retained to support the consolidated financial statements' compliance with GAAP.	Open and Revised to Control Deficiency
		Recommendation (g): The CFO should finalize draft Department of Labor Manual Series (DLMS) policies and procedures requiring detailed review of all financial information in the financial statements, and ensure that OCFO personnel adhere to these policies. Financial statement review should include procedures for comparing financial data reported on the different statements to ensure	Closed

Fiscal Year 2011 Finding	FY Finding Originated	FY 2011 Recommendations	FY 2012 Status
		accuracy and consistency; agreeing the financial data to the general ledger to ensure existence, completeness, and accuracy of financial data reported; and analyzing significant variances between current period and prior period financial information.	
		Recommendation (h): The CFO should formally document comprehensive policies and procedures related to the financial reporting process under NCFMS.	Closed
		Recommendation (i): The CFO should develop and implement policies and procedures to address the minimum documentation requirements needed to support adjustments recorded by DOL's shared service provider, provide training to the agencies to address the minimum documentation requirements needed to sufficiently support recorded transactions, and develop and implement monitoring controls to ensure that individuals are performing sufficient reviews of expenses and related documentation before they are posted in NCFMS to ensure they are adequately supported.	Open and Revised to Control Deficiency
		Recommendation (j): The CFO should investigate the specific cause of the grant expense misclassification issue, and develop and implement appropriate corrective action.	Closed
		Recommendation (k): The CFO should record journal entries to correct the misclassified amounts identified above to their proper United States Standard General Ledger (USSGL) accounts in the general ledger, develop and implement procedures to properly record these transactions in the future, review significant transactions for USSGL compliance, and make any necessary corrections.	Open and Revised to Control Deficiency
		Recommendation: The Assistant Secretary for Administration and Management should perform, document, and review timely the monthly FMS 6652 reconciliations to demonstrate that the differences identified on the FMS 6652 reports have been resolved.	Open and Revised to Control Deficiency
		Recommendation: The National Director for the Office of Job Corps continue working to resolve the mapping issues between U.S. Department of Health and Human Services (HHS)-Payment Management System (PMS) and NCFMS to allow the systems to communicate properly, and develop and implement procedures to investigate, resolve, and document differences identified through the quarterly HHS-PMS Synch Report.	Open (See Exhibit I, comment no. 2)

Fiscal Year 2011 Finding	FY Finding Originated	FY 2011 Recommendations	FY 2012 Status
		Recommendation (a): The Assistant Secretary for Employment and Training should develop and implement written policies and procedures regarding the quarterly reconciliation of E-Grants to NCFMS and resolution of identified differences, including an expected timeframe to ensure errors are detected and corrected to avoid a misstatement. Documentation should be maintained to support these activities.	Closed
		Recommendation (b): The Assistant Secretary for Employment and Training should develop and implement comprehensive procedures for the preparation and review of the Unemployment Trust Fund (UTF) disbursements accrual that address the minimum documentation needed to support management's conclusions and require individuals performing supervisory reviews to verify the accuracy of the accrual data and calculations and the adequacy of documentation maintained to substantiate management's conclusion.	Closed
		Recommendation (c): The Assistant Secretary for Employment and Training should update written policies and procedures to include guidance on monitoring the timely completion of Federal Project Officers' (FPO) desk reviews, which should include requirements for supervisors to periodically review a sample of active grantees to confirm that the FPO desk reviews are being completed timely. This review should be documented.	Open (See Exhibit I, comment no. 2)
		Recommendation (d): The Assistant Secretary for Employment and Training should update the *Delinquent Filers Monitoring Procedures* to include 1) a control procedure designed to ensure that the quarterly notification of delinquent filers is distributed timely, 2) a deadline by which the notification of delinquent filers must be sent to the responsible individuals for follow-up, and 3) deadlines for required follow-up.	Partially Open (See Exhibit I, comment no. 2)
2. Lack of Sufficient Controls over Budgetary Accounting – Material Weakness	2009 (as a Significant Deficiency)	**Recommendation (a):** The CFO should provide adequate resources to complete all necessary budgetary reconciliations timely.	Closed
		Recommendation (b): The CFO should update policies and procedures over budgetary reconciliations 1) to address the minimum documentation requirements needed to substantiate that identified differences are properly researched and resolved, and 2) to outline the necessary steps to complete adequate supervisory reviews.	Open and Revised to Control Deficiency
		Recommendation (c): The CFO should provide training	Closed

Fiscal Year 2011 Finding	FY Finding Originated	FY 2011 Recommendations	FY 2012 Status
		on the updated policies and procedures over budgetary reconciliations, including timing and frequency of reconciliation preparation.	
		Recommendation (d): The CFO should update the NCFMS configuration so that all recorded transactions are subject to the system's automated funds control.	Closed
		Recommendation (e): The CFO should provide training to the agencies to address the minimum documentation requirements needed to sufficiently support the validity of undelivered orders.	Open and Revised to Control Deficiency
		Recommendation (f): The CFO should update the NCFMS Budget Module configuration to allow appropriations that are exempt from apportionment to be posted to the correct general ledger account. Until the NCFMS Budget Module is properly configured, procedures should be developed and implemented to periodically review funds with appropriations exempt from apportionment to ensure amounts improperly reported as Unapportioned Authority are properly reclassified to Unobligated Funds Exempt from Apportionment.	Closed
		Recommendation (g): The CFO should require that one agency be responsible for recording both the budgetary and proprietary journal entries for economic events, or if separate agencies continue to record the entries, develop and implement procedures that require those agencies to coordinate appropriately to ensure almost simultaneous recording.	Open and Revised to Control Deficiency
		Recommendation (a): The Assistant Secretary for Employment and Training should evaluate E-Grants to determine the cause of the continuing system errors related to the acceptance of Employment and Training Administration (ETA) 9130s, and implement the appropriate corrective action.	Closed
		Recommendation (b): The Assistant Secretary for Employment and Training should identify and correct the E-Grants coding issue that prevented timely and proper grant closeout.	Closed
		Recommendation (c): The Assistant Secretary for Employment and Training should develop and implement alternative procedures to properly post refunds to appropriate grants in NCFMS.	Closed

Fiscal Year 2011 Finding	FY Finding Originated	FY 2011 Recommendations	FY 2012 Status
3. Lack of Sufficient Security Controls over Access to Key Financial and Support Systems – Material Weakness	2001 (as a Reportable Condition[1])	**Recommendation (a):** The Chief Information Officer (CIO) should coordinate efforts among the DOL agencies to develop procedures and controls to address access and vulnerability management control deficiencies in financial and support systems.	Open (See Exhibit I, comment no. 1)
		Recommendation (b): The CIO should monitor the agencies' progress to ensure that procedures and controls are appropriately implemented and maintained.	Open (See Exhibit I, comment no. 1)
		Recommendation (c): The CIO should ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address access and vulnerability management control deficiencies.	Open (See Exhibit I, comment no. 1)
4. Improvements Needed in the Preparation and Review of Journal Entries – Significant Deficiency	2006 (as a Reportable Condition[1])	**Recommendation (a):** The CFO should provide training on the updated policies and procedures implemented in June 2011 to address the minimum documentation requirements needed to adequately support journal entries.	Closed
		Recommendation (b): The CFO should develop monitoring controls to ensure that supervisors or individuals other than the preparer are performing sufficient reviews of journal entries and related documentation before the entries are posted to ensure they are adequately supported and are in compliance with the USSGL and Federal accounting standards.	Open (See Exhibit I, comment no. 3)
5. Weaknesses Noted over Payroll Accounting – Significant Deficiency	2006 (as a Reportable Condition[1])	**Recommendation (a):** The CFO should design the Payroll/Time and Attendance Reconciliation Reports to reflect the necessary payroll-related information to conduct an adequate reconciliation.	Open and Revised to Control Deficiency
		Recommendation (b): The CFO should complete periodic monitoring procedures to ensure that the July 2009 policy and procedures are implemented and complied with throughout DOL.	Closed
		Recommendation (c): The CFO should revise procedures related to the monthly payroll reconciliations to require the preparer and the reviewer to document the preparation and review dates, respectively, and to sign the reconciliations once they have completed their work.	Closed
		Recommendation: We also recommend that the Director of the Human Resource Center ensure that the OCFO's July 2009 policy and procedures are properly and	Open and Revised to Control

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

Status of Prior Year Findings and Recommendations
Exhibit II

Fiscal Year 2011 Finding	**FY Finding Originated**	**FY 2011 Recommendations**	**FY 2012 Status**
		consistently implemented, by enforcing the requirements that all payroll-related reconciliations are documented, reviewed, and approved by an appropriate supervisor, and maintained.	Deficiency
Compliance			
1. Federal Financial Management Improvement Act (FFMIA) of 1996	2010 (as Non-compliance	We recommend that DOL follow the recommendations provided in Material Weakness Nos. 1, 2, and 3 and improve its processes to ensure compliance with FFMIA section 803(a) requirements in FY 2012.	Open and Revised to Non-reportable Non-Compliance

Annual Financial Statements

Principal Financial Statements and Notes

Principal Financial Statements Included in This Report

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

The Department's principal financial statements for fiscal years (FYs) 2012 and 2011 consist of the following:

- The **Consolidated Balance Sheet**, which presents as of September 30, 2012 and 2011 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, 2012 and 2011. DOL's net cost of operations includes the gross costs incurred by DOL less any exchange revenue earned from DOL activities. Due to the complexity of DOL's operations, the classification of gross cost and exchange revenues by major program and suborganization is presented in Note 15 to the consolidated financial statements.

- The **Consolidated Statement of Changes in Net Position**, which presents the change in DOL's net position resulting from the net cost of DOL operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2012 and 2011.

- The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to DOL during FY 2012 and 2011, the status of these resources at September 30, 2012 and 2011, the change in obligated balance during FY 2012 and 2011, and budgetary authority and net outlays of budgetary resources for the years ended September 30, 2012 and 2011.

- The **Statement of Social Insurance,** which presents the net present value of projected cash inflows and cash outflows of the Black Lung Disability Trust Fund as of September 30, 2012, 2011, 2010, 2009, and 2008; the net present value of these cash flows is also known as the open and closed group measure. The summary section presents the total of open and closed group measure plus fund assets (Funds with U.S. Treasury and receivables).

- The **Statement of Changes in Social Insurance Amounts**, which presents the net change in the open and closed group measure of the Black Lung Disability Trust Fund for the years ended September 30, 2012 and 2011 and provides information about the change.

CONSOLIDATED BALANCE SHEET
As of September 30, 2012 and September 30, 2011
(Dollars in Thousands)

	2012	2011
ASSETS		
Intra-governmental		
Funds with U.S. Treasury (Note 1-C and 2)	$ 12,023,183	$ 10,954,458
Investments (Note 1-D and 3)	20,840,571	16,213,789
Accounts receivable (Note 1-E and 4)	5,982,460	5,944,955
Advances (Note 1-G and 6)	3,128	-
Total intra-governmental	38,849,342	33,113,202
Accounts receivable, net of allowance (Note 1-E and 4)	2,258,276	2,170,862
Property, plant and equipment, net of accumulated depreciation (Note 1-F and 5)	1,280,338	1,219,912
Advances (Note 1-G and 6)	1,456,500	1,590,397
Total assets	$ 43,844,456	$ 38,094,373
LIABILITIES AND NET POSITION		
Liabilities (Note 1-I)		
Intra-governmental		
Accounts payable	$ 33,524	$ 43,327
Debt (Note 1-J and 8)	38,997,340	48,935,904
Other liabilities (Note 9)	278,638	202,438
Total intra-governmental	39,309,502	49,181,669
Accounts payable	308,932	332,450
Accrued benefits (Note 1-K and 10)	2,289,602	3,320,444
Future workers' compensation benefits (Note 1-L and 11)	1,677,985	1,732,024
Energy employees occupational illness compensation benefits (Note 1-M)	15,631,188	15,145,777
Accrued leave (Note 1-N)	121,716	116,659
Other liabilities (Note 9)	1,004,299	993,161
Total liabilities	60,343,224	70,822,184
Contingencies (Note 13)		
Net position (Note 1-R)		
Unexpended appropriations - other funds	10,476,263	9,210,647
Cumulative results of operations		
Earmarked funds (Note 21)	(18,333,071)	(33,466,525)
Other funds	(8,641,960)	(8,471,933)
Total net position	(16,498,768)	(32,727,811)
Total liabilities and net position	$ 43,844,456	$ 38,094,373

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2012 and 2011
(Dollars in Thousands)

	2012	2011
NET COST OF OPERATIONS (Note 1-S and 15)		
CROSSCUTTING PROGRAMS		
Income maintenance		
Gross cost	$ 100,682,210	$ 129,233,668
Less earned revenue	(4,338,716)	(4,335,839)
Net program cost	96,343,494	124,897,829
Employment and training		
Gross cost	6,695,330	7,658,729
Less earned revenue	(10,606)	(13,914)
Net program cost	6,684,724	7,644,815
Labor, employment and pension standards		
Gross cost	851,197	836,184
Less earned revenue	(10,059)	(9,944)
Net program cost	841,138	826,240
Worker safety and health		
Gross cost	1,058,194	996,362
Less earned revenue	(4,282)	(4,028)
Net program cost	1,053,912	992,334
OTHER PROGRAMS		
Statistics		
Gross cost	682,894	683,562
Less earned revenue	(13,286)	(11,320)
Net program cost	669,608	672,242
COSTS NOT ASSIGNED TO PROGRAMS		
Gross cost	81,176	60,472
Less earned revenue not attributed to programs	(22,166)	(22,774)
Net cost not assigned to programs	59,010	37,698
Net cost of operations	$ 105,651,886	$ 135,071,158

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2012 and 2011
(Dollars in Thousands)

	2012			2011		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Cumulative results of operations, beginning	$ (33,466,525)	$ (8,471,933)	$ (41,938,458)	$ (23,762,133)	$ (5,785,202)	$ (29,547,335)
Budgetary financing sources (Note 1-T)						
Appropriations used	-	51,574,836	51,574,836	-	63,729,728	63,729,728
Non-exchange revenue (Note 16)						
Employer taxes	63,653,314	-	63,653,314	52,679,104	-	52,679,104
Interest	1,586,958	3,996	1,590,954	1,886,494	1,402	1,887,896
Reimbursement of unemployment benefits	3,457,681	(9,110)	3,448,571	4,035,503	(21,582)	4,013,921
Total non-exchange revenue	68,697,953	(5,114)	68,692,839	58,601,101	(20,180)	58,580,921
Transfers without reimbursement (Note 17)	35,770,127	(35,545,276)	224,851	45,540,978	(45,333,891)	207,087
Other financing sources (Note 1-U)						
Imputed financing from costs absorbed by others	3,462	121,680	125,142	4,787	153,249	158,036
Transfers without reimbursement (Note 17)	-	966	966	-	2,075	2,075
Other	-	(3,321)	(3,321)	2,950	(762)	2,188
Total financing sources	104,471,542	16,143,771	120,615,313	104,149,816	18,530,219	122,680,035
Net cost of operations	(89,338,088)	(16,313,798)	(105,651,886)	(113,854,208)	(21,216,950)	(135,071,158)
Net change	15,133,454	(170,027)	14,963,427	(9,704,392)	(2,686,731)	(12,391,123)
Cumulative results of operations, ending	(18,333,071)	(8,641,960)	(26,975,031)	(33,466,525)	(8,471,933)	(41,938,458)
Unexpended appropriations, beginning	-	9,210,647	9,210,647	-	10,539,272	10,539,272
Budgetary financing sources (Note 1-T)						
Appropriations received (Note 18-F)	-	62,229,387	62,229,387	-	67,405,860	67,405,860
Appropriations used	-	(51,574,836)	(51,574,836)	-	(63,729,728)	(63,729,728)
Appropriations transferred	-	(4,505)	(4,505)	-	20,157	20,157
Other adjustments	-	(9,384,430)	(9,384,430)	-	(5,024,914)	(5,024,914)
Subtotal	-	1,265,616	1,265,616	-	(1,328,625)	(1,328,625)
Unexpended appropriations, ending	-	10,476,263	10,476,263	-	9,210,647	9,210,647
Net position	$ (18,333,071)	$ 1,834,303	$ (16,498,768)	$ (33,466,525)	$ 738,714	$ (32,727,811)

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2012 and 2011
(Dollars in Thousands)

(Note 1-Z)	2012	2011
BUDGETARY RESOURCES		
Unobligated balance brought forward, October 1	$ 3,376,261	$ 4,191,543
Recoveries of prior year unpaid obligations	369,860	436,261
Other changes in unobligated balance	(128,341)	(298,581)
Unobligated balance from prior year budget authority, net	3,617,780	4,329,223
Appropriations (discretionary and mandatory) (Note 18-F)	136,219,806	160,845,900
Borrowing authority (discretionary and mandatory)	12,378,421	22,007,749
Spending authority from offsetting collections (discretionary and mandatory)	8,460,059	8,128,492
Total budgetary resources	$ 160,676,066	$ 195,311,364
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 18-A)	$ 156,284,367	$ 191,935,103
Unobligated balance, end of year		
Apportioned	1,764,188	1,189,123
Exempt from apportionment	56,721	62,478
Unapportioned	2,570,790	2,124,660
Total unobligated balance, end of year	4,391,699	3,376,261
Total budgetary resources	$ 160,676,066	$ 195,311,364
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations brought forward, October 1	$ 15,787,223	$ 18,448,078
Less: uncollected customer payments from Federal sources brought forward, October 1	(1,968,497)	(1,911,539)
Obligated balance, start of year (net)	13,818,726	16,536,539
Obligations incurred	156,284,367	191,935,103
Less: outlays (gross)	(156,172,562)	(194,159,697)
Change in uncollected customer payments from Federal sources	(356,395)	(56,958)
Less: recoveries of prior year unpaid obligations	(369,860)	(436,261)
Obligated balance, end of year (net)	$ 13,204,276	$ 13,818,726
Unpaid obligations, end of year (gross)	$ 15,529,168	$ 15,787,223
Less: uncollected customer payments from Federal sources, end of year	(2,324,892)	(1,968,497)
Obligated balance, end of year (net)	$ 13,204,276	$ 13,818,726
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (discretionary and mandatory)	$ 157,058,286	$ 190,982,141
Less: actual offsetting collections (discretionary and mandatory)	(8,103,665)	(8,071,535)
Less: change in uncollected customer payments from Federal sources (discretionary and mandatory)	(356,395)	(56,958)
Budget authority, net (discretionary and mandatory)	$ 148,598,226	$ 182,853,648
Outlays, gross (discretionary and mandatory)	$ 156,172,562	$ 194,159,697
Actual offsetting collections (discretionary and mandatory)	(8,103,665)	(8,071,535)
Outlays, net (discretionary and mandatory)	148,068,897	186,088,162
Distributed offsetting receipts	(43,234,920)	(53,119,556)
Agency outlays, net (discretionary and mandatory)	$ 104,833,977	$ 132,968,606

The accompanying notes are an integral part of these statements.

STATEMENT OF SOCIAL INSURANCE

As of September 30, 2012, 2011, 2010, 2009, and 2008
(Dollars in Thousands)

	For the Projection Period Ending September 30, 2040				
	2012	2011	2010	2009	2008
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	$ 2,181,654	$ 1,951,755	$ 2,125,231	$ 2,170,943	$ 2,139,810
Present value of estimated future administrative costs during the projection period	963,995	935,444	881,311	984,996	827,437
Actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants	3,145,649	2,887,199	3,006,542	3,155,939	2,967,247
Less the present value of estimated future excise tax income during the projection period	7,804,178	7,607,428	8,457,022	8,876,813	8,009,265
Excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants (open and closed group measure)	$ 4,658,529	$ 4,720,229	$ 5,450,480	$ 5,720,874	$ 5,042,018
Trust fund net position deficit at start of projection period (Note 21)	$ (5,977,619)	$ (6,099,261)	$ (6,238,612)	$ (6,320,321)	$ (10,439,186)
Summary Section					
Open and closed group measure	$ 4,658,529	$ 4,720,229	$ 5,450,480	$ 5,720,874	$ 5,042,018
Add: Funds with U.S. Treasury and receivables from benefit overpayments (Note 21)	102,498	63,814	68,028	67,598	63,840
Total of open and closed group measure plus fund assets (Note 1-W)	$ 4,761,027	$ 4,784,043	$ 5,518,508	$ 5,788,472	$ 5,105,858

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN SOCIAL INSURANCE AMOUNTS
For the Years Ended September 30, 2012 and 2011
(Dollars in Thousands)

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

	2012	2011
Excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants (open and closed group measure), beginning of year	$ 4,720,229	$ 5,450,480
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	(81,839)	202,800
Changes in assumptions about coal excise tax revenues	(307,494)	(1,144,303)
Changes in assumptions about Federal civilian pay raises for income benefits	(22,337)	33,839
Changes in assumptions about medical cost inflation for medical benefits	(1,601)	(1,152)
Changes in assumptions about administrative costs	31,516	(19,155)
Change in assumption about interest rate	320,055	197,720
Net change in open and closed group measure	(61,700)	(730,251)
Open and closed group measure, end of year	$ 4,658,529	$ 4,720,229

The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The U.S. Department of Labor (DOL or the Department), a cabinet level agency of the Executive Branch of the United States Government, was established in 1913, to promote the welfare of the wage earners of the United States. Today the Department's mission remains the same: to foster, promote and develop the welfare of the 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 in four major Federal program areas, under four major budget functions: (i) education, training, employment, and social services; (ii) health (occupational health and safety); (iii) income security; and (iv) national defense. DOL is organized into major program agencies, which administer the various statutes and programs for which the Department is responsible. DOL's major program agencies and the major programs in which they operate are shown below.

1. Major program agencies

- Employment and Training Administration (ETA)
  - *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*
  - *Women's Bureau*
  - *Bureau of International Labor Affairs*
  - *Office of the Deputy Secretary*
  - *Office of Inspector General*
  - *Office of the Solicitor*
  - *Office of Public Affairs*
  - *Office of the Chief Financial Officer*
  - *Office of Disability Employment Policy*

In FY 2010, DOL dissolved the Employment Standards Administration (ESA) and established its four component offices/divisions: the *Office of Federal Contract Compliance Programs*, the *Office of Labor-Management Standards*, the *Office of Workers' Compensation Programs*, and the *Wage and Hour Division,* as stand-alone agencies reporting directly to the Office of the Secretary. This reorganization was reflected in DOL's FY 2011 and 2012 budgets, in which funding previously requested for ESA was requested separately for these four component agencies, and was acted upon by Congress in FY 2012. Presentation of the financial data for FY 2012 reflects the four component agencies and the FY 2011 presentation was reclassified to conform to the FY 2012 presentation.

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

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

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

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

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) Financial Management Service and to OMB. For financial statement purposes, DOL funds are further classified as earmarked funds, fiduciary funds, and all other funds, and are discussed below:

Earmarked funds

Earmarked funds are financed by specifically identified revenues, which can be supplemented by other financing sources, both of which remain available over time. These revenues and financing sources are required by statute to be used for designated purposes and must be accounted for separately from the Government's general revenues. DOL's earmarked funds are disclosed in Note 21 and are discussed below:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3. Fund accounting structure - continued

Earmarked funds - 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 the workers compensation obligations of the Panama Canal Commission under the Federal Employees' Compensation Act.

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

Fiduciary funds

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

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 related employment, and in certain 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3. Fund accounting structure - continued

Fiduciary funds - continued

District of Columbia employees for work-related injuries or death which occurred prior to July 26, 1982. The Act authorizes the Department to assess insurance carriers on behalf of these beneficiaries.

All other funds

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

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

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.

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

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

Payments to the Unemployment Trust Fund was initiated as a result of amendments to the Emergency Unemployment Compensation (EUC) law, which provided general fund financing to the Unemployment Trust Fund to pay emergency unemployment benefits and the related administrative costs. This account is currently used to provide general fund financing for emergency compensation benefits and administrative costs under the Supplemental Appropriations Act of 2008, as extended by the American Recovery and Reinvestment Act of 2009 (Recovery Act) and other authorizing legislation.

Advances to the Unemployment Trust Fund and Other Funds provides advances to other accounts within the Unemployment Trust Fund to pay unemployment compensation whenever the balances in these accounts prove insufficient or whenever reimbursements to certain accounts, as allowed by law, are to be

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3. Fund accounting structure - continued

All other funds - continued

made. This account also makes advances to the Federal Unemployment and Benefits Allowances account to pay the cost of benefits and services under the Trade Adjustment Assistance for Workers program; and provides loans to the Black Lung Disability Trust Fund to make disability payments whenever the fund balance proves insufficient.

Federal Unemployment Benefits and Allowances provides for payment of benefits, training, job search, 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 trade adjustment assistance) as authorized by the Trade Act of 1974.

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

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

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

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

Federal Additional Unemployment Compensation was established under the Recovery Act to temporarily provide a $25 weekly supplement to the unemployment compensation of eligible claimants. Subsequent legislation extended this program to June 2, 2010, with phase-out through December 11, 2010.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3. Fund accounting structure - continued

All other funds - continued

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

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

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

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

B. Basis of Accounting and Presentation

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

DOL is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account to track and report allocation transfers. All allocation

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Basis of Accounting and Presentation - Continued

transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity on behalf of the parent entity are charged to this allocation account. OMB Circular No. A-136 requires the parent to report all budgetary and proprietary activity in its financial statements. DOL (parent entity) allocates appropriations to the U.S. Department of Agriculture and the U.S. Department of Interior (child entities) to provide funds for youth training programs. Accordingly, all activity for these allocation accounts is included in the DOL financial statements. DOL (child entity) receives allocated appropriations from the U.S. Environmental Protection Agency, the U.S. Department of State, and the U.S. Agency for International Development (parent entities). Accordingly, activity for these allocation accounts is excluded from the DOL financial statements and reported by the parent agencies.

For social insurance, the Department complies with the financial reporting requirements of Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 17, "Accounting for Social Insurance," as amended, and SFFAS No. 37, "Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements."

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

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

C. Funds with U.S. Treasury

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

D. Investments

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Investments - Continued

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

Balances held in the Panama Canal Commission Compensation Fund are invested in marketable Treasury securities. These investments are stated at amortized costs that equal their net carrying value on the Consolidated Balance Sheet. Discounts and premiums are amortized using the effective interest method. Interest rates and maturity dates vary. Management expects to hold these marketable securities until maturity; therefore, no provision is made in the financial statements for unrealized gains or losses. (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 Unemployment Trust Fund provides unemployment insurance to eligible Federal workers (UCFE) and ex-service members (UCX). DOL recognizes as accounts receivable amounts due from other Federal agencies for unreimbursed UCFE and UCX benefits. DOL's Federal Employees' Compensation Act (FECA) Special Benefit Fund provides workers' compensation benefits to eligible Federal workers on behalf of other Federal agencies. DOL recognizes as accounts receivable amounts due from other Federal agencies to the Special Benefit Fund for unreimbursed FECA benefits.

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

2. Accounts receivable due from the public

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Accounts Receivable, Net of Allowance - Continued

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.

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. (See Note 5)

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

Equipment	$50,000
Real Property Purchases or Improvements	$500,000
Leasehold Improvements	$500,000
Internal Use Software	$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 or facilities and depreciated over their estimated useful lives. Leasehold improvements made at Job Corps centers and DOL facilities leased from the General Services Administration are recorded at cost and amortized over the remaining life of the lease or the useful life of the improvements, whichever is shorter, using the straight-line method of amortization. DOL operating leases have one-year terms with multiple option years. The leases are cancelable by the government upon appropriate notice as specified in the lease agreements. Historically, these leases have not been canceled and DOL has no intention to cancel these leases in the near term.

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G. Advances

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

H. Non-entity Assets

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

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. DOL's other liabilities for intra-governmental and other are current liabilities, except for the capital lease liability and environmental and disposal liability. (See Note 9)

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

J. Debt

DOL's debt consisted of the following:

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Debt - Continued

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

authorizes the issuance of one-year discounted instruments to finance these activities. The BLDTF issued additional debt on September 30, 2011 (due September 30, 2012) bearing an interest rate of 0.106%, and on September 30, 2012 (due September 30, 2013) bearing an interest rate of 0.174%. (See Note 8)

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

Unemployment Trust Fund advances from U.S. Treasury outstanding as of September 30, 2012 and September 30, 2011 represent borrowings from the General Fund of the U.S. Treasury pursuant to the authority of section 1203 of the Social Security Act (42 USC 1323) and appropriated through P.L. 111-117 (123 Stat. 3230) and five continuing resolutions culminating with P.L. 112-74 (125 Stat. 1056) to pay unemployment benefits, when amounts in the Unemployment Trust Fund are insufficient to fund these benefits. These repayable advances bear interest rates ranging between 2.625% and 3.25%, 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 Unemployment Trust Fund to the General Fund of the Treasury when the Secretary of the Treasury, in consultation with the Secretary of Labor, has determined that the balances in the Unemployment Trust Fund allow repayment. (See Note 8)

K. Accrued Benefits

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

1. Unemployment benefits payable

The Unemployment Trust Fund provides benefits to unemployed workers who meet State and Federal eligibility requirements. Regular and extended unemployment benefits are paid from State accounts within the Unemployment Trust Fund, financed primarily by a State unemployment tax on employer payrolls. Fifty percent of the cost of extended unemployment benefits is paid from the Extended Unemployment Compensation Account (EUCA) within the Unemployment Trust Fund, financed by a Federal unemployment tax on employer payrolls. The Recovery Act provided for a 100% Federal funding of extended benefits through December 2009. This 100% Federal funding provision has been extended several times, with phase out through June 29, 2013.

Emergency unemployment compensation 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 December 29, 2012, and are currently funded entirely from General Fund appropriations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

K. Accrued Benefits - Continued

1. Unemployment benefits payable - continued

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 unemployment compensation. FAUC benefits were extended several times, with phase out of benefit eligibility by December 2010.

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

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

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

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

3. Black lung disability benefits payable

The Black Lung Disability Trust Fund and Special Benefits for Disabled Coal Miners provide compensation and medical benefits for eligible coal miners who are 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 U.S. Department of Energy (DOE) and its contractors suffering from designated illnesses incurred as a result of their work with DOE. Benefits are also paid to certain survivors of those employees and contractors, as well as to certain beneficiaries of the Radiation Exposure Compensation Act (RECA). DOL recognizes a liability for disability benefits to the extent of unpaid benefits applicable to the current period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L. Future Workers' Compensation Benefits

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

The actuarial methodology provides for the effects of inflation and adjusts historical payments to current year constant dollars by applying wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index-medical or CPIMs) to the calculation of projected benefits. The COLAs and CPIMs used in the projections for FY 2012 and FY 2011 were as follows:

	COLA		CPIM	
FY	2012	2011	2012	2011
2012	N/A	2.10%	N/A	3.07%
2013	2.83%	2.53%	3.65 %	3.62%
2014	2.03 %	1.83%	3.66 %	3.66%
2015	1.93 %	1.93%	3.72 %	3.73%
2016	2.00 %	2.00%	3.73 %	3.73%
2017+	2.03 %	2.00%	3.80 %	3.73%

Projected annual payments were discounted to present value based on OMB's interest rate assumptions for ten-year Treasury notes. For FY 2012, interest rate assumptions were 2.293% in year one and 3.138% in year two and thereafter. For FY 2011, interest rate assumptions were 3.535% in year one and 4.025% in year two and thereafter.

M. Energy Employees Occupational Illness Compensation Benefits

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

M. Energy Employees Occupational Illness Compensation Benefits - Continued

DOL has recognized a $15.6 billion and $15.1 billion actuarial liability for estimated future benefits payable by DOL at September 30, 2012 and 2011, respectively, to eligible individuals under the EEOICPA. At September 30, 2012 the undiscounted liability is $22.5 billion discounted to a present value liability of $15.6 billion based on an interest rate of 3.138% projected over a 58-year period. At September 30, 2011 the undiscounted liability was $22.6 billion discounted to a present value liability of $15.1 billion based on an interest rate of 4.025% projected over a 55-year period. The estimated liability includes the expected lump sum and estimated medical payments for approved compensation cases and cases filed pending approval, as well as claims incurred but not yet filed. The actuarial projection methodology provided an estimate of the ultimate number of reported cases as a result of estimating future claims from the historical patterns of reported claims and subsequent claim approval rates. Medical payments were derived by estimating an average benefit award per living employee claimant.

N. Accrued Leave

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

O. Employee Health and Life Insurance Benefits

DOL employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP). DOL matches the employee contributions to each program to pay for current benefits. During FY 2012, DOL's contributions to the FEHBP and FEGLIP were $105.7 million and $2.4 million, respectively. During FY 2011, DOL's contributions to the FEHBP and FEGLIP were $99.2 million and $1.4 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 U.S. Office of Personnel Management (OPM). Using cost factors supplied by OPM, DOL recorded ORB imputed costs and imputed financing sources of $79.9 million in FY 2012 and $96.8 million in FY 2011.

Q. Employee Pension Benefits

DOL employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). For employees participating in CSRS, 7.0% of their gross earnings is withheld and transferred to the Civil Service Retirement and Disability Fund. DOL contributes an additional 7.0% of the employee gross earnings to the Civil Service Retirement and Disability Fund. For employees participating in FERS, DOL withholds 0.8% of gross earnings and makes an 11.2% employer contribution. This total is transferred to the Federal Employees' Retirement Fund. The CSRS and FERS retirement funds are administered by the OPM. DOL contributions to the CSRS and FERS are recognized as current operating expenses. FERS participants are also

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued
Q. Employee Pension Benefits - Continued

covered under the Federal Insurance Contribution Act (FICA) and are subject to withholdings. DOL makes matching FICA contributions, recognized as operating expenses. DOL's matching contributions were $111.5 million in FY 2012 and $88.6 million in FY 2011.

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 $17,000 of their gross pay to the TSP during calendar year 2012 ($16,500 in calendar year 2011), but there is no departmental matching contribution. FERS participants may contribute up to $17,000 of their gross pay to the TSP during calendar year 2012 ($16,500 in calendar year 2011). 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 2012 and 2011, 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)

R. Net Position

DOL's net position consists of the following:

1. Unexpended appropriations

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

R. Net Position - Continued

2. Cumulative results of operations

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

S. Net Cost of Operations

1. Operating costs

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

2. Earned revenue

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

T. Budgetary Financing Sources

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

1. Appropriations received, appropriations transferred, and appropriations not available

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

2. Non-exchange revenue

Non-exchange revenues arise primarily from the Federal government's power to demand payments from the public. Non-exchange revenues are recognized by DOL on the Consolidated Statement of Changes in Net Position 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 Unemployment Trust Fund. State unemployment taxes are collected by each State and deposited in separate State accounts within the Unemployment Trust Fund. Federal unemployment taxes are used to pay the Federal share of extended unemployment benefits and to provide for Federal and State administrative expenses related to the operation of the unemployment insurance program. State unemployment taxes are restricted in their use to the payment of unemployment benefits.

Interest

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

T. Budgetary Financing Sources - Continued

2. Non-exchange revenue - continued

Reimbursement of unemployment benefits

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

3. Transfers without reimbursement

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

U. Other Financing Sources

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

1. Imputed financing

A financing source is imputed by DOL to provide for pension and other retirement benefit expenses recognized by DOL but financed by OPM. (See Notes 1-P, 1-Q, and 14)

2. Transfers without reimbursement

Transfers recognized as other financing sources by DOL include the transfers of property from the U.S. General Services Administration. (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; for ETA disallowed grant costs assessed against canceled appropriations; and for FECA administrative costs assessed against government corporations in excess of amounts reserved to finance capital improvements in the Federal Employees' Compensation Act Special Benefit Fund. These collections are not available to the agencies for obligation or expenditure. Penalties and other assessments are recognized as custodial revenues when collected or subject to collection. (See Notes 1-B and 20)

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

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. BLDTF provides benefit payments to eligible coal miners totally disabled by pneumoconiosis when no responsible mine operator can be assigned the liability. The Office of Workers' Compensation Programs administers the Black Lung Program and the payment of benefits under the Black Lung Benefits Act.

The Federal Coal Mine Health and Safety Act sets Black Lung benefits at 37.5% of the base salary of a Federal employee at level GS-2, Step 1. 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.

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 the proceeds from issuing low interest rate discounted debt instruments similar in form to zero-coupon bonds, plus a one-time appropriation. This Act also allowed that any debt issued by the BLDTF subsequent to the refinancing may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing. (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 also 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.

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

Social Security Administration life tables are used to project the life expectancies of the beneficiary population. OMB supplies assumptions for future monthly benefit rate increases based on increases in the Federal pay scale and future medical cost inflation based on increases in the consumer price index-medical, which are used to calculate future benefit costs. During the current projection period, the future benefit rate (annualized for the fiscal year) increases 2.85% in 2013, 3.8% in 2014 through 2020, 3.876% in 2021, and 3.9% in each year thereafter and medical cost increases 3.6% in 2013, ranges from 3.7% to 3.8% in 2014 through 2017, and 3.9% 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.

The projection period ends September 30, 2040, because the primary purpose of the BLDTF, which was established in 1978, is to compensate the victims of coal mine dust exposures which occurred prior to 1970. By the end of FY 2040, not only the disabled miners and their widows in that class, but also virtually all of their eligible dependent disabled adult children will be deceased. All of the current year projections are discounted using an interest rate of 2.75% published by Treasury as of the start of the projection period. This rate is for Treasury loans to government agencies for loans with a duration from 26 years, 5 months up to but not including 29 years, 3 months and approximates the projection period. The valuation date for the FY 2012 and FY 2011 information presented in the SOSI, including the summary section, and in the SCSIA is September 30, 2012, and 2011, respectively.

The accumulated deficit of all past disbursements over past cash receipts, including interest on investments, is ($6.0) billion, the amount of the trust fund net position deficit at the start of the projection period, September 30, 2012. 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 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.

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

As a result of changes in the assumptions described above, 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 beneficiaries costs, offset in part due to the change in the interest rate used to discount the cash flows from 3.375% to 2.75%. In FY 2011, the open and closed group measure decreased ($730.3) million primarily due to projected lower coal excise tax revenues, offset in part due to projected lower beneficiaries costs and the change in the interest rate used to discount the cash flows from 3.75% to 3.375%.

X. Tax Exempt Status

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

Y. Application of Critical Accounting Estimates

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

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

Estimates and assumptions also affect the amounts reported on the 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 2011 statements were reclassified to conform to the FY 2012 Departmental financial statement presentation requirements, including changes in the presentation of the Combined Statement of Budgetary Resources, the reclassification of the grant accrual liability on the Balance Sheet and Note 9, and the special fund disclosure in Note 2 per the requirements of OMB Circular No. A-136. The reclassifications had no effect on total assets, liabilities, net position, and change in net position or budgetary resources as previously reported.

NOTE 2 - FUNDS WITH U.S. TREASURY

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

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

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

(Dollars in thousands)	Entity Assets: Unobligated Balance Available	Entity Assets: Unobligated Balance Unavailable	Entity Assets: Obligated Balance Not Yet Disbursed	Entity Assets: Total Entity Assets	Non-entity Assets	Total
Revolving funds	$ 5,647	$ 6,655	$ 85,078	$ 97,380	$ -	$ 97,380
Trust funds	91	-	44,385	44,476	(555)	43,921
Special funds	426,192	57,044	(15,626)	467,610	-	467,610
General funds	819,588	2,060,961	7,461,157	10,341,706	-	10,341,706
Other	-	-	-	-	3,841	3,841
	$ 1,251,518	$ 2,124,660	$ 7,574,994	$ 10,951,172	$ 3,286	$ 10,954,458

The negative fund balance reported as of September 30, 2012 and 2011 relates to the Unemployment Trust Fund (UTF) and are the result of the timing of processing the investments and redemptions of UTF. The investments and redemptions relating to the last business day of the month are not processed until the first day of the next month. This 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 still subject to the annual apportionment and allotment process.

Unobligated Balance Available at September 30, 2012 and 2011 includes $1.0 billion and $483.0 million, respectively, of funds apportioned for use in the subsequent year.

NOTE 3 - INVESTMENTS

Investments at 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 Certificate 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011

NOTE 3 - INVESTMENTS - Continued

Investments at September 30, 2011 consisted of the following:

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

NOTE 4 - ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

Accounts receivable at 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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011

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

Property, plant and equipment at 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 development in progress	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

Structures and facilities include DOL's only asset under a capital lease. (See Note 9)

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

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

NOTE 6 - ADVANCES

Advances at September 30, 2012 and 2011 consisted of the following:

(Dollars in thousands)	2012	2011
Intra-governmental		
Advances	$ 3,128	$ -
Advances to states for UI benefit payments	1,447,417	1,545,979
Other	9,083	44,418
	1,456,500	1,590,397
	$ 1,459,628	$ 1,590,397

NOTE 7 - NON-ENTITY ASSETS

Non-entity assets at September 30, 2012 and 2011 consisted of the following:

(Dollars in thousands)	2012	2011
Intra-governmental		
Funds with U.S. Treasury	$ (2,367)	$ 3,286
Investments	176,763	55,552
	174,396	58,838
Accounts receivable, net of allowance	81,584	101,816
	$ 255,980	$ 160,654

NOTE 8 - DEBT

DOL's debt during FY 2012 consisted of the following:

(Dollars in thousands)	Balance at September 30, 2011	Net Borrowing	Balance at September 30, 2012
Intra-governmental debt to Treasury			
Black Lung Disability Trust Fund			
Borrowing from U.S. Treasury	$ 6,163,075	$ (97,490)	$ 6,065,585
Unemployment Trust Fund			
Advances from U.S. Treasury	42,772,829	(9,841,074)	32,931,755
	$ 48,935,904	$ (9,938,564)	$ 38,997,340

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011

NOTE 8 - DEBT - Continued

For the Black Lung Disability Trust Fund, the net decrease in debt in FY 2012 includes repayment of debt of ($502.0 million) along with accrued interest paid of ($37.3 million), capitalized interest of $227.8 million, and additional borrowing of $214.0 million, for a FY 2012 net total decrease of ($97.5 million). In FY 2011, the net decrease in debt includes repayment of debt of ($439.3 million) along with accrued interest paid of ($21.7 million), capitalized interest of $226.6 million, and additional borrowing of $107.7 million, for a FY 2011 net total decrease of ($126.7 million).

For the Unemployment Trust Fund, the net decrease in debt in FY 2012 includes new advances of $12.9 billion and repaid debt of ($22.7 billion), for a net total decrease of ($9.8 billion). In FY 2011, the net increase in debt includes new advances of $21.9 billion and repaid debt of ($13.3 billion), for a FY 2011 net total increase of $8.6 billion. At September 30, 2012 and 2011, all accrued interest was paid. Interest paid was $1.2 billion in FY 2012 and $1.4 billion in FY 2011.

NOTE 9 - OTHER LIABILITIES

Other liabilities at September 30, 2012 and 2011 consisted of the following:

(Dollars in thousands)	2012	2011
Intra-governmental		
Non-entity receivables due to U.S. Treasury	$ 81,584	$ 101,816
Accrued payroll and other liabilties	197,054	100,622
Total intra-governmental	278,638	202,438
Grant accruals	797,967	816,828
Capital lease liability	43,166	-
Environmental and disposal liability	31,930	-
Accrued payroll and other liabilities	131,236	176,333
Total other liabilities with the Public	1,004,299	993,161
	$ 1,282,937	$ 1,195,599

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

NOTE 10 - ACCRUED BENEFITS

Accrued benefits at September 30, 2012 and 2011 consisted of the following:

(Dollars in thousands)	2012	2011
State regular and extended unemployment benefits payable	$ 681,314	$ 1,454,256
Federal extended unemployment benefits payable	261,067	464,429
Federal emergency unemployment benefits payable	814,397	817,232
Federal employees' unemployment benefits payable	286,630	426,141
Federal additional unemployment benefits payable	32,891	18,787
Total unemployment benefits payable	2,076,299	3,180,845
Black lung disability benefits payable	27,465	16,255
Federal employees' disability and 10(h) benefits payable	160,542	101,175
Energy employees occupational illness compensation benefits payable	25,296	22,169
	$ 2,289,602	$ 3,320,444

NOTE 11 - FUTURE WORKERS' COMPENSATION BENEFITS

DOL's liability for future workers' compensation benefits at September 30, 2012 and 2011 consisted of the following:

(Dollars in thousands)	2012	2011
Projected gross liability of the Federal government for future FECA benefits	$ 34,260,124	$ 31,342,564
Less liabilities attributed to other agencies:		
U.S. Postal Service	(14,404,031)	(12,218,674)
Department of Navy	(2,427,697)	(2,394,057)
Department of Homeland Security	(2,229,503)	(2,055,225)
Department of Veterans Affairs	(2,014,108)	(1,890,635)
Department of Army	(1,882,561)	(1,828,972)
Department of Justice	(1,474,279)	(1,359,361)
Department of Air Force	(1,383,963)	(1,349,859)
Department of Transportation	(1,017,770)	(977,634)
Department of Agriculture	(944,353)	(903,734)
Department of Defense, Other	(847,082)	(794,008)
Department of Interior	(802,555)	(747,211)
Department of the Treasury	(576,308)	(558,388)
Tennessee Valley Authority	(456,908)	(475,090)
Social Security Administration	(350,329)	(334,083)
Department of Health and Human Services	(273,372)	(269,073)
Department of Commerce	(227,990)	(235,982)
General Services Administration	(132,802)	(132,195)
Department of Energy	(93,350)	(94,065)
Department of State	(78,941)	(73,829)
Department of Housing and Urban Development	(75,577)	(75,875)
National Aeronautics and Space Administration	(50,389)	(51,078)
Environmental Protection Agency	(46,905)	(44,832)
Small Business Administration	(31,591)	(30,630)
Agency for International Development	(23,582)	(22,175)
Office of Personnel Management	(23,291)	(21,712)
Department of Education	(16,641)	(16,231)
Nuclear Regulatory Commission	(7,224)	(7,245)
National Science Foundation	(1,366)	(1,272)
Other	(687,671)	(647,415)
	(32,582,139)	(29,610,540)
	$ 1,677,985	$ 1,732,024
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	$ 1,398,153	$ 1,457,173
FECA benefits due to eligible workers of DOL and Job Corps enrollees	231,995	226,156
FECA benefits due to eligible workers of the Panama Canal Commission	47,837	48,695
	$ 1,677,985	$ 1,732,024

NOTE 12 - LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources at September 30, 2012 and 2011 consisted of the following:

(Dollars in thousands)	2012	2011
Intra-governmental		
Debt	$ 38,997,340	$ 48,935,904
Accrued benefits	-	220,682
Future workers' compensation benefits	984,053	1,269,098
Accrued annual leave	116,063	112,639
Other liabilities	67,085	122,973
	1,167,201	1,725,392
	$ 40,164,541	$ 50,661,296

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 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

Pension expense in FY 2011 consisted of the following:

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

NOTE 15 - PROGRAM COST

Schedules 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 2012 and FY 2011, respectively. Schedule C presents a further breakdown of this cost and revenue information for DOL's two largest program agencies, the Employment and Training Administration, and the Office of Workers' Compensation Programs. (See Note 1-A.1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011

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, 2012 consisted of the following:

(Dollars in thousands)	Employment and Training Administration	Office of Workers' Compensation	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 Departmental Programs	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011

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, 2011 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	$ 1,615,853	$ 367,534	$ -	$ 11
With the public	119,690,548	7,527,531	-	1,075
Gross cost	121,306,401	7,895,065	-	1,086
Intra-governmental earned revenue	(1,332,733)	(3,000,544)	-	-
Public earned revenue	(1,074)	(1,015)	-	-
Less earned revenue	(1,333,807)	(3,001,559)	-	-
Net program cost	119,972,594	4,893,506	-	1,086
Employment and training				
Intra-governmental	114,403	-	51,405	-
With the public	5,616,821	-	1,666,657	-
Gross cost	5,731,224	-	1,718,062	-
Intra-governmental earned revenue	(11,921)	-	(860)	-
Public earned revenue	(501)	-	(506)	-
Less earned revenue	(12,422)	-	(1,366)	-
Net program cost	5,718,802	-	1,716,696	-
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	-	-	-	144,847
With the public	-	-	-	452,208
Gross cost	-	-	-	597,055
Intra-governmental earned revenue	-	-	-	(1,411)
Public earned revenue	-	-	-	(720)
Less earned revenue	-	-	-	(2,131)
Net program cost	-	-	-	594,924
OTHER PROGRAMS				
Statistics				
Intra-governmental	-	-	-	-
With the public	-	-	-	-
Gross cost	-	-	-	-
Intra-governmental earned revenue	-	-	-	-
Public earned revenue	-	-	-	-
Less earned revenue	-	-	-	-
Net program cost	-	-	-	-
COSTS NOT ASSIGNED TO PROGRAMS				
Gross cost	-	-	-	-
Less earned revenue not attributed to programs	-	-	-	-
Net cost not assigned to programs	-	-	-	-
Net cost of operations	$ 125,691,396	$ 4,893,506	$ 1,716,696	$ 596,010

Bureau of Labor Statistics	Mine Safety and Health Administration	Employee Benefits Security Administration	Veterans' Employment and Training	Wage and Hour Division	Other Departmental Programs	Total
$ -	$ -	$ 9,200	$ -	$ -	$ 67	$ 1,992,665
-	-	18,426	-	-	3,423	127,241,003
-	-	27,626	-	-	3,490	129,233,668
-	-	(388)	-	-	-	(4,333,665)
-	-	(85)	-	-	-	(2,174)
-	-	(473)	-	-	-	(4,335,839)
-	-	27,153	-	-	3,490	124,897,829
-	-	-	14,712	1,211	203	181,934
-	-	-	192,752	140	425	7,476,795
-	-	-	207,464	1,351	628	7,658,729
-	-	-	(33)	-	(45)	(12,859)
-	-	-	(38)	-	(10)	(1,055)
-	-	-	(71)	-	(55)	(13,914)
-	-	-	207,393	1,351	573	7,644,815
-	-	53,146	1,599	101,328	101,529	257,602
-	-	132,546	18,730	232,469	194,837	578,582
-	-	185,692	20,329	333,797	296,366	836,184
-	-	(5,817)	(4)	(506)	(548)	(6,875)
-	-	(32)	(2)	(2,939)	(96)	(3,069)
-	-	(5,849)	(6)	(3,445)	(644)	(9,944)
-	-	179,843	20,323	330,352	295,722	826,240
-	131,306	-	-	-	-	276,153
-	267,885	-	-	-	116	720,209
-	399,191	-	-	-	116	996,362
-	(344)	-	-	-	-	(1,755)
-	(1,553)	-	-	-	-	(2,273)
-	(1,897)	-	-	-	-	(4,028)
-	397,294	-	-	-	116	992,334
225,032	-	-	-	-	-	225,032
458,240	-	-	-	-	290	458,530
683,272	-	-	-	-	290	683,562
(10,580)	-	-	-	-	-	(10,580)
(740)	-	-	-	-	-	(740)
(11,320)	-	-	-	-	-	(11,320)
671,952	-	-	-	-	290	672,242
-	-	-	-	-	60,472	60,472
-	-	-	-	-	(22,774)	(22,774)
-	-	-	-	-	37,698	37,698
$ 671,952	$ 397,294	$ 206,996	$ 227,716	$ 331,703	$ 337,889	$ 135,071,158

NOTE 15 - PROGRAM COST - Continued

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

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

Net cost for the year ended September 30, 2011 consisted of the following:

(Dollars in thousands)	Employment and Training Administration	Office of Workers' Compensation Programs
CROSSCUTTING PROGRAMS		
Income maintenance		
Benefits	$ 112,595,374	$ 7,192,332
Grants	5,327,043	-
Interest	1,431,079	226,708
Administrative and other	1,952,905	476,025
Gross cost	121,306,401	7,895,065
Less earned revenue	(1,333,807)	(3,001,559)
Net program cost	119,972,594	4,893,506
Employment and training		
Grants	5,698,976	-
Administrative and other	32,248	-
Gross cost	5,731,224	-
Less earned revenue	(12,422)	-
Net program cost	5,718,802	-
Net cost of operations	$ 125,691,396	$ 4,893,506

NOTE 16 - NON-EXCHANGE REVENUE

Non-exchange revenues reported on the Consolidated Statement of Changes in Net Position in FY 2012 and FY 2011 consisted of the following:

(Dollars in thousands)	2012	2011
Employer taxes		
Unemployment Trust Fund		
Federal unemployment taxes	$ 7,058,220	$ 6,791,564
State unemployment taxes	55,974,102	45,264,659
	63,032,322	52,056,223
Black Lung Disability Trust Fund excise taxes	620,992	622,881
	63,653,314	52,679,104
Interest		
Unemployment Trust Fund	1,586,401	1,884,900
Other	4,553	2,996
	1,590,954	1,887,896
Reimbursement of unemployment benefits from state and local governments and non-profit organizations to the Unemployment Trust Fund	3,448,571	4,013,921
	$ 68,692,839	$ 58,580,921

NOTE 17 - TRANSFERS WITHOUT REIMBURSEMENT

Transfers from (to) other Federal agencies in FY 2012 and FY 2011 consisted of the following:

(Dollars in thousands)	2012	2011
Budgetary financing sources		
From H-1B Nonimmigrant Petitioner Account, Department of Homeland Security	$ 224,851	$ 204,987
From DOL general fund unexpended appropriation accounts to the DOL Working Capital Fund	-	6,000
From DOL Working Capital Fund to the General Fund of the U.S. Treasury	-	(3,900)
	224,851	207,087
Other financing sources		
From General Services Administration	966	2,075
	$ 225,817	$ 209,162

The balance of $224.9 and $207.1 million in budgetary financing sources for FY 2012 and FY 2011 reflect the elimination of intra-DOL transfers of $35.8 and $45.5 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 2012 and FY 2011 consisted of the following:

(Dollars in thousands)	2012	2011
Direct obligations		
Category A	$ 4,737,614	$ 4,812,366
Category B	51,645,520	62,910,921
Exempt from apportionment	96,500,468	121,232,769
Total direct obligations	152,883,602	188,956,056
Reimbursable obligations		
Category A	261,825	264,788
Category B	3,138,940	2,714,259
Total reimbursable obligations	3,400,765	2,979,047
	$ 156,284,367	$ 191,935,103

B. Permanent Indefinite Appropriations

DOL's permanent indefinite appropriations include all trust funds, the Federal Additional Unemployment Compensation Fund, the Panama Canal Commission Compensation Fund, the Energy Employees Occupational Illness Compensation Fund, ETA and WHD H-1B funds, ETA's Advances and Payments to the Unemployment Trust Funds, and portions of State Unemployment Insurance and Employment Service Operations and Federal Unemployment Benefits and Allowances. These funds are described in Note 1-A.3. At September 30, 2012 and 2011, the Department returned unobligated, indefinite authority to Treasury in the amount of $10.0 and $9.3 billion, respectively.

C. Legal Arrangements Affecting Use of Unobligated Balances

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

The cumulative amounts of excess UTF receipts are denoted as unavailable collections in the Budget of the United States Government. The cumulative amount of these excess receipts at September 30, 2012 and 2011 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)	2012	2011
Unemployment Trust Fund unavailable collections, beginning	$ 9,736	$ 10,963
Budget authority from current year appropriations and borrowing authority	100,275	118,505
Less obligations	(95,103)	(119,732)
Excess (deficiency) of budget authority over obligations	5,172	(1,227)
Unemployment Trust Fund unavailable collections, ending	$ 14,908	$ 9,736

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, 2012, has not been published as of the issue date of these financial statements. This document will be available in February 2013.

A reconciliation of budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays, as presented in the Combined Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2011, is shown below.

(Dollars in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 195,311	$ 191,935	$ 53,120	$ 132,969
Pension Benefit Guaranty Corporation reported separately	21,191	5,879	-	(1,166)
Distributed offsetting receipts	-	-	-	53,120
Expired accounts	(1,478)	(139)	-	-
Fiduciary funds (included in the budget but not in the SBR)	201	138	-	139
Other	22	(32)	-	32
Budget of the United States Government	$ 215,247	$ 197,781	$ 53,120	$ 185,094

E. Undelivered Orders

Undelivered orders at September 30, 2012 and 2011 were as follows.

(Dollars in thousands)	2012	2011
Undelivered orders	$ 11,390,942	$ 11,164,367

NOTE 18 - STATUS OF BUDGETARY RESOURCES - Continued

F. Appropriations Received

The Combined Statement of Budgetary Resources includes appropriations of $136,220 and $160,846 million for FY 2012 and FY 2011, respectively. The Consolidated Statement of Changes in Net Position includes appropriations received of $62,229 and $67,406 million for FY 2012 and FY 2011, respectively. Detail of these differences is presented below.

(Dollars in millions)	2012	2011
Receipts recognized as revenue in current or prior years		
Unemployment Trust Fund	$ 104,944	$ 111,069
Black Lung Disability Trust Fund	598	612
Other earmarked funds	223	203
Repayment of debt from appropriated receipts		
Unemployment Trust Fund	(22,005)	(13,238)
Black Lung Disability Trust Fund	(502)	(461)
Return of permanent indefinite authority	(9,247)	(4,583)
Other	(20)	(162)
	$ 73,991	$ 93,440

G. Borrowing Authority

As of September 30, 2012 and 2011, P.L. 112-74 (125 Stat. 1056 dated December 23, 2011) and P.L. 111-117 (123 Stat. 3230 dated December 16, 2009), 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 P.L. 112-74 uses the terminology "advance," the Treasury has interpreted this to mean any debt owed by the BLDTF to the Bureau of the Public Debt.

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

(Dollars in thousands)	2012	2011
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 156,284,367	$ 191,935,103
Recoveries of prior year obligations	(369,860)	(436,261)
Less spending authority from offsetting collections	(8,460,059)	(8,128,492)
Obligations, net of offsetting collections and recoveries	147,454,448	183,370,350
Other resources		
Imputed financing from costs absorbed by others	125,142	158,036
Transfers, net	966	2,075
Exchange revenue not in budget	(1,346,690)	(1,556,689)
Total resources used to finance activities	146,233,866	181,973,772
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	(237,196)	816,928
Resources that finance the acquisition of assets	(141,648)	(124,884)
Transfers that do not effect the net cost of operations	(40,693,007)	(50,510,629)
Total resources used to finance items not part of the net cost of operations	(41,071,851)	(49,818,585)
Total resources used to finance the net cost of operations	105,162,015	132,155,187
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 in annual leave liability	5,057	154
Increase in benefits liabilities	431,371	2,654,189
Other	67,513	226,537
Total	503,941	2,880,880
Components not requiring or generating resources		
Depreciation and amortization	76,507	67,188
Revaluation of assets and liabilities	1,461,338	1,630,224
Benefit overpayments	(1,551,915)	(1,662,321)
Total	(14,070)	35,091
Total components of the net cost of operations that will not require or generate resources in the current period	489,871	2,915,971
Net cost of operations	$ 105,651,886	$ 135,071,158

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011

NOTE 20 - CUSTODIAL REVENUE

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			
OSHA	$ 128,446	$ 2,951	$ 131,397
MSHA	133,434	4,364	137,798
EBSA	20,459	(1,569)	18,890
WHD	9,838	3,357	13,195
	292,177	9,103	301,280
ETA disallowed grant costs and other	1,208	(32)	1,176
	$ 293,385	$ 9,071	$ 302,456

Custodial revenues in FY 2011 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			
OSHA	$ 151,167	$ (36,710)	$ 114,457
MSHA	100,111	6,610	106,721
EBSA	20,708	1,801	22,509
WHD	11,578	840	12,418
	283,564	(27,459)	256,105
ETA disallowed grant costs and other	7,607	195	7,802
	$ 291,171	$ (27,264)	$ 263,907

NOTE 21 - EARMARKED FUNDS

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

NOTE 21 - EARMARKED FUNDS - Continued

The net results of operations of the earmarked funds 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
Net results of operations	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 21 - EARMARKED FUNDS - Continued

The financial position of the earmarked funds as of September 30, 2011 is shown below.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011

NOTE 21 - EARMARKED FUNDS - Continued

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

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

NOTE 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 for these funds for the year ended 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

The schedule of fiduciary net assets for these funds 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 assets				
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011

NOTE 22 - FIDUCIARY ACTIVITY - Continued

The schedule of fiduciary activity for the fiduciary funds for the year ended September 30, 2011 is shown below.

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

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

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

Unqualified opinions were expressed on separate financial statements issued for the Longshore and Harbor Workers' Compensation Act Trust Fund and the District of Columbia Workmen's Compensation Act Trust Fund for FY 2011. These separate financial statements were presented in accordance with U.S. GAAP. Copies of these financial statements are available on DOL's website at www.oig.dol.gov.

NOTE 23 - MATERIAL CONCENTRATION OF RISK

The Division of Federal Employees' Compensation within the Office of Workers' Compensation Programs (OWCP) administers the Federal Employees' Compensation Act (FECA) program and the payment of workers' compensation benefits to federal and postal workers for employment-related injuries and occupational diseases. Federal agencies and the U.S. Postal Service (USPS) reimburse the FECA Special Benefits Fund for payments made on behalf of their workers. In Note 11, Future Workers' Compensation Benefits, the USPS liability as of September 30, 2012, of $14.4 billion represents the largest portion of the total projected gross liability of the Federal government for future FECA benefits attributed to other agencies of $32.6 billion as of September 30, 2012. In October 2012, the USPS timely reimbursed the FECA Special Benefits Fund for costs incurred on their behalf during the 12 months ended June 30, 2012.

In the USPS FY 2012 quarterly report for the nine months ended June 30, 2012, USPS disclosed in the notes to their unaudited interim financial statements their severe lack of liquidity. USPS reported net losses of $11.6 billion for the nine months ended June 30, 2012 and reported on their balance sheet as of June 30, 2012, that their largest noncurrent liability was $ 14.8 billion for the long-term portion of workers' compensation costs (out of $24.0 billion total noncurrent liabilities). USPS reported annual losses of $5.1 billion, $8.5 billion, and $3.8 billion for the fiscal years ended September 30, 2011, 2010, and 2009, respectively.

The size of the USPS FECA liability and its share of the total FECA liability as of September 30, 2012 (as reported in Note 11), together with the USPS' poor financial condition, represent a material concentration of risk for DOL.

NOTE 24 - SUBSEQUENT EVENTS

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

Unemployment Insurance

Subsequent to September 30, 2012, the Extended Unemployment Compensation Account (EUCA) of the Unemployment Trust Fund (UTF) borrowed, as Advances from U.S. Treasury, $200.0 million at an interest rate of 2.5%. During the same period, the Federal Unemployment Account (FUA) of the UTF borrowed, as Advances from U.S. Treasury, $400.0 million at an interest rate of 2.5%.

Required Supplementary Stewardship Information

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, the Employment and Training Administration (ETA), including the Office of Job Corps (OJC), and the Veterans' Employment and Training Service (VETS) administer training programs that invest in human capital.

Employment and Training Administration, Including the Office of Job Corps

ETA, including the Office of Job Corps, incurred total net costs of $100.1 billion in FY 2012. The majority of these costs consisted of unemployment benefits, which totaled $87.3 billion in FY 2012, a decrease of $23.9 billion (21.5%) over the previous fiscal year. Also included in ETA's total net costs were investments in human capital of $6.4 billion, which provided services to over 9.7 million participants in FY 2012. These investments were made through job training programs authorized by the Workforce Investment Act of 1998 (WIA), Title V of the Older Americans Act, as amended, the Trade Act of 1974, as amended, the Health Care and Education Reconciliation Act of 2010, the National Apprenticeship Act of 1937, the American Recovery and Reinvestment Act of 2009 and other legislation.

Included within ETA, the OJC invests in human capital through WIA's Job Corps training program. OJC's investment in human capital in FY 2012 was $1.8 billion, providing services to 55.0 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 2012 investment in human capital through WIA adult programs was $861 million.

- **Dislocated worker employment and training programs** – ETA awards grants to states to provide reemployment services and retraining assistance to individuals dislocated from their employment. ETA's FY 2012 investment in human capital through WIA dislocated worker programs was $1,524 million.

- **Youth programs** – ETA awards grants to states to support a wide range of program activities and services to prepare low-income youth for academic and employment success, including summer jobs, by linking academic and occupational learning with youth development activities. ETA's FY 2012 investment in human capital through WIA youth programs was $944 million.

- **Job Corps program** – ETA's Office of Job Corps awards contracts to support a system of primarily residential centers offering basic academic education, career technical training, work experience and other support, to economically disadvantaged youth. Large and small corporations and non-profit organizations manage and operate 97 Job Corps centers under these contractual arrangements. The remaining 28 centers are operated through interagency agreements between DOL and the U.S. Department of Agriculture. In addition, 24 operators are contracted to provide outreach and admissions and career transition services. OJC's FY 2012 investment in human capital through the Job Corps program was $1,770 million.

- **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 2012 investment in human capital through ex-offender programs was $76 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, which include 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 2012 human capital investment in WIA National Programs was $180 million.

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

ETA also invests in human capital through the Community Service Employment for Older Americans program, authorized under Title V of the Older Americans Act, as amended in 2006. Known as the Senior Community Service Employment Program (SCSEP), the SCSEP is a federally sponsored community service employment and training program that provides part-time training through on-the-job work experience in community service activities for unemployed, low-income individuals age 55 and older, so that they can prepare to enter or re-enter the workforce. ETA's FY 2012 investment in human capital through the CSEOA's SCSEP was $492 million.

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

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

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

  ETA's FY 2012 human capital investment in the trade adjustment assistance programs was $431 million.

<u>National Apprenticeship Program</u>

The National Apprenticeship Act of 1937 established the foundation for development of the nation's skilled workforce through apprenticeship programs, which combine on-the-job learning with related technical instruction to teach workers the theoretical aspects of skilled occupations. Funding provides oversight for a national system of skilled and technical occupational training, which promotes apprentices, registers apprenticeship programs, certifies apprenticeship standards, and safeguards the welfare of apprentices. ETA's FY 2012 investment in apprenticeship programs was $29 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 2008 through FY 2012.

ETA and OJC Investments in Human Capital
Program Costs (in Millions) and Participants Served (1) (in Thousands)
For The Five Year Period FY 2008 through FY 2012

	2012		2011		2010		2009		2008	
Program	Costs	*Part. Served*	Costs	*Part. Served*	Costs	*Part. Served*	Costs	*Part. Served*	Costs	*Part. Served*
WIA										
Adult	$861	*6,979.1*	$960	*7,025.2*	$899	*6,695.3*	$878	*4,921.8*	$844	*2,828.7*
Dislocated Worker (2)	1,524	*1,358.4*	2,039	*1,570.6*	2,539	*1,250.4*	1,440	*842.1*	1,307	*401.3*
Youth	944	*239.6*	1,124	*245.0*	1,431	*316.3*	1,125	*438.9*	966	*250.7*
Job Corps	1,770	*55.0*	1,717	*56.2*	1,663	*59.8*	1,640	*60.9*	1,589	*63.4*
Ex-Offenders (3)	76	*49.1*	*67*	*39.0*	*70*	*36.1*	*58*	*9.8*	*61*	*14.2*
National Programs (4)	180	*38.7*	150	*38.9*	134	*61.3*	206	*35.0*	206	*44.7*
CSEOA										
SCSEP	492	*76.9*	707	*105.9*	740	*103.6*	543	*89.0*	479	*89.6*
TAA										
TAA for Workers	431	*144.7*	506	*193.1*	540	*232.7*	286	*105.0*	248	*82.1*
Apprenticeship	29	*410.0*	32	*432.2*	28	*485.4*	25	*301.6*	25	*385.7*
Other (5)	95	*357.7*	135	*104.9*	139	*95.8*	120	*N/A*	108	*N/A*
TOTAL	$6,402	*9,709.2*	$7,437	*9,811.0*	$8,183	*9,336.7*	$6,321	*6,804.1*	$5,833	*4,160.4*

(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 American Recovery and Reinvestment Act.

(2) Dislocated Worker programs include Community Based Job Training Grants, National Emergency Grants and High Growth and Emerging Industry training.

(3) Prisoner Re-entry and Youthful Offender programs were phased out in FY 2008.

(4) National programs include the Native American and Migrant and Seasonal Farmworker programs.

(5) Other includes training programs for highly skilled occupations funded through H1-B fees, green jobs initiatives, and costs for lapsed programs.

Program Outcomes

Outcomes for training programs comprising ETA's investment in human capital are presented in the Department's Annual Performance Report for FY 2012, available on the DOL website at www.dol.gov/_sec/media/reports/ in February 2013.

Veterans' Employment and Training Service

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

Program Activities

Jobs for Veterans State Grants (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 three major VETS programs:

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

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

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

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

- **Uniformed Services Employment and Reemployment Rights Act and Veterans' Preference Rights** – 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.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(Unaudited)

Homeless Veterans and Veterans' Workforce Investment Programs

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

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

Program Costs and Outputs

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

VETS Investments in Human Capital
Program Costs and Participants Served (in Thousands)
For the Fiscal Years Ended FY 2008 through FY 2012

	2012		2011		2010		2009		2008	
Program	Cost[2]	Part. Served	Cost	Part. Served	Cost	Part. Served	Cost	Part. Served	Cost	Part. Served
JVSG[1]	$210,671	508.8	$171,497	631.6	$191,802	709.0	$174,981	707.4	$166,872	730.2
TAP	13,093	153.0	7,089	143.1	7,928	129.0	7,233	124.7	6,898	150.0
USERRA	12,361	74.7	9,874	79.9	11,043	101.6	10,075	107.9	9,100	93.0
HVRP	35,562	19.8	28,385	17.0	31,746	14.4	28,962	13.7	27,620	14.0
VWIP	9,855	4.3	7,863	3.9	8,794	3.3	8,023	3.6	7,651	3.3
TOTAL	$281,542	760.6	$224,708	875.5	$251,313	957.3	$229,274	957.3	$218,141	990.5

(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 - Jobs for Veterans State Grants.
(2) Cost allocated based on historical program cost.

Program Outcomes

Outcomes for the programs comprising VETS' investment in human capital are presented in the Department's Annual Performance Report for FY 2012, available on the DOL website at www.dol.gov/_sec/media/reports/ in February 2013.

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

DEFERRED MAINTENANCE AND REPAIRS

DOL reports as general purpose plant, property and equipment, *Buildings and Other Structures* on which maintenance and repair activities may be deferred. Over 99.6% of these buildings and other structures (based on net book value) are owned by DOL's Employment and Training Administration (ETA), Office of Job Corps (OJC), and located at one hundred twenty-five (125) Job Corps centers throughout the United States. The remaining 0.4% is owned by the Department's Mine Safety and Health Administration (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 2008 – 2012

		2012		**2011**		**2010**		**2009**		**2008**	
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%*	3,454	86.8	3,338	86.2	3,273	86.4	3,037	84.6	2,878	81.9
Good	*80- 89%*	303	7.6	301	7.8	282	7.4	290	8.1	311	8.9
Fair	*70- 79%*	93	2.3	100	2.6	90	2.4	95	2.6	115	3.3
Poor	*60- 69%*	57	1.4	52	1.3	57	1.5	71	2.0	89	2.5
Very Poor	*< 60%*	74	1.9	83	2.1	88	2.3	96	2.7	118	3.4
		3,981	100.0	3,874	100.0	3,790	100.0	3,589	100.0	3,511	100.0

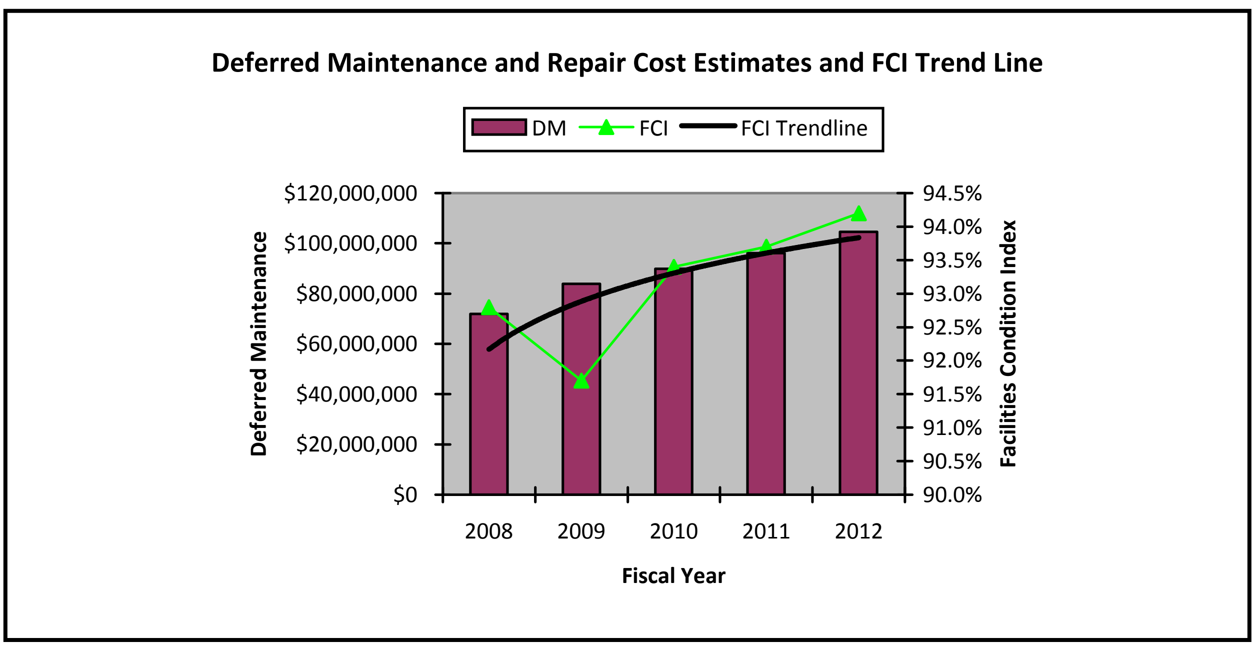
(1) FCI = 1 – (Repair Backlog / Plant Replacement Value). An FCI closer to 100% indicates better asset condition.

Portfolio Condition and Deferred Maintenance Cost Estimates

The FCI assessments by building and structure are consolidated to calculate an FCI score for the entire portfolio of constructed assets, which is used to evaluate the overall asset condition of the Job Corps 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 period reported. In 2012, the portfolio's aggregate FCI score for 3,981 constructed assets was 94.2%, and deferred maintenance and repair costs to return the portfolio to an acceptable condition were estimated at $104.6 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 2012.

Job Corps Center and MSHA Constructed Assets
Portfolio Condition and Deferred Maintenance and Repair Cost Estimates
Fiscal Years 2008 - 2012

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 - 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
Buildings and structures - 2008	3,511	Excellent - 92.2%	$71,901,425



REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

SOCIAL INSURANCE PROGRAMS

The Federal Accounting Standards Advisory Board (FASAB) has classified certain government income transfer programs as social insurance programs. Recognizing that these programs have complex characteristics that do not fit traditional accounting models, the FASAB has developed accounting standards for social insurance programs which require the presentation of supplementary information to facilitate the assessment of the program's long-term sustainability.

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

Unemployment Insurance Program

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

Program Administration and Funding

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

Federal and State Unemployment Taxes

The UI program is financed through the collection of Federal and state unemployment taxes levied on subject employers and deposited in the Unemployment Trust Fund (UTF) 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 extended benefits.

Federal Unemployment Taxes

Under the provisions of the Federal Unemployment Tax Act (FUTA), a Federal tax is levied on covered employers, at a current rate of 6.0% 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). Federal unemployment taxes are collected by the Internal Revenue Service.

State Unemployment Taxes

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

Unemployment Trust Fund

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

Federal Accounts

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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 Treasury.

State Accounts

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

Railroad Retirement Accounts

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

UI Program Benefits

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

Regular UI Benefits

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

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

Extended UI Benefits

The Federal/State Extended Unemployment Compensation Act of 1970 provides for the extension of the duration of UI benefits during periods of high unemployment. When the insured unemployment level within a state, or in some cases total unemployment, reaches certain specified levels, the state must extend benefit duration by 50%, up to a combined maximum of 39 weeks; certain states voluntarily extended the benefit duration up to a combined maximum of 46 weeks. Fifty percent of the cost of extended unemployment benefits is paid from the Extended Unemployment Compensation Account within the UTF, and 50% by the state, from the state's UTF account. The American Recovery and Reinvestment Act of 2009 began temporary 100% Federal funding of extended benefits. Subsequent legislation, most recently P.L. 112-96, the Middle Class Tax Relief and Job Creation Act of 2012, authorized continuing 100% Federal funding of extended unemployment benefits to June 30, 2013, the statutory end date under the phase-out.

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. 112-96, the Middle Class Tax Relief and Job Creation Act of 2012, which changed the statutory end date of the emergency unemployment insurance program to January 2, 2013.

Federal UI Benefits

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

Program Finances and Sustainability

At September 30, 2012, total liabilities within the UTF exceeded total assets by $13.0 billion. Although at the present time there is a deficit, any future surplus of tax revenues and earnings on these revenues over benefit payment expenses is available to finance benefit payments in future periods when tax revenues may be insufficient. Treasury invests any accumulated surplus in Federal securities. The net value of these securities, including interest receivable, at September 30, 2012 was $20.8 billion. This interest is distributed to eligible state and Federal accounts within the UTF. Interest income from these investments during FY 2012 was $1.6 billion. Federal and state UI tax and reimbursable revenues of $66.5 billion and regular, extended and emergency benefit payment expense of $87.3 billion were recognized for the year ended September 30, 2012.

As discussed in Note 1.K.1 to the consolidated financial statements, DOL recognized a liability for regular, extended and emergency unemployment benefits to the extent of unpaid benefits applicable to the current period and for benefits paid by states that have not been reimbursed by the UTF. Accrued unemployment benefits payable at September 30, 2012 were $2.1 billion.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

During FY 2012, 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 advances. FUA had an outstanding repayable advances balance of $15.3 billion, of which $0.4 billion bear interest at 3.0%, $7.4 billion bear interest at 2.875%, $5.9 billion bear interest at 2.75%, and $1.6 billion bear interest at 2.625%, as of September 30, 2012. EUCA had an outstanding repayable advances balance of $17.6 billion, of which $3.1 billion bear interest at 3.25%, $5.3 billion bear interest at 3.0%, $6.1 billion bear interest at 2.875%, $3.0 billion bear interest at 2.75%, and $0.1 billion bear interest at 2.625%, as of September 30, 2012.

Subsequent Events

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

Subsequent to September 30, 2012, the Extended Unemployment Compensation Account (EUCA) of the Unemployment Trust Fund (UTF) borrowed, as Advances from U.S. Treasury, $200 million at an interest rate of 2.5%. During the same period, the Federal Unemployment Account (FUA) of the UTF borrowed, as Advances from U.S. Treasury, $400 million at an interest rate of 2.5%.

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

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

The significant assumptions used in the projections include total unemployment rates, civilian labor force levels, percent of unemployed receiving benefits, total wages, distribution of benefit payments by state, state tax rate structures, state taxable wage bases, interest rates on UTF investments, and the Consumer Price Index-Urban for goods and services (CPI-U). The use of CPI-U factors allows the projections to be presented in constant dollars with FY 2012 as the base year. The valuation date for the projections is September 30, 2012. 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.

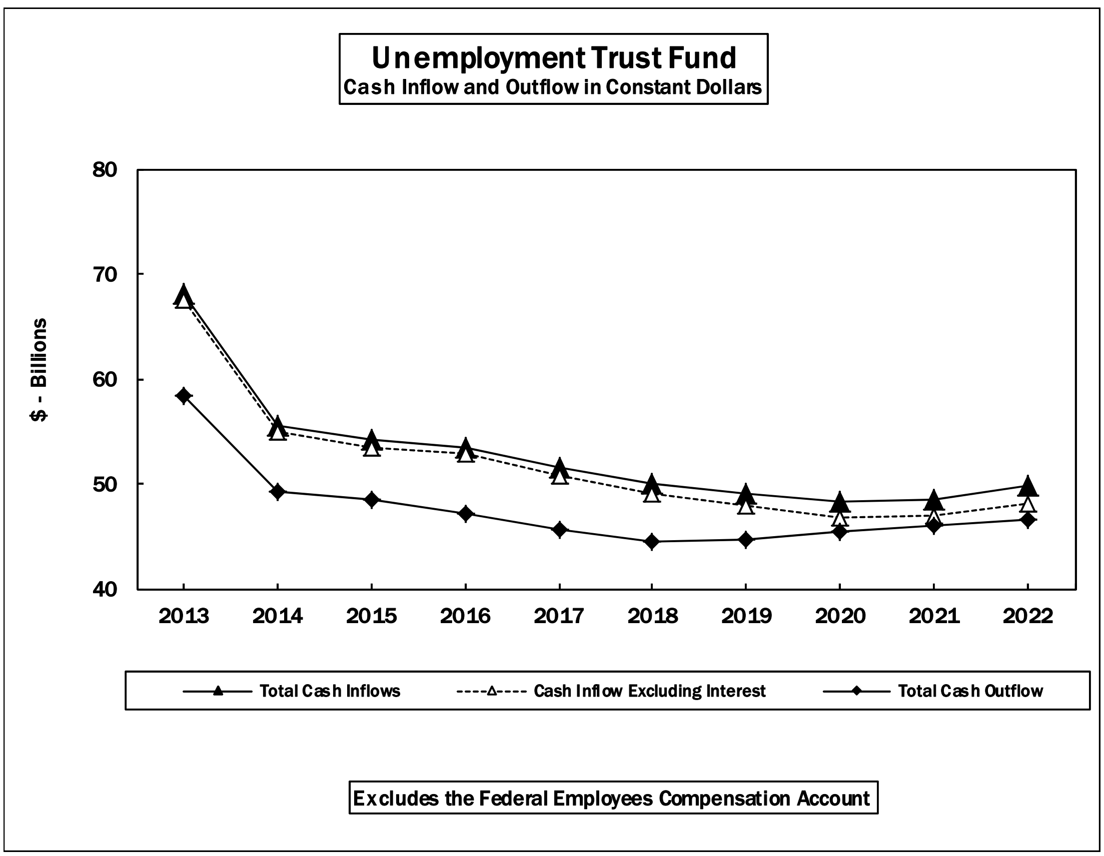
Expected Economic Conditions

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 7.8% during FY 2013, decreasing steadily to below 6% in FY 2017 and thereafter. Total cash inflows exceed total cash outflows in FY 2013 and through the end of the projected period. The net inflow decreases from $9.6 billion in FY 2013 to $6.3 billion in FY 2014, and ranges between $6.4 billion and $2.6 billion thereafter. The net inflow is sustained by the excess of Federal tax collections over Federal expenditures.

Chart I



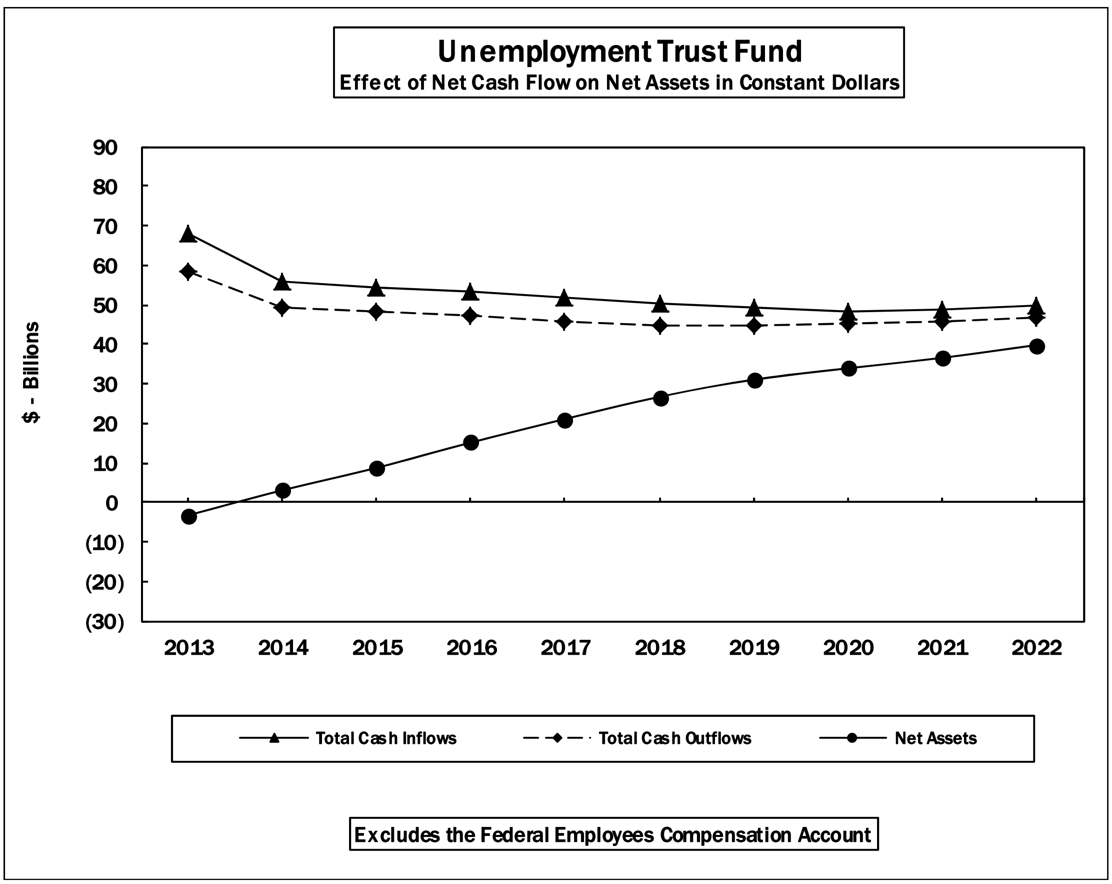
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Effect of Expected Cash Flows on UTF Assets in Constant Dollars

Chart II demonstrates the effect of these expected cash inflows and outflows on the net assets of the UTF, in constant dollars, over the ten year period ending September 30, 2022. 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 2013 and all other years in the projected period. The excess of total cash inflows over total cash outflows is highest in FY 2013. Starting at a $12.9 billion fund balance deficit at the beginning of FY 2013, net UTF assets increase by about $52.6 billion over the next ten years to a $39.7 billion fund net assets balance by the end of FY 2022. The fund is in a deficit situation in FY 2013, but ends FY 2014 with a $3.0 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, 2022, 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.

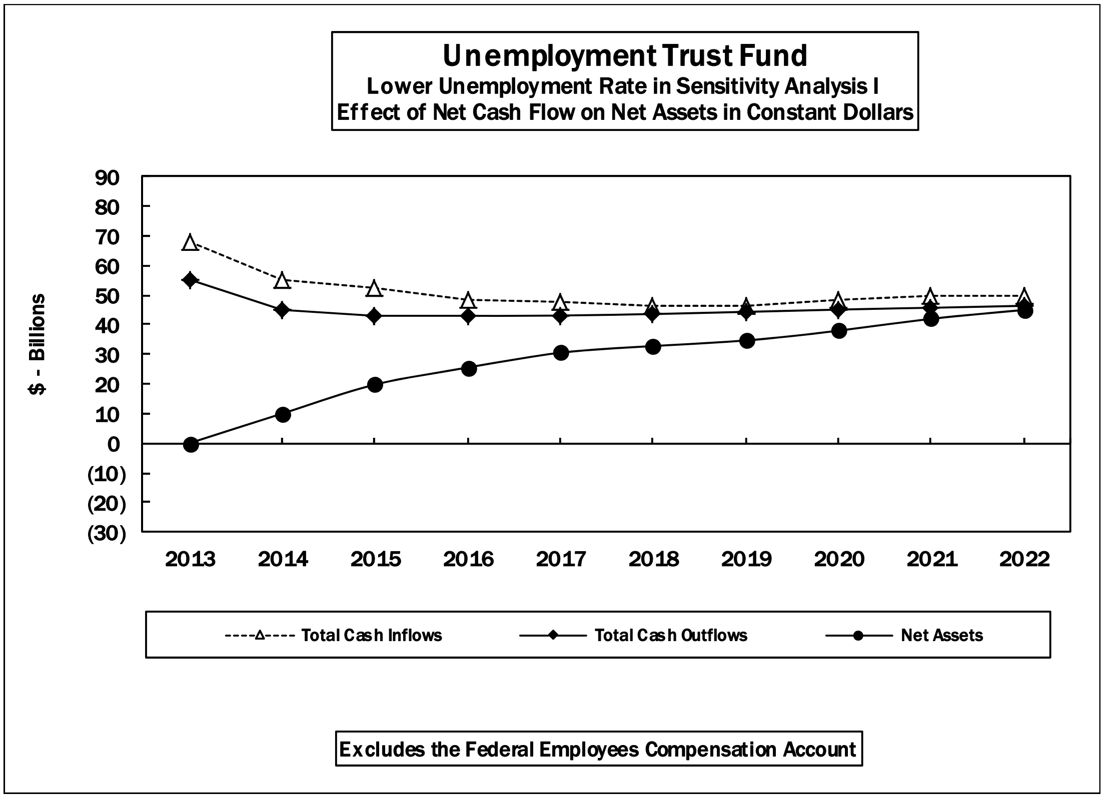
Total Unemployment Rate for the Ten-Year Period Ending September 30, 2022										
Conditions	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Expected	7.80%	7.42%	6.85%	6.27%	5.77%	5.45%	5.40%	5.40%	5.40%	5.40%
Sensitivity Analysis I	7.31%	6.54%	5.69%	5.56%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%
Sensitivity Analysis II	9.11%	10.21%	9.45%	8.75%	7.95%	7.65%	7.15%	6.55%	6.02%	5.57%

<u>Effect on UTF Assets, in Constant Dollars, in Sensitivity Analysis I</u>

In this sensitivity analysis, which utilizes a lower unemployment rate of 7.31% beginning in FY 2013, net cash inflows peak in FY 2013 and continue to be positive through 2022. Starting at a $12.9 billion fund balance deficit at the beginning of FY 2013, net UTF assets increase by $57.9 billion over the next ten years to a $45.0 billion fund net assets balance by the end of FY 2022.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

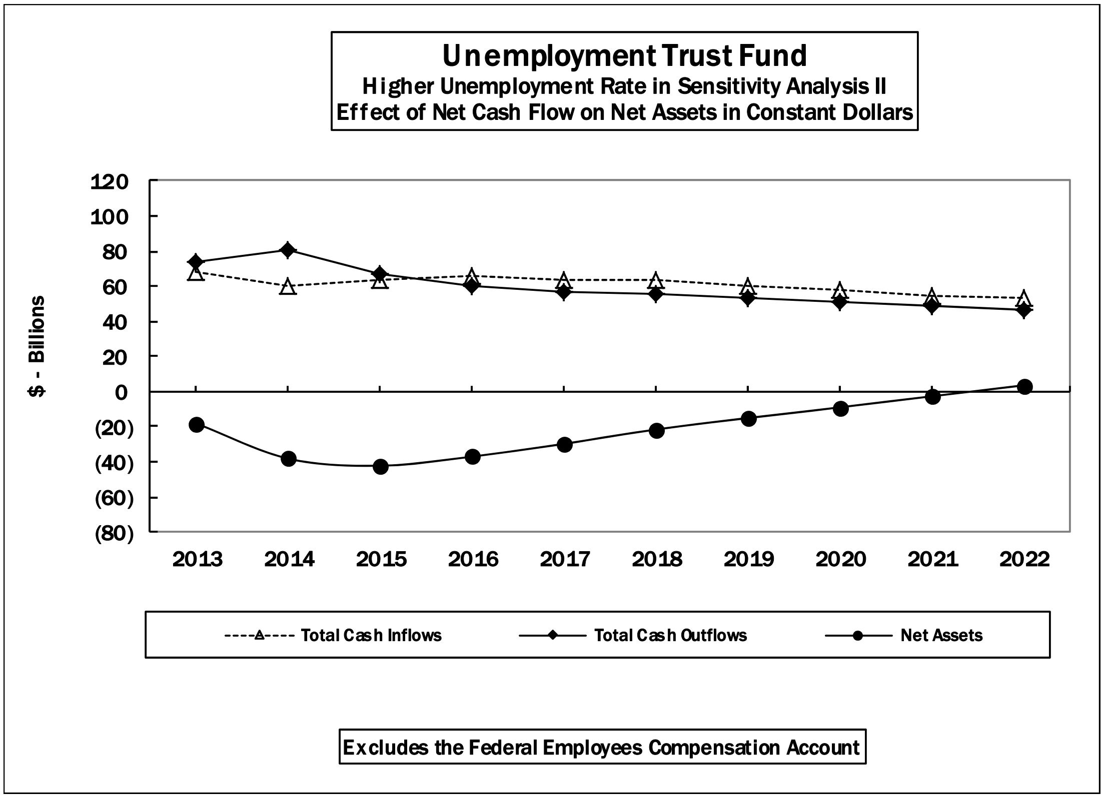
Chart III



<u>Effect on UTF Assets, in Constant Dollars, in Sensitivity Analysis II</u>

In this sensitivity analysis, net cash outflows including interest earnings and expenses are projected in FY 2013 through FY 2015. Net cash inflows are reestablished in FY 2016 and peak in FY 2018 with a drop in the unemployment rate to 7.65% and then lower rates for FYs 2019 through 2022. The net assets increase $16.4 billion from a $12.9 billion fund balance deficit at the beginning of FY 2013 to a $3.5 billion fund net assets balance in FY 2022. At the end of the projection period of sensitivity analysis II, net assets are $36.2 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, 2022
(1) EXPECTED ECONOMIC CONDITIONS

(Dollars in millions)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Balance, start of year	$ (12,932)	$ (3,315)	$ 3,000	$ 8,686	$ 15,069	$ 21,036	$ 26,622	$ 30,989	$ 33,857	$ 36,502
Cash inflow										
State unemployment taxes	49,540	45,673	43,347	41,917	40,209	38,626	38,494	37,176	37,064	37,173
Federal unemployment taxes	8,140	8,591	9,566	10,342	10,034	9,931	8,934	9,188	9,445	10,416
General revenue appropriation	8,881	-	-	-	-	-	-	-	-	-
Interest on loans	770	635	518	418	383	369	361	348	349	323
Deposits by the Railroad Retirement Board	110	44	88	146	148	106	78	98	130	130
Total cash inflow excluding interest	67,441	54,943	53,519	52,823	50,774	49,032	47,867	46,810	46,988	48,042
Interest on Federal securities	573	635	591	657	803	987	1,206	1,417	1,579	1,731
Total cash inflow	68,014	55,578	54,110	53,480	51,577	50,019	49,073	48,227	48,567	49,773
Cash outflow										
State unemployment benefits	52,937	44,303	43,680	42,436	40,997	39,846	40,117	40,762	41,315	41,927
State administrative costs	4,213	3,903	3,847	3,842	3,850	3,860	3,871	3,880	3,891	3,905
Federal administrative costs	182	180	178	177	177	177	177	177	176	176
Interest on tax refunds	1	1	1	1	1	2	2	2	2	2
Interest on advances	953	761	604	527	471	434	425	424	423	406
Railroad Retirement Board withdrawals	111	115	114	114	114	114	114	114	115	116
Total cash outflow	58,397	49,263	48,424	47,097	45,610	44,433	44,706	45,359	45,922	46,532
Excess of total cash inflow excluding interest over total cash outflow	9,044	5,680	5,095	5,726	5,164	4,599	3,161	1,451	1,066	1,510
Excess of total cash inflow over total cash outflow	9,617	6,315	5,686	6,383	5,967	5,586	4,367	2,868	2,645	3,241
Balance, end of year	$ (3,315)	$ 3,000	$ 8,686	$ 15,069	$ 21,036	$ 26,622	$ 30,989	$ 33,857	$ 36,502	$ 39,743
Total unemployment rate	7.80%	7.42%	6.85%	6.27%	5.77%	5.45%	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, 2022
(2) SENSITIVITY ANALYSIS I LOWER UNEMPLOYMENT RATE

(Dollars in millions)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Balance, start of year	$ (12,932)	$ (7)	$ 9,988	$ 19,781	$ 25,529	$ 30,558	$ 32,824	$ 34,692	$ 38,020	$ 42,023
Cash inflow										
State unemployment taxes	49,584	45,098	42,011	37,816	37,123	35,989	36,158	37,253	37,325	36,689
Federal unemployment taxes	8,167	8,668	9,356	9,524	9,455	8,630	8,638	9,459	10,498	10,649
General revenue appropriation	8,844	-	-	-	-	-	-	-	-	-
Interest on loans	737	562	402	302	260	257	276	279	271	247
Deposits by the Railroad Retirement Board	110	44	88	146	148	106	78	98	130	130
Total cash inflow excluding interest	67,442	54,372	51,857	47,788	46,986	44,982	45,150	47,089	48,224	47,715
Interest on Federal securities	606	702	717	792	965	1,177	1,356	1,522	1,739	1,920
Total cash inflow	68,048	55,074	52,574	48,580	47,951	46,159	46,506	48,611	49,963	49,635
Cash outflow										
State unemployment benefits	49,739	40,269	38,249	38,394	38,456	39,359	40,062	40,683	41,356	42,030
State administrative costs	4,157	3,821	3,739	3,757	3,794	3,843	3,867	3,875	3,888	3,903
Federal administrative costs	182	180	178	177	177	177	177	177	176	176
Interest on tax refunds	1	1	1	1	1	1	2	2	2	2
Interest on advances	933	693	500	389	380	399	416	432	423	406
Railroad Retirement Board withdrawals	111	115	114	114	114	114	114	114	115	116
Total cash outflow	55,123	45,079	42,781	42,832	42,922	43,893	44,638	45,283	45,960	46,633
Excess of total cash inflow excluding interest over total cash outflow	12,319	9,293	9,076	4,956	4,064	1,089	512	1,806	2,264	1,082
Excess of total cash inflow over total cash outflow	12,925	9,995	9,793	5,748	5,029	2,266	1,868	3,328	4,003	3,002
Balance, end of year	$ (7)	$ 9,988	$ 19,781	$ 25,529	$ 30,558	$ 32,824	$ 34,692	$ 38,020	$ 42,023	$ 45,025
Total unemployment rate	7.31%	6.54%	5.69%	5.56%	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, 2022
(3) SENSITIVITY ANALYSIS II HIGHER UNEMPLOYMENT RATE

(Dollars in millions)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Balance, start of year	$ (12,932)	$ (18,234)	$ (38,184)	$ (42,223)	$ (36,997)	$ (29,738)	$ (21,550)	$ (15,120)	$ (8,943)	$ (2,685)
Cash inflow										
State unemployment taxes	49,657	49,699	51,245	51,770	50,154	48,500	45,635	43,385	41,837	39,565
Federal unemployment taxes	8,050	9,158	10,283	11,937	12,209	13,437	12,657	11,949	11,012	10,982
General revenue appropriation	8,989	80	48	-	-	-	-	-	-	-
Interest on loans	873	1,091	1,137	1,045	996	970	948	925	866	753
Deposits by the Railroad Retirement Board	110	44	88	146	148	106	78	98	130	130
Total cash inflow excluding interest	67,679	60,072	62,801	64,898	63,507	63,013	59,318	56,357	53,845	51,430
Interest on Federal securities	439	340	315	400	510	666	808	976	1,151	1,320
Total cash inflow	68,118	60,412	63,116	65,298	64,017	63,679	60,126	57,333	54,996	52,750
Cash outflow										
State unemployment benefits	67,627	74,451	61,279	54,230	50,906	49,642	47,921	45,485	43,195	41,143
State administrative costs	4,468	4,450	4,224	4,098	4,066	4,068	4,043	3,996	3,955	3,922
Federal administrative costs	182	180	178	177	177	177	177	177	176	176
Interest on tax refunds	1	1	1	1	2	2	2	2	2	2
Interest on advances	1,031	1,165	1,359	1,452	1,493	1,488	1,439	1,382	1,295	1,161
Railroad Retirement Board withdrawals	111	115	114	114	114	114	114	114	115	116
Total cash outflow	73,420	80,362	67,155	60,072	56,758	55,491	53,696	51,156	48,738	46,520
Excess of total cash inflow excluding interest over total cash outflow	(5,741)	(20,290)	(4,354)	4,826	6,749	7,522	5,622	5,201	5,107	4,910
Excess of total cash inflow over total cash outflow	(5,302)	(19,950)	(4,039)	5,226	7,259	8,188	6,430	6,177	6,258	6,230
Balance, end of year	$ (18,234)	$ (38,184)	$ (42,223)	$ (36,997)	$ (29,738)	$ (21,550)	$ (15,120)	$ (8,943)	$ (2,685)	$ 3,545
Total unemployment rate	9.11%	10.21%	9.45%	8.75%	7.95%	7.65%	7.15%	6.55%	6.02%	5.57%

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 the Federal Unemployment Account (FUA) to make benefit payments. During FY 2009, the balances in the FUA were depleted and the FUA borrowed from the Treasury general fund and continued to do so through FY 2012, although in FY 2011 and FY 2012 the FUA repaid some borrowings.

Chart V presents the state by state results of this analysis at September 30, 2012 in descending order by ratio. As the table below illustrates, 40 state UTF accounts were below the minimal solvency ratio of 1.00 at September 30, 2012.

Chart V

Minimally Solvent	
State	Ratio
Nebraska	1.68
Wyoming	1.57
Mississippi	1.55
Oklahoma	1.38
Louisiana	1.27
Maine	1.15
North Dakota	1.12
Washington	1.11
District of Columbia	1.10
Utah	1.10
Iowa	1.03
Alaska	1.02
Oregon	1.00

Not Minimally Solvent			
State	Ratio	State	Ratio
South Dakota	0.89	Delaware	0.00
Puerto Rico	0.87	Florida	0.00
Montana	0.86	Georgia	0.00
New Hampshire	0.85	Idaho	0.00
Maryland	0.77	Illinois	0.00
Tennessee	0.63	Indiana	0.00
West Virginia	0.44	Kentucky	0.00
Minnesota	0.26	Michigan	0.00
New Mexico	0.26	Missouri	0.00
Hawaii	0.24	Nevada	0.00
Alabama	0.20	New Jersey	0.00
Massachusetts	0.19	New York	0.00
Vermont	0.12	North Carolina	0.00
Kansas	0.07	Ohio	0.00
Virginia	0.06	Pennsylvania	0.00
Arizona	0.00	Rhode Island	0.00
Arkansas	0.00	South Carolina	0.00
California	0.00	Texas	0.00
Colorado	0.00	Virgin Islands	0.00
Connecticut	0.00	Wisconsin	0.00

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Black Lung Disability Benefit Program

The Black Lung Disability Benefit Program provides for compensation, medical and survivor benefits for eligible coal miners who are totally disabled due to pneumoconiosis (black lung disease) arising out of their coal mine employment. The Black Lung Disability Trust Fund (BLDTF) provides benefit payments to eligible coal miners totally disabled by pneumoconiosis when no responsible mine operator can be assigned the liability. 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 current statutory limit and (2) restructured the BLDTF debt by refinancing the outstanding repayable advances (which had higher interest rates) with the proceeds from issuing discounted debt instruments similar in form to zero-coupon bonds (which had lower interest rates), plus a one-time appropriation. This Act also allowed that any debt issued by the BLDTF subsequent to the refinancing may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing. All debt issued by the BLDTF was effected as borrowing from the Treasury's Bureau of Public Debt. (See Notes 1-J and 8)

Program Finances and Sustainability

At September 30, 2012, total liabilities of the BLDTF exceeded assets by nearly $6.0 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, 2012 was nearly $6.1 billion, bearing interest rates ranging from 0.174% to 4.556%. Excise tax revenues of $621.0 million, benefit payment expense of $208.0 million, and interest expense of $227.7 million were recognized for the year ended September 30, 2012. 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, 2012, the BLDTF issued debt in the amount of $214.0 million, bearing interest at 0.174% and maturing on September 30, 2013. At September 30, 2012, there were 29 debt instruments with staggered maturities of September 30 for years 2013 through 2040, with a total carrying value of nearly $6.1 billion and a total face value at maturity of $10.1 billion. Of these 29 debt instruments, 28 are from the October 2008 refinancing and one debt instrument was issued on September 30, 2012.

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.

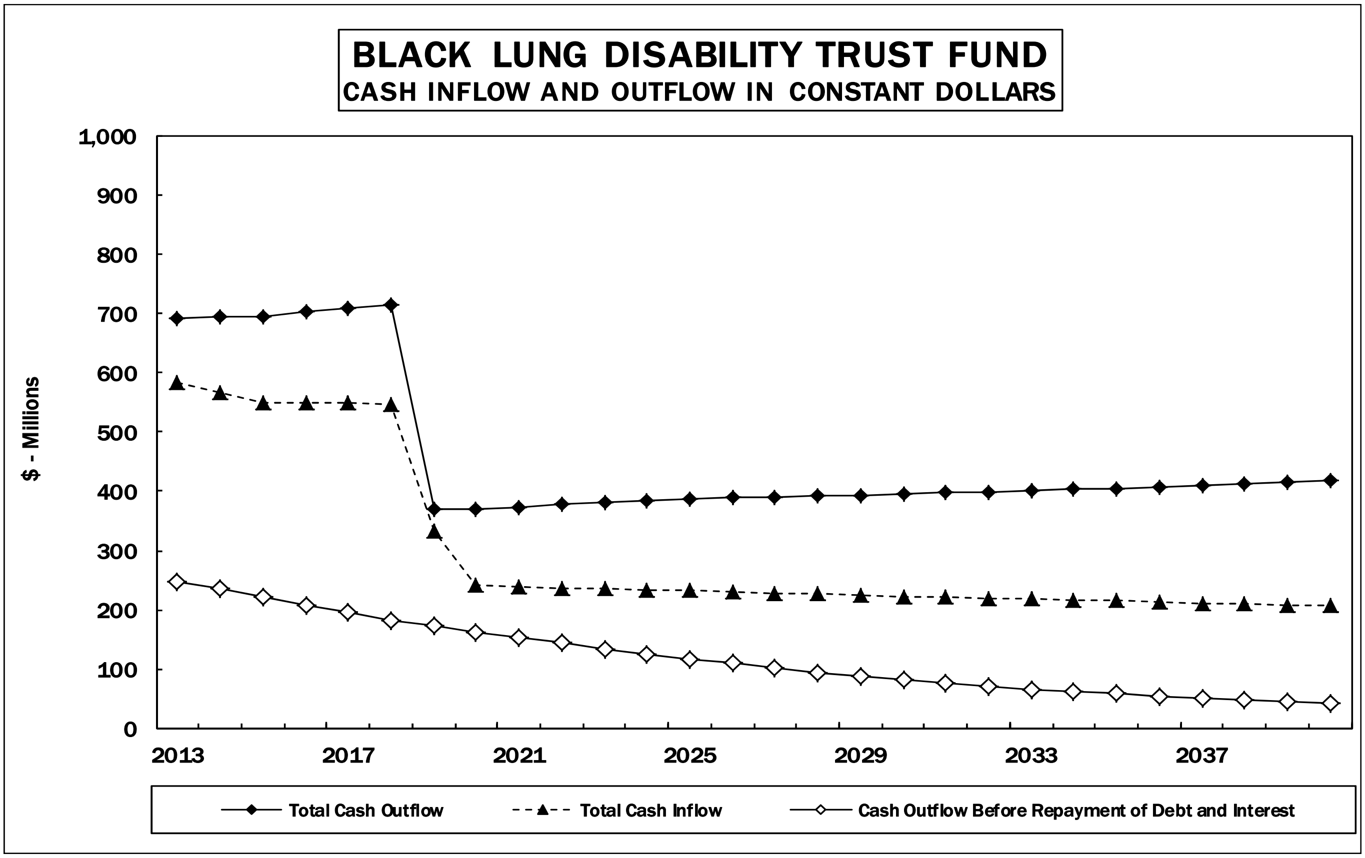
The significant assumptions used in the projections, in constant dollars, are coal excise tax revenue estimates, the tax rate structure, the number of beneficiaries, life expectancy, Federal civilian pay raises, medical cost inflation, the interest rate on new debt issued by the BLDTF, and the Consumer Price Index-Urban for goods and services (CPI-U). The use of CPI-U factors allows the projections to be presented in constant dollars with FY 2012 as the base year. The valuation date for the projections is September 30, 2012. 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 28-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 $5.0 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 $4.5 billion by the end of FY 2040, resulting in a projected deficit of $6.4 billion at September 30, 2040. (See Chart I and Table I) Amount totals in tables may differ slightly due to rounding.

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, 2012, 2011, 2010, 2009, and 2008 are presented in the Statement of Social Insurance.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Chart I

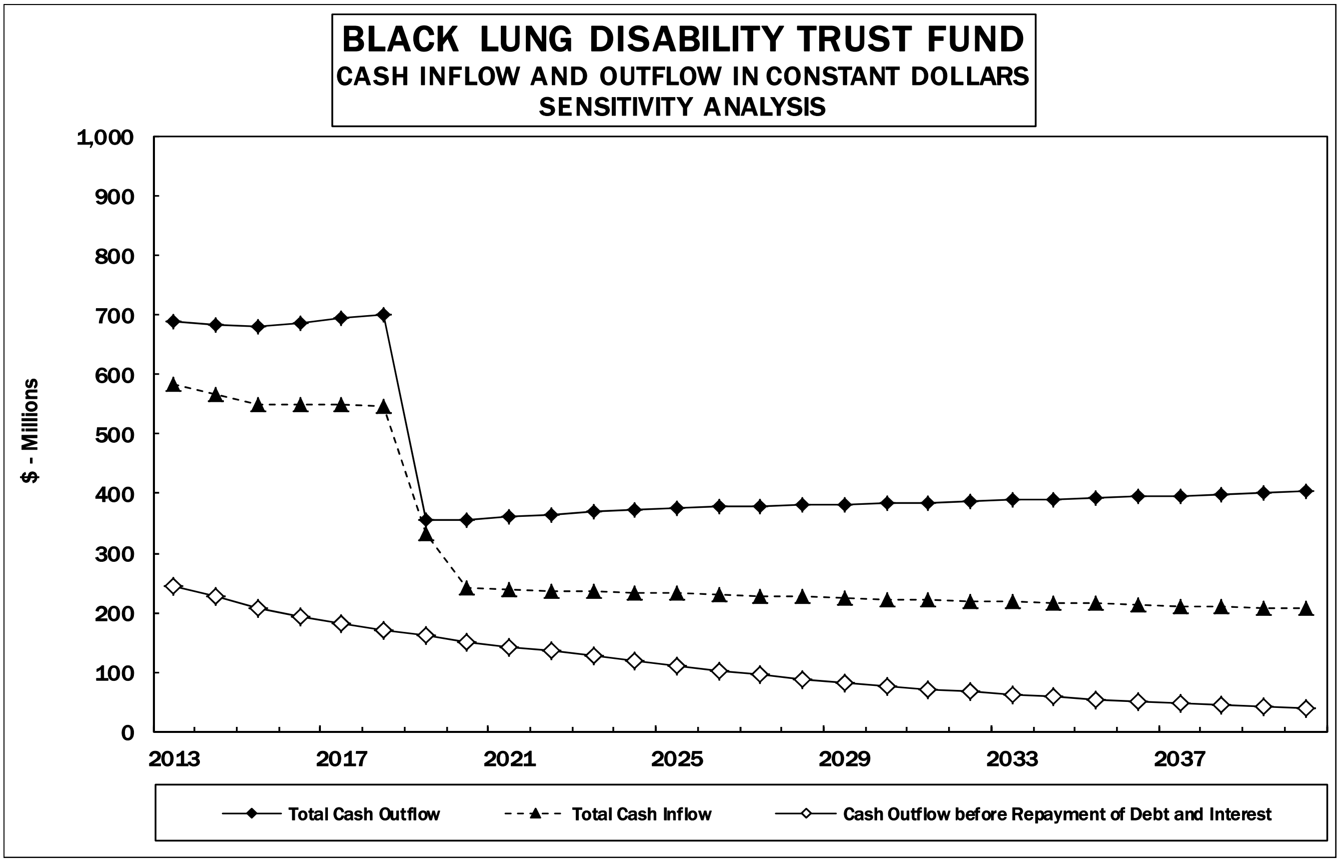


Projected Cash Inflows and Outflows with Sensitivity Analysis, in Constant Dollars

For the projected cash inflows and outflows with sensitivity analysis, in constant dollars, the significant assumptions for Federal civilian pay raises were modified, but the other significant assumptions were left unchanged. The Federal Coal Mine Health and Safety Act sets Black Lung benefits at 37.5% of the base salary of a Federal employee at level GS-2. The significant assumptions for Federal civilian pay raises were modified to reflect that no Federal employee statutory pay adjustment would take effect through December 31, 2015. 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. Administrative costs, which are primarily determined by the number and type of beneficiaries, would not be materially affected by changes in assumptions for Federal civilian pay raises. 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 28-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 $5.2 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 $4.2 billion by the end of the year 2040, and would result in a projected deficit of $6.1 billion at September 30, 2040. (See Chart II and Table II) Amount totals in tables may differ slightly due to rounding.

Chart II



For the open and closed group measure with sensitivity analysis, the significant assumptions for Federal civilian pay raises were modified, but the other significant assumptions were left unchanged. The Federal Coal Mine Health and Safety Act sets Black Lung benefits at 37.5% of the base salary of a Federal employee at level GS-2. The significant assumptions for Federal civilian pay raises were modified to reflect that no Federal employee statutory pay adjustment would take effect through December 31, 2015. 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. Administrative costs, which are primarily determined by the number and type of beneficiaries, would not be materially affected by changes in assumptions for Federal civilian pay raises.

As a result of changing the significant assumptions for Federal civilian pay raises as described above, for FY 2012 the actuarial present value of future benefit payments during the projection period to disabled coal miners and dependent survivors would decrease ($173,480) from $2,181,654 as reported on the Statement of Social Insurance (SOSI) to $2,008,174; the actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants would decrease ($173,480) from $3,145,649 as reported on the SOSI to $2,972,169; the excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated administrative costs during the projection period for current and future participants (open and closed group measure) would increase $173,480 from $4,658,529 as reported on the SOSI to $4,832,009. The trust fund net position deficit at the start of the projection period would remain unchanged.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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 28-YEAR PERIOD ENDING SEPTEMBER 30, 2040

(Dollars in thousands)	2013	2014	2015	2016	2017	2018 - 2040	Total
Balance, start of year	$ (5,977,619)	$ (5,699,051)	$ (5,444,008)	$ (5,214,048)	$ (5,001,119)	$ (4,804,945)	$ (5,977,619)
Cash inflow							
Excise taxes	582,326	566,244	550,352	548,525	549,335	5,570,600	8,367,382
Total cash inflow	582,326	566,244	550,352	548,525	549,335	5,570,600	8,367,382
Cash outflow							
Disabled coal miners benefits	190,618	178,089	165,102	152,237	140,132	1,494,716	2,320,893
Administrative costs	57,747	58,477	57,323	56,170	54,955	746,198	1,030,871
Cash outflows before repayment of debt and interest	248,365	236,566	222,425	208,407	195,087	2,240,913	3,351,764
Cash inflow over cash outflow before repayment of debt and interest	333,961	329,678	327,927	340,118	354,248	3,329,687	5,015,618
Maturity of obligations refinanced October 2008	444,295	455,354	465,023	478,695	489,173	5,117,145	7,449,685
Interest on annual borrowings	365	1,961	6,550	14,991	24,680	2,030,561	2,079,108
Total cash outflow	693,026	693,881	693,998	702,093	708,940	9,388,619	12,880,557
Total cash outflow over total cash inflow	(110,700)	(127,637)	(143,646)	(153,568)	(159,605)	(3,818,019)	(4,513,175)
Reduction of debt refinanced October 2008	389,268	382,680	373,606	366,497	355,779	2,202,250	4,070,080
Balance, end of year	$ (5,699,051)	$ (5,444,008)	$ (5,214,048)	$ (5,001,119)	$ (4,804,945)	$ (6,420,714)	$ (6,420,714)

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 28-YEAR PERIOD ENDING SEPTEMBER 30, 2040

(Dollars in thousands)	2013	2014	2015	2016	2017	2018 - 2040	Total
Balance, start of year	$ (5,977,619)	$ (5,694,532)	$ (5,429,805)	$ (5,185,814)	$ (4,958,303)	$ (4,747,905)	$ (5,977,619)
Cash inflow							
Excise taxes	582,326	566,244	550,352	548,525	549,335	5,570,600	8,367,382
Total cash inflow	582,326	566,244	550,352	548,525	549,335	5,570,600	8,367,382
Cash outflow							
Disabled coal miners benefits	186,099	168,434	151,290	138,406	127,391	1,363,900	2,135,520
Administrative costs	57,747	58,477	57,323	56,170	54,955	746,198	1,030,871
Cash outflows before repayment of debt and interest	243,846	226,911	208,614	194,576	182,347	2,110,098	3,166,391
Cash inflow over cash outflow before repayment of debt and interest	338,480	339,333	341,738	353,949	366,988	3,460,502	5,200,991
Maturity of obligations refinanced October 2008	444,295	455,354	465,023	478,695	489,173	5,117,145	7,449,685
Interest on annual borrowings	365	1,932	6,331	14,240	23,196	1,870,241	1,916,306
Total cash outflow	688,507	684,196	679,968	687,510	694,716	9,097,484	12,532,381
Total cash outflow over total cash inflow	(106,181)	(117,952)	(129,616)	(138,985)	(145,381)	(3,526,884)	(4,164,999)
Reduction of debt refinanced October 2008	389,268	382,680	373,606	366,497	355,779	2,202,250	4,070,080
Balance, end of year	$ (5,694,532)	$ (5,429,805)	$ (5,185,814)	$ (4,958,303)	$ (4,747,905)	$ (6,072,539)	$ (6,072,539)

STATEMENT OF BUDGETARY RESOURCES

The principal Combined Statement of Budgetary Resources combines the availability, status, and outlay of DOL's budgetary resources during FY 2012 and FY 2011. Presented on the following pages is the disaggregation of this combined information for each of the Department's major budget agencies.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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

(Dollars in thousands)	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, brought forward, October 1	$ 14,184,446	$ 214,319	$ 520,104
Less: uncollected customer payments from Federal sources, brought forward, October 1	(2,021,992)	67,465	-
Obligated balances start of year (net)	12,162,454	281,784	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)
Change in uncollected customer payments from Federal sources	(270,220)	(86,631)	-
Less: recoveries of prior year unpaid obligations	(211,051)	(5,952)	(90,982)
Obligated balance, end of year (net)	$ 11,572,630	$ 295,047	$ 447,333
Unpaid obligations, end of year (gross)	$ 13,864,842	$ 314,213	$ 447,333
Less: uncollected customer payments from Federal sources, end of year	(2,292,212)	(19,166)	-
Obligated balance, end of year (net)	$ 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)	-
Budget 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 Departmental Programs	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
(2,499)	(711)	-	-	(883)	-	(9,877)	(1,968,497)
99,736	84,969	46,847	42,947	88,311	60,468	431,106	13,818,726
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)
(494)	(585)	-	-	883	-	652	(356,395)
(11,272)	(7,798)	(5,022)	(6,284)	(1,858)	(4,897)	(24,744)	(369,860)
$ 102,515	$ 91,427	$ 49,018	$ 60,312	$ 102,609	$ 55,996	$ 427,389	$ 13,204,276
$ 105,508	$ 92,723	$ 49,018	$ 60,312	$ 102,609	$ 55,996	$ 436,614	$ 15,529,168
(2,993)	(1,296)	-	-	-	-	(9,225)	(2,324,892)
$ 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

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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

(Dollars in thousands)	Employment and Training Administration	Office of Workers' Compensation Programs	Office of Job Corps
BUDGETARY RESOURCES			
Unobligated balance brought forward, October 1	$ 2,238,705	$ 955,984	$ 763,332
Recoveries of prior year unpaid obligations	266,223	10,999	36,042
Other changes in unobligated balance	(246,122)	(1,748)	(63,927)
Unobligated balance from prior year budget authority, net	2,258,806	965,235	735,447
Appropriations (discretionary and mandatory)	154,870,259	1,710,225	1,693,236
Borrowing authority (discretionary and mandatory)	21,900,000	107,749	-
Spending authority from offsetting collections (discretionary and mandatory)	4,739,911	2,812,072	532
Total budgetary resources	$ 183,768,976	$ 5,595,281	$ 2,429,215
STATUS OF BUDGETARY RESOURCES			
Obligations incurred	$ 181,846,833	$ 5,022,865	$ 1,787,302
Unobligated balance, end of year			
Apportioned	694,547	219,994	191,087
Exempt from apportionment	-	62,478	-
Unapportioned	1,227,596	289,944	450,826
Total unobligated balance, end of year	1,922,143	572,416	641,913
Total budgetary resources	$ 183,768,976	$ 5,595,281	$ 2,429,215
CHANGE IN OBLIGATED BALANCE			
Unpaid obligations, brought forward, October 1	$ 16,964,600	$ 213,276	$ 454,841
Less: uncollected customer payments from Federal sources, brought forward, October 1	(1,899,939)	23,577	-
Obligated balances start of year (net)	15,064,661	236,853	454,841
Obligations incurred	181,846,833	5,022,865	1,787,302
Less: outlays (gross)	(184,360,764)	(5,010,823)	(1,685,997)
Change in uncollected customer payments from Federal sources	(122,053)	43,888	-
Less: recoveries of prior year unpaid obligations	(266,223)	(10,999)	(36,042)
Obligated balance, end of year (net)	$ 12,162,454	$ 281,784	$ 520,104
Unpaid obligations, end of year (gross)	$ 14,184,446	$ 214,319	$ 520,104
Less: Uncollected customer payments from Federal sources, end of year	(2,021,992)	67,465	-
Obligated balance, end of year (net)	$ 12,162,454	$ 281,784	$ 520,104
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)	$ 181,510,170	$ 4,630,046	$ 1,693,768
Less: actual offsetting collections (discretionary and mandatory)	(4,617,861)	(2,855,961)	(532)
Less: change in uncollected customer payments from Federal sources (discretionary and mandatory)	(122,053)	43,888	-
Budget authority, net (discretionary and mandatory)	$ 176,770,256	$ 1,817,973	$ 1,693,236
Outlays, gross (discretionary and mandatory)	$ 184,360,764	$ 5,010,823	$ 1,685,997
Actual offsetting collections (discretionary and mandatory)	(4,617,861)	(2,855,961)	(532)
Outlays, net (discretionary and mandatory)	179,742,903	2,154,862	1,685,465
Distributed offsetting receipts	(53,090,479)	(2,469)	-
Agency outlays, net (discretionary and mandatory	$ 126,652,424	$ 2,152,393	$ 1,685,465

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Occupational Safety and Health Administration	Bureau of Labor Statistics	Mine Safety and Health Administration	Employee Benefits Security Administration	Veterans' Employment and Training Service	Wage and Hour Division	Other Departmental Programs	Total
$ 21,311	$ 7,825	$ 7,107	$ 4,488	$ 6,227	$ 47,100	$ 139,464	$ 4,191,543
2,909	84,609	3,337	3,760	2,909	6,759	18,714	436,261
(327)	(2,832)	(313)	12,070	(2,286)	(2,342)	9,246	(298,581)
23,893	89,602	10,131	20,318	6,850	51,517	167,424	4,329,223
558,620	532,116	361,843	159,362	45,879	297,070	617,290	160,845,900
-	-	-	-	-	-	-	22,007,749
(5,594)	86,607	1,562	5,814	209,757	3,783	274,048	8,128,492
$ 576,919	$ 708,325	$ 373,536	$ 185,494	$ 262,486	$ 352,370	$ 1,058,762	$ 195,311,364
$ 558,798	$ 671,072	$ 368,702	$ 168,707	$ 255,466	$ 281,836	$ 973,522	$ 191,935,103
13	480	1,998	11,749	2,070	21,417	45,768	1,189,123
-	-	-	-	-	-	-	62,478
18,108	36,773	2,836	5,038	4,950	49,117	39,472	2,124,660
18,121	37,253	4,834	16,787	7,020	70,534	85,240	3,376,261
$ 576,919	$ 708,325	$ 373,536	$ 185,494	$ 262,486	$ 352,370	$ 1,058,762	$ 195,311,364
$ 111,859	$ 114,323	$ 37,810	$ 46,436	$ 90,040	$ 43,715	$ 371,178	$ 18,448,078
(9,703)	(516)	-	-	(17,190)	-	(7,768)	(1,911,539)
102,156	113,807	37,810	46,436	72,850	43,715	363,410	16,536,539
558,798	671,072	368,702	168,707	255,466	281,836	973,522	191,935,103
(565,513)	(615,106)	(356,328)	(168,436)	(253,403)	(258,324)	(885,003)	(194,159,697)
7,204	(195)	-	-	16,307	-	(2,109)	(56,958)
(2,909)	(84,609)	(3,337)	(3,760)	(2,909)	(6,759)	(18,714)	(436,261)
$ 99,736	$ 84,969	$ 46,847	$ 42,947	$ 88,311	$ 60,468	$ 431,106	$ 13,818,726
$ 102,235	$ 85,680	$ 46,847	$ 42,947	$ 89,194	$ 60,468	$ 440,983	$ 15,787,223
(2,499)	(711)	-	-	(883)	-	(9,877)	(1,968,497)
$ 99,736	$ 84,969	$ 46,847	$ 42,947	$ 88,311	$ 60,468	$ 431,106	$ 13,818,726
$ 553,026	$ 618,723	$ 363,405	$ 165,176	$ 255,636	$ 300,853	$ 891,338	$ 190,982,141
(1,610)	(86,412)	(1,562)	(5,814)	(226,063)	(3,783)	(271,937)	(8,071,535)
7,204	(195)	-	-	16,307	-	(2,109)	(56,958)
$ 558,620	$ 532,116	$ 361,843	$ 159,362	$ 45,880	$ 297,070	$ 617,292	$ 182,853,648
$ 565,513	$ 615,106	$ 356,328	$ 168,436	$ 253,403	$ 258,324	$ 885,003	$ 194,159,697
(1,610)	(86,412)	(1,562)	(5,814)	(226,063)	(3,783)	(271,937)	(8,071,535)
563,903	528,694	354,766	162,622	27,340	254,541	613,066	186,088,162
-	-	-	-	-	-	(26,608)	(53,119,556)
$ 563,903	$ 528,694	$ 354,766	$ 162,622	$ 27,340	$ 254,541	$ 586,458	$ 132,968,606

OTHER ACCOMPANYING INFORMATION

Top Management Challenges

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

2012 Top Management Challenges Facing the Department of Labor

For 2012, 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
- Maintaining the Integrity of Foreign Labor Certification Programs
- Ensuring the Security of Employee Benefit Plan Assets
- Securing Information Technology Systems and Protecting Related Information Assets
- Ensuring the Effectiveness of Veterans' Employment and Training Service Programs
- Improving Procurement Integrity

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

CHALLENGE: Protecting the Safety and Health of Workers

OVERVIEW

The Occupational Safety and Health Administration (OSHA) was established by the Occupational Safety and Health Act of 1970 (OSH Act). 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 seven 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.

CHALLENGE FOR THE DEPARTMENT

With more than seven million entities under its oversight and Bureau of Labor Statistics' preliminary data indicating that 4,609 workers suffered fatal workplace injuries in 2011, OSHA continues to be challenged on how to best target its resources to the highest-risk worksites nationwide and to measure the impact of its policies and programs and those of the 27 states authorized by OSHA to operate their own safety and health programs. OSHA carries out its enforcement responsibilities through a combination of self-initiated and complaint investigations, but can reach only a fraction of the entities it regulates. Consequently, OSHA must strive to target the most egregious and persistent violators and protect the most vulnerable worker populations.

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 has established a workgroup with state representatives in order to develop and adopt effectiveness measures for state-operated safety and health programs. Moreover, OSHA is working on establishing regular processes for evaluating the success of its enforcement strategies in helping to achieve its desired outcomes. 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.

OSHA should continue its efforts to work with state representatives on implementing effectiveness measures for state-operated safety and health programs. OSHA should also include the highest risk worksites in SST program targeting, prioritize and complete inspections of the highest risk worksites, and continue with the study on the SST program which is expected to conclude during FY 2013. Finally, OSHA needs to strengthen its oversight and increase the effectiveness of its Management Accountability Program.

CHALLENGE: Protecting the Safety and Health of Miners

OVERVIEW

The Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response Act of 2006 (MINER Act), charges the Mine Safety and Health Administration (MSHA) with protecting the health and safety of more than 380,000 miners who work at over 14,100 mines nationwide.

CHALLENGE FOR THE DEPARTMENT

MSHA continues to be challenged to effectively manage its resources to meet statutory mine inspection requirements while successfully accomplishing other essential functions to help ensure that every miner returns home safely at the end of each day. Our audits have shown that MSHA remains challenged to maintain a cadre of experienced and properly trained enforcement staff to meet its statutory enforcement obligations. This challenge will soon be exacerbated by retirements, with more than 50 percent of MSHA's enforcement personnel eligible to retire by 2014. MSHA also faces challenges in establishing a successful accountability program, and to some degree, deficiencies continue to recur. In addition, as scientific knowledge and mining practices change, MSHA must promote the development and use of new technologies and ensure that its standards and regulations keep pace.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

MSHA has made some progress in addressing these challenges. MSHA continues to identify and hire mine inspector candidates, within authorized personnel levels, through job announcements and employment screening events held in various locations throughout the country. In addition, MSHA maintains a single-source web-based page in order to provide potential mine inspector trainees with hiring information.

MSHA has initiated a "Rules to Live By" campaign which targets common mining deaths, recognized OSHA standards on fall protections, and implemented pre-assessment conferences to allow resolution of citations and orders before litigation. Additionally, MSHA's rulemaking agenda includes new regulations for proximity detection systems for mobile machines in underground mines and lowering miners' exposure to coal mine dust.

MSHA has made multiple changes to its organizational and reporting structures and several revisions to policies and procedures to improve its accountability program, but this remains a work in progress. MSHA must continue to develop a succession plan in order to ensure that properly trained mine inspectors are ready to step in as retirements occur, fully implement its accountability program, timely complete its rulemaking agenda, and encourage technological advances.

CHALLENGE: Improving Performance Accountability of Workforce Investment Act Grants

OVERVIEW

In Fiscal Year (FY) 2012, the Department's Employment and Training Administration (ETA) was appropriated $3.2 billion for the Workforce Investment Act (WIA) Adult, Dislocated Worker, and Youth programs. WIA adult employment and training services are provided through formula grants to states and territories or through competitive grants to service providers to design and operate programs for disadvantaged, often unemployed persons. ETA also awards grants to states to provide reemployment services and retraining assistance to individuals dislocated from their employment. Youth programs are funded through grant awards that support program activities and services to prepare low-income youth for academic and employment success, including summer jobs.

CHALLENGE FOR THE DEPARTMENT

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 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, our audit in 2008 of the $271 million High Growth Job Training Initiative to help workers acquire necessary skills for jobs in high growth industries such as health care and biotechnology disclosed that ETA awarded most of the grants non-competitively, that grantee performance expectations were so unclear in many cases we could not determine whether or not they met their goals and, where the agreements had more clarity, we determined that grantees did not meet objectives with respect to: training and placement goals; product completion; product delivery and required tracking of outcomes. The lack of clarity in grant proposals that were approved called into question the rigor of ETA's review of the proposals and the merit of ETA's decision to award the grants, especially because ETA decided to award them non-competitively. 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. 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 the program had limited success because 47 percent of those served already had a job; that only 38 percent of those trained were placed in jobs; and that, as of December 2011, only 16 percent of the collective job retention goal had been met. We also found that almost half of the training provided consisted of 1-5 days of training, that 92 percent of "credentials" received for participating in the program were merely certificates of completion, and that there were significant disparities of participant job retention goals proposed by grantees and approved by ETA. A finding common in all three audits, was the significant problem in obtaining accurate, reliable, and detailed performance data from grantees, sometimes requiring us to reconstruct records in order to be able to make assessments as to what was actually accomplished.

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

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.

To meet the increased demand for services and improve coordination with other service providers, ETA continues to work with the Department of Health and Human Services to develop a strategy for addressing client needs in the One-Stop Center setting. The regions are working with various Federal agencies to coordinate activities at the state level. Activities include the coordination of training strategies to maximize employer skill needs and the facilitation of successful outcomes from the TANF program.

The OIG considers these initiatives to be of importance. In particular, we recommend that ETA give maximum priority to the goal of evaluating strategies for delivering services more effectively and efficiently to address the many grant making and program performance issues we have identified over the past several decades.

CHALLENGE: Ensuring the Effectiveness of the Job Corps Program

OVERVIEW

The 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 $1.7 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, 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. 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. A 2011 audit found that 3,226 of the 17,787 placements reported for the periods reviewed either did not relate, or poorly related, to the vocational training received (e.g., students trained in office administration placed in fast food restaurants) and another 1,569 students were placed in jobs that required little or no previous skills or experience, such as parking lot attendants, janitors, and dishwashers.

We have also documented significant problems with centers being unable to ensure that funds are only being expended on serving participants who qualify for the program, and centers being unable to ensure that major procurements include proper competition and ensure best value to the program.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

The Department conducted on-site safety and health evaluations at 123 centers; trained center safety officers and staff; and published several information notices and policy changes. To improve its reported performance data, Job Corps is updating 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. 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; ensure that only those who qualify for the program are served; 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 Office of Management and Budget (OMB) has designated the Unemployment Insurance (UI) and Workforce Investment Act (WIA) programs as being at risk of making significant improper payments. The Federal Employees Compensation Act (FECA) program is also susceptible to improper payments. In total, for Fiscal Year (FY) 2011, the Department reported improper payments totaling approximately $13.7 billion.

According to the U. S. Government Accountability Office, the UI program reported the fourth highest dollar amount of improper payments of any Federal program in FY 2011. Over the past three fiscal years, payments to UI recipients have grown to unprecedented levels, totaling about $389 billion. This rapid, large growth, especially in Federally-funded emergency and additional benefits, has increased the risk of improper payments. Indeed, the UI improper payment rate has increased from 11.2 percent in FY 2010 to 12.0 percent in FY 2011, and remains well above the target rate of 9.8 percent.

CHALLENGE FOR THE DEPARTMENT

Identifying and reducing the rate of improper payments in the UI program continues to be a challenge for the Department, as evidenced by the increasing rate of improper payments in recent years. Our audits have found that the Department lacked effective controls over the detection of improper payments for both the UI state and Federal programs, and that the Department's estimate of recoverable payments may be understated. In addition, 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.

The Department also remains challenged in identifying the full extent of improper payments in the WIA and FECA 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, OIG investigations continue to identify high amounts of FECA compensation and medical fraud, which has often greatly surpassed the Department's improper payments estimates. For the WIA program, we have noted that data are not readily available to allow the Department to directly sample grant payments to 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 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, and has 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. 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. The Department must also ensure that California – the state with the largest amount of estimated UI improper payments – has implemented the National Directory of New Hires (NDNH) by December 31, 2012. 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 stated that it is in the process of designing a methodology for estimating the FECA improper payment rate. 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: Maintaining the Integrity of Foreign Labor Certification Programs

OVERVIEW

The Department's Foreign Labor Certification (FLC) programs are intended to provide U.S. employers access to foreign labor in order to meet worker shortages – as long as U.S. workers are not adversely affected. The H-1B visa specialty workers' program requires that employers, who intend to employ foreign specialty occupation workers on a temporary basis, file labor condition applications with the Department. The H-2A program allows agricultural employers, who anticipate a shortage of domestic workers, the ability to bring nonimmigrant foreign workers to the U.S. to perform agricultural labor or services of a temporary or seasonal nature. The H-2B program establishes a means for U.S. nonagricultural employers to bring foreign workers into the U.S. to meet temporary worker shortages.

CHALLENGE FOR THE DEPARTMENT

DOL is challenged to provide U.S. businesses access to foreign workers to meet their workforce needs while protecting the jobs and wages of U.S. workers. Our audits have found that statutory limits on the Department's authority, and uncertainty regarding the process for including individuals or entities debarred on the government-wide excluded parties lists are some of the issues that have negatively impacted the H-1B program. For the H-2B program, the Department published a new rule establishing a compliance-based format that emphasizes the review of documentation provided to ETA in advance of its certification determination; this action addresses challenges related to the old attestation model established in 2008. However, due to pending legal actions, the Department is temporarily enjoined from implementing or enforcing the revised rule and continues to operate under the attestation model in which employers merely assert, but do not demonstrate, that they have performed an adequate test of the U.S. labor market before hiring foreign workers in lieu of U.S. workers.

OIG investigations continue to uncover schemes carried out by immigration attorneys, labor brokers, and transnational organized crime groups. Our investigations have repeatedly revealed that fraudulent applications filed with DOL on behalf of fictitious companies, as well as schemes wherein fraudulent applications were filed using the names of legitimate companies without the companies' knowledge. Additionally, we continue to uncover complex schemes involving fraudulent DOL FLC documents filed in conjunction with or in support of similarly falsified identification documents required by other Federal and state organizations.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

To address the H-1B challenge, the Department has entered into a contract with a third-party vendor in order to have access to a more comprehensive employer identification database and verification system. To improve the H-2B program, ETA has issued two new final rules, one for determining prevailing wage rates and another which replaced the self-attestation model with a compliance-based format. The effective date of the wage rule has been extended to March 27, 2013, because of legislation which prevents the use of funds to implement, administer or enforce the rule. The new rule establishing a compliance-based format emphasizes the review of documentation provided to ETA in advance of the certification determination. However, due to pending legal actions, the Department is temporarily enjoined from implementing or enforcing the revised rule. This matter is on appeal to the U.S. Court of Appeals for the Eleventh Circuit and the Department expects a decision in the second quarter of FY 2013. The Department is also working on ways to include FLC suspensions and debarments on the government-wide excluded parties list, and made its first referral in July 2012.

The Department still needs to evaluate the results of its certification processes in order to assess their effectiveness. In addition, the Department needs to enhance its monitoring of the H-2B application process in order to ensure that employers are fully complying with program requirements and intentions. DOL also needs to make adjustments in order to enhance the integrity of its employer verification services by fully implementing its electronic employer verification controls over the H-1B program and the remaining FLC programs. Furthermore, DOL needs to continue assessing and applying its debarment action and ensure debarments are reported to appropriate DOL personnel for inclusion in the government-wide exclusion system. Finally, ETA needs to ensure State Workforce Agencies (SWAs) have implemented the methods for reviewing and clearing job orders and making interstate referrals of U.S. workers as reported in their FY 2012 state grant plans.

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). It has jurisdiction over an estimated 707,000 retirement plans, 2.3 million health plans and a similar number of other welfare plans. These plans hold about $6.7 trillion in assets and cover approximately 141 million participants and beneficiaries.

CHALLENGE FOR THE DEPARTMENT

EBSA's limited authority and resources present challenges to achieving its mission of administering and enforcing ERISA requirements for an estimated 5.3 million employee benefit plans covering approximately 141 million participants and beneficiaries. Chief among EBSA's challenges over the past couple of decades has been the fact that millions in pension assets held in otherwise regulated entities, such as banks, escape audit scrutiny because of limited scope audits authorized under ERISA, which result in no opinion on the financial status of the plan by the independent public accountants that conduct the limited review. These concerns were renewed and heightened by recent audit findings that as much as $3.3 trillion in pension assets received these types of no opinion 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, the large increase in the types and complexity of investment products available to pension plans, and the new health care law. In addition, uncertainty about the effectiveness of EBSA enforcement programs on ERISA compliance makes it difficult for EBSA to direct its limited resources effectively among its regional offices to the enforcement areas where they would do the most good.

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, which reviewed 259 randomly selected employee benefit plans for compliance with ERISA. EBSA continued to review plans under the SIP in 2012 and will analyze results at the end of the year and develop the first baseline compliance measure in FY 2013.

EBSA should complete its evaluation of the results of the Sample Investigation Program to determine what changes are needed to improve enforcement program effectiveness. EBSA should also work to obtain legislative changes to address deficient benefit plan audits and to ensure that auditors with poor records do not perform any additional plan audits. In addition, EBSA should renew its efforts to obtain additional authority over plan auditors, and to repeal the limited scope audit exception.

CHALLENGE: Securing Information Technology Systems and Protecting Related Information Assets

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 information assets is a continuing challenge for Federal agencies, including DOL. The Administration's goal of expanding the use of technology to create and maintain an open and transparent government, while safeguarding systems and protecting sensitive information, has added to the challenge. Recent OIG audits have identified access controls, background investigations, and oversight of third-parties involved in operation and support of IT systems, as significant deficiencies. In addition, we have identified major weaknesses in the process of sanitizing electronic media prior to it being removed from DOL's control and destroyed.

We have also identified issues with the timeliness of mitigating identified vulnerabilities. The Department implemented a risk management program to prioritize corrective action plans. However, after years of planned implementation the Department has not made measurable progress to move the program forward.

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.

The Department has also begun an IT modernization program with the goal to create a 21st-century IT infrastructure. As part of DOL's IT modernization, program users will access their network accounts by logging on to their desktops and/or laptop computers using their permanent DOL badge, also known as a Personal Identity Verification (PIV) card. The DOL-issued PIV card is designed to enhance security, reduce identity fraud, and protect personal privacy.

The IT Modernization program includes consolidating the Department's nine infrastructures in an effort to create a more unified, robust, 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 movement of email to the cloud was delayed and is not scheduled until the Summer of 2013, the Department must take steps to ensure the cloud is secure prior to implementation. A greater presence in IT system security is needed by the Executive level; fully implementing DOL's planned Risk Management Program will assist in that effort as Executives become integral to the discussion and understanding of their IT security issues and setting mitigation priorities. 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.

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

OVERVIEW

The Department's Veterans' Employment and Training Service (VETS) programs are intended to provide both veterans and transitioning service members the resources and services necessary for them to succeed in the workforce by maximizing their employment opportunities and protecting their employment rights. Under the Jobs for Veterans State Grant (JVSG) program, VETS issues grants to State Workforce Agencies to assist veterans in obtaining and maintaining gainful employment. These grants are issued with a special emphasis on providing intensive services to meet the employment needs of disabled veterans. Another VETS program, the Transition Assistance Program (TAP), provides a three day training session in which participants learn techniques for job searches, processes for career decision-making, conditions of the current occupational and labor market, how to write a resume, and interview techniques.

CHALLENGE FOR THE DEPARTMENT

According to data published by the Bureau of Labor Statistics, the monthly unemployment rate for veterans has gone down over the past year, declining from 8.1 percent in September 2011 to 6.7 percent in September 2012. However, many veterans still cannot find meaningful work, and the Department remains challenged to provide the services these veterans need to prepare themselves for the civilian job market. This is especially true for post-9/11 veterans, as the portion of these veterans seeking work was 9.7 percent in September 2012, substantially above the 7.4 percent unemployment rate for nonveterans. Moreover, the September 2012 unemployment rate for post-9/11 female veterans remained high at 19.9 percent.

Our audits have found that JVSG staff needed to do a better job of accurately assessing the veterans' needs and documenting intensive service activities - particularly for homeless veterans with disabilities. 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 helps veterans successfully transition from military to civilian employment.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

In collaboration with the Department of Defense and the VA, VETS has instituted a new TAP Employment Workshop which is scheduled to be completed in November 2012. VETS is a also collaborating with other cognizant agencies to explore new data sharing possibilities that would allow standards and policy for monitoring TAP Employment Workshops, student load, and Outcome Goals. VETS is also ensuring that the Disabled Veteran Outreach Program focuses on those veterans who have the most significant barriers to employment by providing more intensive services.

VETS still needs to ensure that JVSG program funds are used effectively to provide services to veterans and disabled veterans who have the most significant barriers to employment. Further, VETS needs to provide rigorous oversight over contractors, grantees, and state agencies for all programs. VETS also needs to implement standard forms and policy for monitoring TAP Employment Workshops, establish clear performance measures and Outcome Goals, and sign a new Memorandum of Understanding with partner agencies to define each agency's roles and responsibilities. In addition, VETS needs to ensure that its staff complies with management controls for contract administration.

CHALLENGE: Improving Procurement Integrity

OVERVIEW

The Department contracts for many goods and services to assist in carrying out its mission. In Fiscal Year 2012, DOL awarded an estimated 3,325 new contracts totaling about $360 million, and issued almost 6,000 modifications to existing contracts totaling approximately $1.6 billion.

CHALLENGE FOR THE DEPARTMENT

Ensuring integrity in procurement activities is a continuing challenge for the Department. Until procurement and programmatic responsibilities are properly separated and effective controls are put into place, DOL will continue to be at risk for wasteful and abusive procurement practices. Our most recent audits and investigations of DOL's procurement activities identified the need for better control and monitoring of procurement activities delegated to program agencies.

The current control environment surrounding the Department's procurement activities has introduced both financial and operational risk to DOL. The lack of standard and updated operating procedures leaves the consistency and quality of DOL's procurement functions heavily dependent on the various program agencies with delegated procurement authority. OIG audits have found that DOL could not produce documentation that it awarded some contracts based on the best value to the government. Moreover, for some contract modifications reviewed, DOL could not produce documentation that it issued contract modifications within the scope of work and terms of the initial contracts.

The issues described above, along with those in the *Securing Information Technology Systems and Protecting Related Information Assets* challenge, highlight the need for DOL to appoint a Chief Acquisition Officer (CAO) whose primary duty is acquisition management. DOL continues to be out of compliance with the Service Acquisition Reform Act of 2003 requirement that executive agencies appoint a CAO whose primary duty is acquisition management. The Assistant Secretary for Administration and Management presently serves as DOL's CAO, while retaining other significant non-acquisition responsibilities.

DEPARTMENT'S PROGRESS AND WHAT REMAINS TO BE DONE

To ensure integrity in procurement activities, the Department has stepped up its efforts to ensure procurement staff receives appropriate training. In addition, the Department has issued guidance to improve DOL's overall procurement program that included provisions which require contractors to inform the contracting officer of suspected procurement violations, and require agencies and Contracting Officer's Technical Representatives to certify that task orders are properly within the scope of the contract and that there is no conflict of interest. The Department has also issued guidance addressing procurement conflicts of interest and has provided training to DOL senior executive staff focusing on ethics and procurement integrity, and lessons learned.

The Department needs to continue its development of standard and consistent internal controls, and compliance frameworks for component agencies with procurement authority in order to ensure the consistency and quality of DOL's procurement functions. Furthermore, DOL needs to complete procurement reviews of all of its acquisition offices, update internal policies and procedures in order to clarify the processes related to acquisition planning and administration of procurements, and ensure all contracting officers and contracting officer representatives obtain necessary certifications. While DOL is taking positive actions to improve procurement integrity, it has yet to appoint a Chief Acquisition Officer whose primary duty is acquisition management.

Changes from Last Year

Changes to the Top Management Challenges from FY 2011 include the combining of "Safeguarding Unemployment Insurance" and "Improving the Management of Workers' Compensation Programs" into a single challenge entitled "Reducing Improper Payments." Also, "Protecting the Safety and Health of Miners" is presented as a separate challenge; in prior years it was included within the "Protecting the Safety and Health of Workers" challenge.

Ensuring the successful development and implementation of major information management systems was previously discussed in our FY 2011 Top Management Challenges. Traditional system developments are losing their importance as the Department moves to cloud computing services for almost all its applications. As a result, we have removed the information system development as a separate issue in the FY 2012 Top Management Challenges.

Summary of Financial Statement Audit and Management Assurances

The following tables provide a summary of the Department's FY 2012 financial statement audit and its management assurances.

Summary of Financial Statement Audit					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Lack of Sufficient Controls over Financial Reporting	1		1		0
Lack of Sufficient Controls over Budgetary Accounting	1		1		0
Lack of Adequate Controls over Access to Key Financial and Support Systems	1		1		0
Total Material Weaknesses	3		3		0

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Weaknesses over Financial Reporting	0					0
Weaknesses over Preparation and Review of Journal Vouchers	0					0
Weaknesses over Budgetary Accounts Reconciliation	0					0
Total Material Weaknesses	0					0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0					0
Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Financial Management System Requirements, Internal Controls, Preparation of Financial Statements	0					0
Total non-conformances	0					0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	Yes
2. Accounting Standards	Yes	Yes
3. USSGL at Transaction Level	Yes	Yes

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 as implemented by OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, the Department reviews its programs and activities annually to identify programs that may be susceptible to significant improper payments. For programs and activities deemed risk susceptible, the Department performs testing 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 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 audits is cost-effective.

DOL Review of Programs and Activities

Similar to prior years, the Department's Fiscal Year (FY) 2012 review of its major programs and activities included the following tasks:

- Reviewing the prior three years' results of IPIA risk assessments and detailed tests.

- Reviewing DOL Office of Inspector General (OIG) and Government Accountability Office (GAO) audit reports issued for DOL programs to determine whether the reports indicate control weaknesses or other issues that could potentially impact the amount of improper payments for DOL programs.

- Reviewing results of the Department's OMB Circular A-123 internal control assessment to determine whether control weaknesses were identified that could potentially impact the amount of improper payments for DOL programs.

- Reviewing DOL programs' funding levels for FY 2009 through FY 2011 for significant changes in program funding that may impact the amount of improper payments.

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

The Workforce Investment Act (WIA) grant program was classified as at-risk in OMB's former Circular A-11, Section 57, due to its annual level of expenditures; however, the Department's annual risk assessments have not supported the high-risk designation.

The Federal Employees' Compensation Act benefit program (FECA) was also classified as at-risk in OMB's former Circular A-11, Section 57. The Department's past risk assessments have not supported the high-risk designation for the FECA program. In both FY 2011 and FY 2012, the FECA program performed risk assessments which showed that FECA continued to be not risk susceptible. Based on the results of the risk assessments, DOL did not perform detailed testing of the FECA program in FY 2012. DOL is designing a revised methodology for performing detailed testing of the FECA program as the basis for assessing risk and estimating an improper payment rate for the program.

In FY 2012, the Department performed detailed testing for the UI and WIA programs to estimate the level of improper payments and their major causes. The Department has taken corrective actions to address the causes and reduce improper payments in these programs and has established improper payment reduction targets in accordance with OMB guidance.

Table 1 shows the FY 2011 – FY 2015 targets and projected rates for Department's "At-Risk" programs.

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

DOL Program	FY 2011		FY 2012		FY 2013	FY 2014	FY 2015
	Target	Actual	Target	Actual	Target	Target	Target
Unemployment Insurance (UI)	9.8%	12.0%	9.7%	11.42%	*	*	*
Workforce Investment Act (WIA)	0.07%	0.31%	0.44%	0.22%	0.44%	0.44%	0.44%

*Integrity rate targets for FY 2013 to FY 2015 will be set based on an alternative methodology explained in section II - UI Statistical Sampling.

The FY 2012 error rate target for UI's improper payments was 9.7% as compared to the actual error rate of 11.42% (10.81% overpayment rate plus 0.61% underpayment rate) for the period July 2011 to June 2012, the most recent period for which data was available.

The UI improper payment rate decreased from 12.0% for the 2011 reporting period (11.35% overpayments and 0.65% underpayments). This decrease is primarily the result of decreases in overpayment rates for several root causes, especially Employment Service (ES) registration (which declined from 1.03% to 0.74%) and Benefit Year Earnings (BYE) which decreased from 3.44% to 3.23%. BYE overpayments occur when claimants continue to claim benefits after they return to work. Corrective actions to address these and other causes of improper payments are described in Section III.

As a result of the Department's efforts to improve the accuracy of the measured rate, OMB approved a revised WIA annual target rate beginning with FY 2012.

Unemployment Insurance Program

Overview

The single largest program at the DOL is the UI program, which represented over $90.16 billion in outlays in FY 2012. 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 UI program (State UI, Unemployment Compensation for Federal Employees [UCFE], Unemployment Compensation for Ex-Service Members [UCX], Extended Benefits [EB], Emergency Unemployment Compensation 2008 [EUC08] and Federal Additional Compensation [FAC]) decreased in FY 2012 to an estimated $90.16 billion, compared with $114 billion in FY 2011, reflecting (1) improved labor market conditions, (2) a significant drop in EUC08 program payments, which decreased from $52.66 billion in 2011 to an estimated $39.99 billion in 2012, and (3) a decrease in EB payments, which decreased from $11.92 billion in 2011 to an estimated $5.15 billion in 2012.

The UI's estimated annual improper payments for 2012 are $10.30 billion, consisting of $9.75 billion in overpayments and $550 million in underpayments. 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.

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 (www.paymentaccuracy.gov/). The Operational Rate is also reported annually as part of the IPIA reporting requirements.

BAM investigators in each state conduct comprehensive audits for randomly selected weekly samples of paid and denied claims. Effective January 2008, all paid claims sampled for BAM investigation must be matched with the National Directory of New Hires (NDNH) database to improve the ability to detect overpayments due to individuals who claim benefits after returning to work, the largest single cause of UI overpayments. The universe (population) includes paid and denied claims under the State UI, UCFE, and UCX programs. However, because the claims processes and eligibility requirements are very similar for the additional benefits paid to unemployed individuals under the EB, EUC08, and FAC programs, the estimated improper payment rates are assumed to generally reflect the accuracy of these benefit payments. Overpayment and underpayment rates for FY 2012 shown in the Improper Payment Reduction Outlook Table are for the period July 1, 2011 to June 30, 2012. 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, 2011 to June 30, 2012, state agencies completed audits for 24,783 paid claims cases, a completion rate of 99.7%. Additional information about the BAM methodology can be found at: www.oui.doleta.gov/unemploy/bam/2011/bam-cy2011.pdf.

During 2012, DOL developed an alternative metric to measure improper payments that takes into account the "net" effect of UI overpayment recoveries. The alternative rate includes the two components in the rate that are currently reported annually as part of IPIA reporting requirements - total overpayments plus total underpayments - and subtracts the amount of overpayments recovered by state workforce agencies.

- 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 the overpayment and underpayment rates include all causes.

[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.

- Currently, the Department reports overpayment and underpayment rates estimated from the results of the BAM survey. The alternative measure includes two components -- improper payments, which will continue to be estimated from BAM, and overpayment recoveries, which are based on actual amounts reported by the state workforce agencies on the ETA 227 Overpayment Detection and Recovery reports for UI, UCFE, UCX, and EUC.

Table 2 summarizes the current IPIA rate and the alternative rate for the 2012 IPIA reporting period (July 2011 to June 2012).

Table 2: UI Improper Payment Rate

UI Improper Payment Rates	2012 IPIA Rate
IPIA Rate (Current: Overpayment rate (OP) + Underpayment rate (UP))	11.42%
Alternative Rate: OP + UP – Overpayments Recovered	9.22%

III. UI Corrective Actions

OMB has established the following categories to classify the root causes of improper payments in the UI program: (1) Documentation and Administrative Errors, (2) Verification Errors, and (3) Authentication and Medical Necessity Errors.

These categories do not align precisely with the way in which the UI program classifies root causes. The BAM survey collects data on state workforce agency actions associated with the processing of overpayments.

Table 3 displays the crosswalk between the OMB classification for Documentation and Administrative Errors and Verification Errors and the BAM data. No UI overpayments fit the definition of the Authentication and Medical Necessity Errors category.

Table 3: OMB-Specified Causes of Errors and BAM Data Crosswalk

Overpayment Causes (OMB Classification)	Percent of Overpayments
Documentation and Administrative Errors:	14.82%
Procedures Not Followed by Agency	5.26%
Agency Took Incorrect Action	8.07%
Other Agency Errors	1.37%
Agency Provided Incorrect Information	0.12%
Verification Errors:	85.18%
Issue Not Detectable By Agency Procedures	73.10%
Agency Had Documentation/Did Not Resolve Properly	8.08%
Agency In Process of Resolving	2.56%
New Hire Cross-Match	1.04%
Wage Record Cross-Match	0.40%

Table 4 reflects the root causes of UI overpayments. The Department classifies the root causes of UI overpayments according to the following categories:

Table 4: Root Causes of UI Overpayments

Annual Report Rate Overpayments	Percent of Overpayments (2012 IPIA Rate)
Benefit Year Earnings (BYE)	29.85%
Separation	21.18%
Work Search	20.55%
Employer Service Registration	6.81%
Able and Available	5.29%
Base Period Wages	4.98%
Other Eligibility Issues[1]	3.61%
All Other Issues[2]	7.73%
Total	100.00%

[1]Other Eligibility Issues include refusal of work, self-employment, failure to report for agency review or report requested information, citizenship status, and claiming benefits using a false identity.

[2]Other issues include adjustments to dependents' allowance, adjustments to benefits due to claimant receipt of income from severance pay, vacation pay, Social Security, or employer pension, back pay awards, payment during a period of disqualification, or agency redetermination of eligibility.

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 included:

- 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; and
- 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 unacceptably high overpayment rates.

Additionally, DOL has provided states with supplemental funding to implement strategies and technology-based infrastructure investments that will help the states to 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 2011, DOL provided approximately $110 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.

UI Program Letter (UIPL) No. 18-12, issued in May 2012, 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 FY 2011 to assist states in developing their own state-specific strategies to prevent, detect, and recover improper payments.

In September 2012 DOL ETA announced the award of $169.9 million in supplemental funding to 33 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;
- Implementation of the Treasury Offset Program (TOP); 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. All states audit 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) Benefit Year Earnings (BYE) Issues (claimants continuing to claim UI benefits after returning to work)

- National Directory of New Hires – This database is managed by the Department of Health and Human Services, Office of Child Support Enforcement. The NDNH has claims information as well as wage and new hire information from employers including the Federal government and military. States use this database to cross-match between the wage record data to detect unreported earnings and new hire data to identify individuals who continue to claim benefits after returning to work.
- State Directory of New Hires – This tool provides information similar to the NDNH, but only contains data reports from employers within the state.
- State Quarterly Wage Cross-Match – Paid claims are matched against the quarterly 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)

- 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

- State Department of Motor Vehicles – Helps verify the identity of the claimant.

- Social Security Administration (SSA) – Helps confirm identity and benefits from SSA.

- Systematic Alien Verification for Entitlement (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.

- State and Local Prison Records – Some states match claimant data against these records to prevent fraud in the program.

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

(4) Tax Fraud Detection

- State Unemployment Tax Act (SUTA) Dumping Detection System (SDDS) – Use of SDDS software helps detect employers who manipulate their tax rates by, for example, shifting employees from accounts with higher tax rates to accounts with lower tax rates.

- Worker Misclassification Programs – Includes audits and investigations to prevent worker misclassification by employers. Worker misclassification occurs when an employee is erroneously classified by an employer as a non-employee, which reduces UI tax revenue, as well as the worker's ability to receive UI benefits, worker's compensation, Social Security benefits, health insurance coverage, retirement coverage, and protection under the Fair Labor Standards Act.

(5) Reemployment and Continuing Eligibility

- Worker Profiling and Reemployment Services – A system designed to identify claimants who are likely to exhaust benefits and refer them to services designed to assist them in returning to work quickly.

- Reemployment and Eligibility Assessments – In-person claimant interviews conducted at the One-Stop Career Centers to review continuing UI eligibility and assess reemployment needs, including providing labor market information, assisting with the development of a work-search plan, and referral to reemployment services and/or training when appropriate.

IV. UI Improper Payment Reporting

Table 5 shows the Improper Payment Reduction outlook, for the UI program, for FY 2011 – FY 2015.

Table 5: UI Improper Payment Reduction Outlook FY 2011– FY 2015
($ in millions)

Program	FY 2011			FY 2012			FY 2013			FY 2014			FY 2015		
	Outlays	IP %	IP $	Outlays	IP%	IP$	Est Outlays	IP %	IP $	Est Outlays	IP %	IP $	Est Outlays	IP %	IP $
Unemployment Insurance	$114,140			$90,160			$54,770			$46,850			$47,100		
Annual Report Rate Overpayments		11.35%	$12,955		10.81%	$9,746		*	*		*	*		*	*
Underpayments		0.65%	$742		0.61%	$550		*	*		*	*		*	*
Operational Rate		6.22%	$7,100		5.99%	$5,401		*	*		*	*		*	*
Employment Service Registration		1.03%	$1,176		.74%	$664		*	*		*	*		*	*

Note: * Integrity rate targets for FY 2013 to FY 2015 will be set based on an alternative methodology explained in section II - UI Statistical Sampling.

Actual UI outlays in FY 2012 include no benefit payments under the EB, 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 – Statistical Sampling and applied to the estimated outlays for the fiscal year. UI rates are estimates based on a statistical survey of State UI, UCFE, and UCX payments. Because the claims processes and eligibility requirements are very similar for the EB, EUC08, and FAC programs, the estimated improper payment rates are assumed to generally reflect the accuracy of these benefit payments. These rates, which include full and partial overpayments, may overestimate the improper payments relating to FAC outlays ($1.92 billion in FY 2011; no benefits were paid under the FAC program in FY 2012), as the FAC payments are payable in full to claimants entitled to at least $1 in unemployment compensation.

An estimated 2.85% of UI benefits were overpaid due to fraud in FY 2012, compared with a 2.94% fraud rate in FY 2011. Overpayments due to fraud are included as part of both the Annual Report 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:

- Benefit Year Earnings (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.

- 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 SSNs with State and National Directories of New Hires, wage record files submitted each quarter by employers, matches with other databases, such as Workers Compensation and State Corrections, and other sources such as appeals, reversals and tips and leads. States collect overpaid claims through offsets of UI benefits, federal income tax refunds under TOP, state income tax offsets, and direct cash reimbursement from the claimant. From FY 2004 through FY 2011, approximately $6.016 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 2012, 17 states had implemented TOP and several others were in various stages of implementation. An estimated $134 million in UI overpayments were recovered through TOP in FY 2012.

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 6 provides an eight-year 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 6: 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%	$2,805,367,403	$1,175,555,423	41.90%
2011	$1,887,177,040	$997,967,260	52.88%	$2,957,910,114	$1,291,384,816	43.66%

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

The information reported on the ETA 227 report is based on actual counts of UI overpayments identified and recovered by the state agencies. This is in contrast to the estimates of UI overpayment rates and amounts that are reported for the 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.

Table 7 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 7: Comparison of UI/UCFE/UCX/EB and EUC Overpayments Established and Recovered
($ in billions)

Fiscal Year	UI/UCFE/UCX/EB Outlays	Overpayments Established* UI/UCFE/UCX/EB	Established As a Percent of Outlays	Overpayments Recovered	Recovered As a Percent of Established
2008	$38.88	$1.002	2.58%	$0.571	56.99%
2009	$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%
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	$0.899	1.25%	$0.210	23.31%
2011	$52.66	$1.071	2.03%	$0.293	27.40%

* Excluding waivers

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

- Many of these claimants have exhausted benefits, and therefore, states are unable to offset overpayments against their unemployment compensation payments.
- The legislation establishing the EUC program limits offsets to 50% of the amount payable to the claimant for the compensated week. The Middle Class Tax Relief and Job Creation Act of 2012 (Public Law 112-96) removed this restriction, which should increase recoveries of EUC overpayments beginning 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 the U.S. Department of Treasury's 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 establish 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 8 shows the payment recapture audit reporting for the UI program.

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

Status	Benefits (UI)
Amount Subject to Review for Current Year (CY) 2012 Reporting	$90,160
Actual 2012 Amount Reviewed and Reported	N/A
Amount Identified for Recovery in 2012	$2,928
Amount Recovered in 2012	$1,474
% of Amount Recovered Out of Amount Identified in 2012	$50.34%
Amount Outstanding in 2012	$1,923 (1)
% of Amount Outstanding Out of Amount Identified in 2012	65.68% (1)
Amount Determined Not to be Collectable in 2012	$993.8 (2)
% of Amount Determined Not to be Collectable Out of Amount Identified in 2012	33.94% (2)
Amounts Identified for Recovery in Prior Years (PYs) 2004-2011	$12,504
Amounts Recovered in PYs 2004-2011	$6,016
Cumulative Amounts Identified for Recovery (CY + PYs)	$15,432
Cumulative Amounts Recovered (CY + PYs)	$7,490
Cumulative Amounts Outstanding (CY + PYs)	$4,702 (3)
Cumulative Amounts Determined Not to be Collectable (CY & PYs)	$4,975 (2)

Note: Amounts include State UI, UCFE, UCX, EB, and EUC programs. Data for FY 2012 are estimated based on data submitted on the ETA 227 report for the period July 1, 2011, through June 30, 2012, the most recent period for which data are available.
(1) 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.
(2) 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).
(3) Includes total overpayments reported as outstanding on the ETA 227 and EUC 227 reports, line 313) as of the report date.

Table 9 shows the UI program's established annual targets which drive performance. The targets are based on the rate of recovery.

Table 9: Payment Recapture Audit Targets
($ in millions)

Type of Payment	Current Year 2012 Amount Identified	Current Year 2012 Amount Recovered	Current Year Recovery Rate (Amount Recovered / Amount Identified)	2012 Recovery Rate Target	2013 Recovery Rate Target	2014 Recovery Rate Target
UI Benefits	$2,928 (1) (2)	$1,474 (2)	50.34%	64%	72% 55% (3)	N/A 58% (3)

Note: Amounts include State UI, UCFE, UCX, EB, and EUC programs.
(1) Excludes amounts waived for recovery.
(2) Estimated for FY 2012 based on data for the period October 1, 2011 through June 30, 2012, the most recent period for which data are available.
(3) The first percentage represents the recovery target published in the 2011 AFR. The second percentage is the revised estimate based on additional data for the period October 1, 2011 through June 30, 2012.

Table 10 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 10: 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	$690.3 (1)	$553.2 (2)	$1,806.2 (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, 2012.
(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 11 describes the purpose for which recaptured funds were used.

Table 11: 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				$1,474		

Note: Amounts include State UI, UCFE, UCX, EB, and EUC programs. Estimated for FY 2012 based on data for the period July 1, 2011 through June 30, 2012, the most recent period for which data are available.
All recovered overpayments are returned to the state's UI Trust Fund or to the appropriate Federal account for the payment of future benefits.

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.

In response to the level of improper payments in the UI program, ETA developed a Strategic Plan to address the several root causes of improper payments which are described in detail in section III – Corrective Actions. In FY 2012, ETA continues to focus on the following integrity related activities and ensure the annual performance standards for managers include the completion of significant milestones for the projects listed below.

- 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 Benefit Accuracy Measurement 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 the ETA OUI Web site – www.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 Office of Unemployment Insurance (OUI) and in the elements and standards of numerous staff in that office.

- ETA has implemented a core performance measure for detection of overpayments by state UI programs. State performance data is available at the OUI Web site – oui.doleta.gov/unemploy/3yr_overpay.asp States that fail to meet the performance criterion submit corrective action plans. Analysis of state performance and monitoring of states' corrective actions continue to be evaluation factors in OUI managers' performance plans.

- ETA has developed additional performance measures that require states to: 1) 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; 2) meet the less than 10% improper payment rate criterion included in IPERA; and 3) meet a minimum UI overpayment recovery rate target.

- ETA has promoted and continues to promote cost effective methods for states to prevent, detect, and recover improper UI benefit payments. Development, delivery, and/or successful implementation of these initiatives by states have been and continue to be factors on which the OUI administrator and managers are evaluated. These initiatives are described in detail in section III – Corrective Actions.

- *National Integrity Conference:* In order to provide a forum for disseminating successful practices for preventing, detecting and recovering UI overpayments, ETA, 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 2010, the Department provided approximately $46.5 million to states in supplemental funding for integrity-related projects. In September 2011, the Department awarded $192 million in supplemental funding, which included $128 million awarded to three state consortia, and $63.5 million awarded to 42 state workforce agencies. These resources will fund activities to support the prevention, detection, and recovery of improper UI benefit payments, improve performance, and address outdated IT system infrastructures, all of which are necessary to improve UI integrity.

UI Program Letter (UIPL) No. 18-12, issued in May 2012, solicited state Supplemental Budget Request. UI integrity activities eligible for Supplemental Budget Request grants are discussed previously, in Section III, UI Correction Actions - Reducing Improper Payments in Unemployment Insurance. Based on positive outcomes from previous investments, the UIPL also invited states that commit to implementation of all of the core activities, or have already implemented the core activities, to submit Supplemental Budget Request proposals for consortium projects.

In September 2012, ETA announced the award of $169.9 million in supplemental funding to 33 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. Included in these awards are three consortia grants totaling $92.8 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 legislation affecting the UI program in 2012 was *The Middle Class Tax Relief and Job Creation Act of 2012 (Public Law 112-96), February 22, 2012.* The Act included several provisions affecting the UI program. A detailed description of the Act's provisions, DOL guidance, and other reference documents can be found on the OUI Web page - https://www.ows.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 is working with OMB on a new integrity legislative package that will provide both DOL and states with new tools to promote improved prevention, detection, and recovery of improper payments.

Workforce Investment Act Grant Program

I. WIA Risk Assessment

The Workforce Investment Act (WIA) grant program was classified as at-risk in OMB's Circular A-11, Section 57, due to its annual level of expenditures, although the Department's annual risk assessments have not supported the high-risk designation.

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 2012, the Department used the same methodology to estimate the improper payment rate for the WIA grant program as was used in FY 2011. This methodology is similar to previous measurements.

II. WIA Statistical Sampling

The following sampling was performed for the WIA grant program:

Sampling Process: Unlike the benefit programs, data is not readily available to allow the Department to directly sample grant payments to develop a statistically valid estimate of improper payments. The grant programs' funding stream makes it very difficult to assess the improper payment rate on payments to final recipients. The Department provides grants to states, cities, counties, private non-profits, and other organizations to operate programs, and relies significantly on Single Audit Act reports (which are required by the Single Audit Act of 1996[1])

[1] 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.

to monitor funding to all grant recipients. Based on a review of the definition of questioned costs in OMB Circular A-133 and OMB's IPIA implementation guidance, the Department determined that questioned costs can be used as a proxy for improper payments. Therefore, in FY 2012 the Single Audit Act reports, along with other data, were utilized to determine the improper payment rate for the WIA grant program.

The Department reviewed FY 2010 (most recent available) Single Audit Act reports with DOL-related findings from the Federal Audit Clearinghouse (which is the national repository of Single Audit Act reports) and identified all WIA program questioned costs included in such reports. As additional evidence that no other audit reports included questioned costs for the DOL grant programs, the Department selected and reviewed random samples of audit reports classified in the Clearinghouse database as not having any questioned costs. In addition to using the Single Audit Act reports, the Department performed additional analyses to assess the level of improper payments, including a review of the results of the monitoring work performed by the ETA regional staff responsible for managing the WIA program and the GAO and DOL OIG audit reports issued for the WIA program. To determine an approximate rate of improper payments for the grant programs, the Department divided the average annual amount of questioned costs from these sources by the three-year average of direct program outlays. The resulting improper payment rate (assumed to be representative of the FY 2012 rate) was applied to the WIA program outlays for FY 2012 to determine the estimated improper payment amount for FY 2012.

While the Department uses all sources of data currently available to estimate the improper payment rate, these sources are not designed to measure improper payments. For example, since all grantees are not tested every year, all improper payments may not be recorded.

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 2012 of 0.22% applies to two of OMB’s three categories of error, “Documentation and Administration Errors” at 0.216% and “Verification Errors” at 0.004%. No errors 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 cash management, sub-recipient monitoring, unallowable costs and insufficient documentation for participant payments.

Grant operations are monitored on a continuing basis to ensure that the grant activities conform to the requirements of the grant. 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 of the reviews are documented and sustained deficiencies may result in formal corrective active plans. The FPOs provide the written results of their reviews to regional management staff and the grantees as well as verbally discussing the deficiencies. A record of all of the above reviews (e.g., risk assessments, on-site reviews, annual desk reviews, and quarterly reviews) is maintained in E-Grants (in the GEMS sub-system), 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 the 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 A-133 audit reports (Single Audit Act reports) which report questioned costs and/or administrative weaknesses in need of correction. These items are followed up using the same determination process noted above, disallowed costs are forwarded for collection, and resolutions reported back to the OIG. In addition, these units participate in special grantee reviews and provide fiscal policy training for grantee and Federal staff.

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.

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

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 (FAC), which is administered by the Census Bureau and operates on behalf of the 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 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 Federal Audit 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 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 Past 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. The regional monitoring efforts produce a major source of improper payments data for the WIA program.

V. WIA Improper Payment Reduction Outlook

Table 12 shows the Improper Payment Reduction outlook, for the WIA program, for FY 2011 – FY 2015.

Table 12: Improper Payment Reduction Outlook FY 2011– FY 2015
($ in millions)

Program	FY 2011			FY 2012			FY 2013			FY 2014			FY 2015		
	Outlays	IP %	IP $	Outlays	IP%	IP$	Est Outlays	IP %	IP $	Est Outlays	IP %	IP $	Est Outlays	IP %	IP $
Workforce Investment Act	$4,123	0.31%	$12.4	$3,406	0.22%*	$7.5	$3,723	.44%	$16.4	$3,550	0.44%	$15.6	$3,384	0.44%	$14.9

*The WIA IP rate is comprised of overpayments of 0.218% and underpayments of 0.002%.

VI. WIA Recapture of Improper Payments Reporting

The WIA program is in the very early stage of IPERA payment recapture audits. 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 are feasible for various types of outlays. It was recommended that ETA improve its WIA improper payments program, including investing resources in training, additional staff, information technology, site visits, and payment recapture audits, if cost effective. At this stage, we do not have data to populate payment recapture audit tables; therefore, tables have not been provided.

For the WIA program, the identification of overpayments for recovery is primarily done through ETA's onsite monitoring activities, the Single Audit Act reports, and OIG program audits. From FY 2009 through FY 2012, approximately $1.4 million has been recovered for the WIA programs.

Table 13 displays overpayments recaptured outside of recapture audits.

Table 13: Overpayments Recaptured Outside of Payment Recapture Audits

Agency Source	Amount Identified (2012)	Amount Recovered (2012)	Amount Identified (2009-2011)	Amount Recovered (2009-2011)	Cumulative Amount Identified (2009-2012)	Cumulative Amount Recovered (2009-2012)
WIA Post-Payment Reviews	$4,605,627	$63,572	$20,045,567	$1,373,014	$24,651,194	$1,436,586

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.

VII. WIA Accountability

ETA has revised and expanded its training for all grant managers. GEMS tracks the grant managers' grant review actions and provides the grant managers with financial and other information useful in managing the grants. The ETA Division of Policy Review and Resolution has requirements in its closeout grant officer performance standards relating to the requirement to follow up on Single Audit Act, OIG or GAO audit findings and questioned costs relating to WIA grants, and the Director of the Office of Grant and Contract Management has overall responsibility for ensuring that these procedures are followed.

VIII. WIA Agency Information Systems and Other Infrastructure

The WIA program utilizes various tools to execute the risk management process to assess and monitor grantees. They include the web-based 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 E-grants solution for the entire Department. The GEMS system, mentioned also in Section III of this appendix, is an online grants management tool meant to provide web accessible, role-based context access to grant-related information from multiple sources. The utilization of the GEMS system by the Federal Project Officers and program management and financial staff allows ETA a coordinated and comprehensive repository of grant-specific information. ETA published a data validation supplement to the Core Monitoring Guide used by its Federal Project Officers (FPOs). The supplement includes a detailed appendix, or "Resource and Tool Guide", for use by FPOs. The appendix provides a step-by-step reference guide that provides the basis of training specific to data validation overall. ETA expects to complete field testing and implement the supplement in FY 2013.

IX. WIA Barriers

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

X. Other

Federal Employee's Compensation Act Program

1. FECA Risk Assessment

The FECA program is a workers' compensation program covering more than three million federal and postal employees. It authorizes medical benefits, income replacement, and certain supportive services to employees with work-related injuries or, in the case of deaths, survivor benefits to family members.

In FY 2012, the Department conducted a risk assessment of the FECA program to estimate the risk of improper payments. The process involved the following:

- FECA managers qualitatively assessed the risk of improper payments associated with (1) Payment processing controls, (2) internal monitoring controls, (3) Human capital, (4) Program complexity, and (5) Nature of payments.

- FECA managers reviewed the results of the most recent detailed testing of a random sample of FECA medical payments and compensation payments.[1] For medical payments, the sampling was designed to test issues such as duplicate payments, appropriate receipts, consistency with regional allowances, payments made for appropriate procedures, and eligibility at date of service. For compensation payments, the sampling was designed to test issues such as consistency with identified injury, current medical evidence supporting continued compensation payments, eligibility requirements, and calculations of compensation amounts.

- OCFO reviewed settled FECA fraud cases reported by the DOL OIG in Semiannual Reports to Congress for fiscal Years 2009, 2010, 2011 and for the spring 2012 (3.5 years of reports) to estimate the amount of improper payments due to fraud in the FECA program for a typical year.

Results:

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

- The improper payment amount projected though 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.

Based on the risk analysis, the FECA program was determined not to be risk susceptible in FY 2012.

DOL plans to design a revised methodology for performing detailed testing of the FECA program as the basis for estimating an improper payment rate for the program.

2. FECA Recapture of Improper Payments Reporting

During FY 2012, DOL conducted a limited scope pilot payment recapture audit of the FECA program Medical Invoice Process to determine the cost-effectiveness of performing a full scope recapture audit for these payments. DOL reviewed $1.8 million of paid medical invoices processed during the six-month period of January 1, 2011 and June 30, 2011. Based on the results of the audit, these payments appear to be a low-risk area for improper payments. However, this effort did not evaluate the potential for fraud or improper payments related to compensation or death benefit payments. Recent reports from both the Office of the Inspector General (OIG) and the Government Accountability Office (GAO) reported ongoing fraud in the FECA program. DOL should expand its payment recapture efforts to include other areas of possible FECA improper payments, including compensation and death benefit payments and the potential for fraud.

Contracts/Procurement Payments

1. Contracts/Procurement Recapture of Improper Payments Reporting

Payment Recapture Audits

In FY 2010 based on other post payment review processes, improper payments of approximately $5.9 million were identified for recovery, of which $5.6 million was actually recovered. DOL addressed the weaknesses identified and a new financial management system has enhanced the Department's ability to refine internal controls and conduct

[1] July 1, 2007 through June 30, 2008 was the most recent period for which detailed testing was performed for the FECA program. In FY 2009, OMB granted a waiver relieving the program from detailed testing in FY 2009 and FY 2010. In FY 2011, the program performed a risk analysis which showed that FECA had not become risk susceptible, so the program did not perform detailed testing in FY 2011.

frequent management reviews to identify and reduce the incidence of improper payments moving forward. As further evidence of the cost-effectiveness of performing payment recapture audits, 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 are based on overpayments identified and recaptured and will be paid out of recaptured funds. The audit covers disbursements for FY 2007 through 2011 consisting of approximately 200,000 invoices for about $2 billion in annual disbursements. The audit is currently ongoing. When completed, it will identify improper payments such as overpayments and duplicate payments. It will also identify discounts and pricing errors, duplicate vendor master records, and provide best practices for vendor-naming conventions and addresses and invoice coding standards. In addition, the audit firm will help DOL recapture overpayments and improve internal controls to prevent improper payments.

At the close of the audit, the audit firm will issue a final report identifying the root cause analysis of any recaptured items along with best practice recommendations for preventing future disbursement errors. The audit firm will also conduct an analysis of potential fraudulent or questionable vendors. The results of this analysis will be reported to DOL.

Do Not Pay Plan

The "Do Not Pay (DNP) Solution" is a new initiative under the improper payment program that will help prevent improper payments and/or identify and recapture improper payments. Presidential 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. OMB and the Department of the Treasury have developed DNP to provide Federal agencies with both a web-based single-entry access portal (Portal) to these existing databases to facilitate their use and additional data analytics.

At DOL, the DNP Solution will be 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.

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 Office of the Chief Financial Officer (OCFO) will facilitate development of a Plan for enrollment and implementation of the DNP Solution with affected DOL component agencies. DOL's Accountability Officer for Improper Payments, the Chief Financial Officer, is responsible for monitoring and concurring with any changes to the Department's DNP Plan. Component agencies will 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 will be responsible for implementation of the DNP Solution within their business processes and interfacing with their state stakeholders where appropriate.

The DNP Solution will be implemented in three phases. Phase 1 involves choosing a pilot program or activity from each of three major business areas in which the DNP Solution can be implemented. Planned pilot activities include:

1. Benefit Programs – Unemployment Insurance (UI) and Office of Workers' Compensation Programs (OWCP) benefit programs;
2. Grant Programs – Employment and Training Administration (ETA) grant programs;
3. Contracts – Department-wide procurement and contract payment activities.

Lessons learned from Phase 1 and best practices gained from the experience of other Agencies will be 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 the DNP Solution 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.

Do Not Pay Solution for the UI Program

DOL is coordinating with OMB and the Department of the Treasury to provide the DNP Solution to state agencies for identifying potential UI improper payments and/or fraud. The DNP Solution will be accomplished in phases. Phase 1 will include piloting the DNP Portal service in at least two states, as well as working with the DNP Solution's Data Analytics Services (DAS) to develop data analytics and predictive modeling methodologies and tools that are transferable and expandable to all states. During Phase 1, the two selected pilot states will conduct a value test for the use of the DNP Portal 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.

DOL is also in the process of establishing a UI Integrity Center of Excellence (Center) to continue to improve the prevention and detection of UI improper payments and fraud through the use of sophisticated data analytics and predictive modeling. The Center will:

- Collaborate with Treasury's Do Not Pay Solution 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.

DNP for the Black Lung Program

The Black Lung Program is currently using the Do Not Pay Portal to perform single online searches of the Social Security Administration's (SSA) Death Master File (DMF) to identify improper payments. The Black Lung Program plans to begin using the Portal for continuous monitoring of its beneficiary files after data exchange processes are established and after all required Memoranda of Understanding (MOU) are approved. DOL is hopeful that the processes will be set up and tested successfully, and that the necessary Departmental clearances of an MOU in both DOL and Treasury will be completed by the end of the first quarter of FY 2013.

SCHEDULE OF SPENDING

For the Years Ended September 30, 2012 and 2011
(Unaudited)

The Schedule of Spending presents an overview of how and where the Department is spending its money. The Schedule of Spending is presented on a budgetary basis, the same as the Combined Statement of Budgetary Resources (SBR). The amounts shown below as "Total amounts agreed to be spent" and "Total spending (outlays)" agree with amounts shown as "Obligations incurred" and "Outlays, gross" on the SBR.

(Dollars in millions)	2012	2011
Section I – What money is available to spend?		
This section presents resources that were available to spend by the Department.		
Total resources	$ 160,676	$ 195,312
Less amount available but not agreed to be spent	(1,821)	(1,252)
Less amount not available to be spent	(2,571)	(2,125)
Total amounts agreed to be spent	$ 156,284	$ 191,935
Section II – How was the money spent?		
This section presents services or items purchased and grouped for the Department's major programs based on outlays.		
Income maintenance		
Insurance claims and indemnities	$ 94,282	$ 120,731
Transfers among DOL funds	45,187	54,973
Personnel compensation and benefits	299	300
Contractual services and supplies	873	1,126
Grants, subsidies, and contributions	4,424	4,846
Other	1,524	1,508
Employment and training		
Personnel compensation and benefits	145	145
Contractual services and supplies	1,621	1,617
Grants, subsidies, and contributions	4,794	6,032
Other	267	136
Labor, employment and pension standards; worker safety and health; statistics; other		
Personnel compensation and benefits	1,460	1,433
Contractual services and supplies	968	943
Grants, subsidies, and contributions	293	321
Other	35	49
Total spending (outlays)	156,172	194,160
Amounts remaining to be spent	112	(2,225)
Total amounts agreed to be spent	$ 156,284	$ 191,935
Section III – Who did the money go to?		
This section identifies with whom the Department is spending money based on obligations incurred.		
Individuals	$ 93,358	$ 119,222
Transfers among DOL funds	45,187	54,973
States and local governments	7,926	7,845
Other federal agencies	2,763	4,640
Vendors and other	2,796	1,181
Employees	1,874	1,901
Higher education	1,388	1,256
Not-for-profit organizations	992	917
Total amounts agreed to be spent	$ 156,284	$ 191,935
Section IV – How was the money issued?		
This section presents how the obligations are issued or the payment type based on obligations incurred.		
Financial assistance direct payments	$ 93,235	$ 119,054
Transfers among DOL funds	45,187	54,973
Grants, subsidies, and contributions	10,664	10,420
Contracts	3,563	3,861
Non-financial assistance direct payments	1,911	1,880
Other	1,724	1,747
Total amounts agreed to be spent	$ 156,284	$ 191,935

Open Government Links

Department of Labor

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Hilda L. Solis - Secretary of Labor

The Secretary's Page - http://www.dol.gov/_sec/welcome.htm
In Her Words - 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 - http://twitter.com/#!/hildasolisdol/

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Featured Initiatives

Green Jobs - http://www.dol.gov/dol/green/
Recovery Act - http://www.dol.gov/recovery/
Open Gov - http://www.dol.gov/open/
Career One Stop - http://www.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/
Pension Benefit Guarantee Corporation - http://pbgc.gov/
Veterans' Employment and Training Service - http://www.dol.gov/vets/
Wage and Hour Division - http://www.dol.gov/whd/
Women's Bureau - http://www.dol.gov/wb/

DOL Regulations and Enforcement

DOL Regulations Search - http://www.regulations.gov/#!searchResults;a=DOL;rpp=10;so=DESC;sb=agency;po=0
DOL Enforcement Data - http://ogesdw.dol.gov/

Acronyms

BAM	Benefit Accuracy Measurement
BLDTF	Black Lung Disability Trust Fund
BLS	Bureau of Labor Statistics
BPC	Benefit Payment Control
COLA	Cost of Living Allowance
CPIM	Consumer Price Index - Medical
CSEOA	Community Service Employment for Older Americans
CSRS	Civil Service Retirement System
DNP	Do Not Pay Solution
DOL	Department of Labor
DVOP	Disabled Veterans' Outreach Program
EB	Extended Benefits
EBSA	Employee Benefits Security Administration
EEOICPA	Energy Employees Occupational Illness Compensation Program Act
ERISA	Employee Retirement Income Security Act
ESAA	Employee Security Administration Account
ETA	Employee and Training Administration
FAC	Federal Audit Clearinghouse
FECA	Federal Employees' Compensation Act
FERS	Federal Employee Retirement System
FFMIA	Federal Financial Management Improvement Act
FLC	Foreign Labor Certification
FMFIA	Federal Managers' Financial Integrity Act
FUA	Federal Unemployment Account
FUTA	Federal Unemployment Tax Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEMS	Grants Electronic Management System
ILAB	Bureau of International Labor Affairs
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
MSHA	Mine Safety and Health Administration
NCFMS	New Core Financial Management System
NDNH	National Directory of New Hires

NIOSH	National Institute for Occupational Safety and Health
OASAM	Office of the Assistant Secretary for Administration and Management
OASP	Office of the Assistant Secretary for Policy
OCFO	Office of the Chief Financial Officer
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
OPM	Office of Personnel Management
OSHA	Occupational Health and Safety Administration
OUI	Office of Unemployment Insurance
OWCP	Office of Workers' Compensation Programs
PBGC	Pension Benefit Guaranty Corporation
PPACA	Patient Protection and Affordable Care Act
RECA	Radiation Exposure Compensation Act
SBR	Statement of Budgetary Resources
SCSIA	Statement of Changes in Social Insurance Amounts
SFFAS	Statement of Federal Financial Accounting Standards
SIDES	State Information Data Exchange System
SOL	Office of the Solicitor
SOSI	Statement of Social Insurance
SSA	Social Security Administration
TAA	Transition Adjustment Assistance
TAP	Transition Assistance Program
TOP	Treasury Offset Program
UI	Unemployment Insurance
USERRA	Uniformed Services Employment and Reemployment Rights Act
UTF	Unemployment Trust Fund
VETS	Veterans' Employment and Training Service
WB	Women's Bureau
WHD	Wage and Hour Division
WIA	Workforce Investment Act

U.S. DEPARTMENT OF LABOR

AGENCY FINANCIAL REPORT

FISCAL YEAR 2012

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