UNITED STATES DEPARTMENT OF LABOR

AGENCY FINANCIAL REPORT

FISCAL YEAR 2014

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Message from the Secretary of Labor

For 101 years, a dynamic Labor Department has helped expand opportunity, strengthen the middle class and ensure that everyone who works hard has a chance to live out their highest and best dreams.

For a full picture of the Department's objectives and the steps we're taking to achieve them, I encourage you to visit DOL.gov and read our Fiscal Year 2014-18 Strategic Plan. The Strategic Plan provides a five-year outline of the specific, measurable and strategic outcomes and goals to which we are committed.

Things are busy at the Department. We are working hard to build a 21st century skills infrastructure that prepares people to succeed in the jobs of today and tomorrow. Just this fall, we announced $450 million in community college grants, which will help more people get the training they need to punch their ticket to the middle class. All in all this year, we're putting more than a billion dollars in grant money on the street, to help connect more ready-to-work Americans with ready-to-be-filled jobs. This summer, with a bipartisan vote, Congress passed the Workforce Innovation and Opportunity Act, further rejuvenating our workforce system, better aligning it with the needs of employers and ensuring that it is job-driven. This law is the first major reform of the public workforce system in fifteen years. Implementing it is a challenge the Department is ready to meet.

Thomas E. Perez
U.S. Secretary of Labor

The Department of Labor's 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."

We are also fighting every day to ensure that hard work is rewarded with a fair wage. We have completed the final rule to increase to $10.10 per hour the minimum wage for workers on federal service and construction contracts, even as we continue to make the strong case for legislation to raise the wage floor to $10.10 for all workers. We also continue to work on rules to give more workers access to overtime pay.

We have taken steps forward to protect workers' safety and health on the job. We completed a life-saving rule, decades in the making, to limit miners' exposure to coal mine dust and move us closer to eliminating black lung disease. We have also taken the next steps toward protecting workers from inhaling high levels of crystalline silica.

The Department's work to expand opportunity can only be successful if we deploy our resources in the most efficient and strategic way possible. That is why I am pleased to present the U.S. Department of Labor's FY 2014 Agency Financial Report. This is our annual publication to Congress and the American public demonstrating our operational record and financial stewardship of public funds. The information in this report explains how we manage our resources, highlights our major accomplishments, and outlines our plans to address the challenges ahead. It is with tremendous pride that I report that an independent audit of our financial statements has once again resulted in an unmodified "clean" opinion.

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 of 1982 and Office of Management and Budget Circular No. A-123. The results of management's assessment of internal controls and compliance of financial management systems is included in the *Management's Discussion and Analysis* section of this report. I am confident that the financial data and summary performance results are complete and reliable in accordance with federal requirements.

In addition to transparency tools like this financial report, we analyze our programs to determine whether we are providing the best return on investment to the American public. Each departmental agency has an evaluation agenda, designed to measure the impact of existing programs and activities. Quite simply, we are committed to doing what works. Our commitment to performance and quantifiable outcomes is summarized in the *Program Performance Overview* section of this report. For in-depth performance information, please see the Department's Annual Performance Report and Budget on DOL.gov.

I believe in the work of this Department, in the people who carry out that work, and in the financial integrity of our programs. I am excited about the work ahead. I look forward to continuing our efforts to create and expand opportunity for workers nationwide.

/S/
THOMAS E. PEREZ
U.S. Secretary of Labor
November 17, 2014

Management's Discussion and Analysis

UNITED STATES DEPARTMENT OF LABOR

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

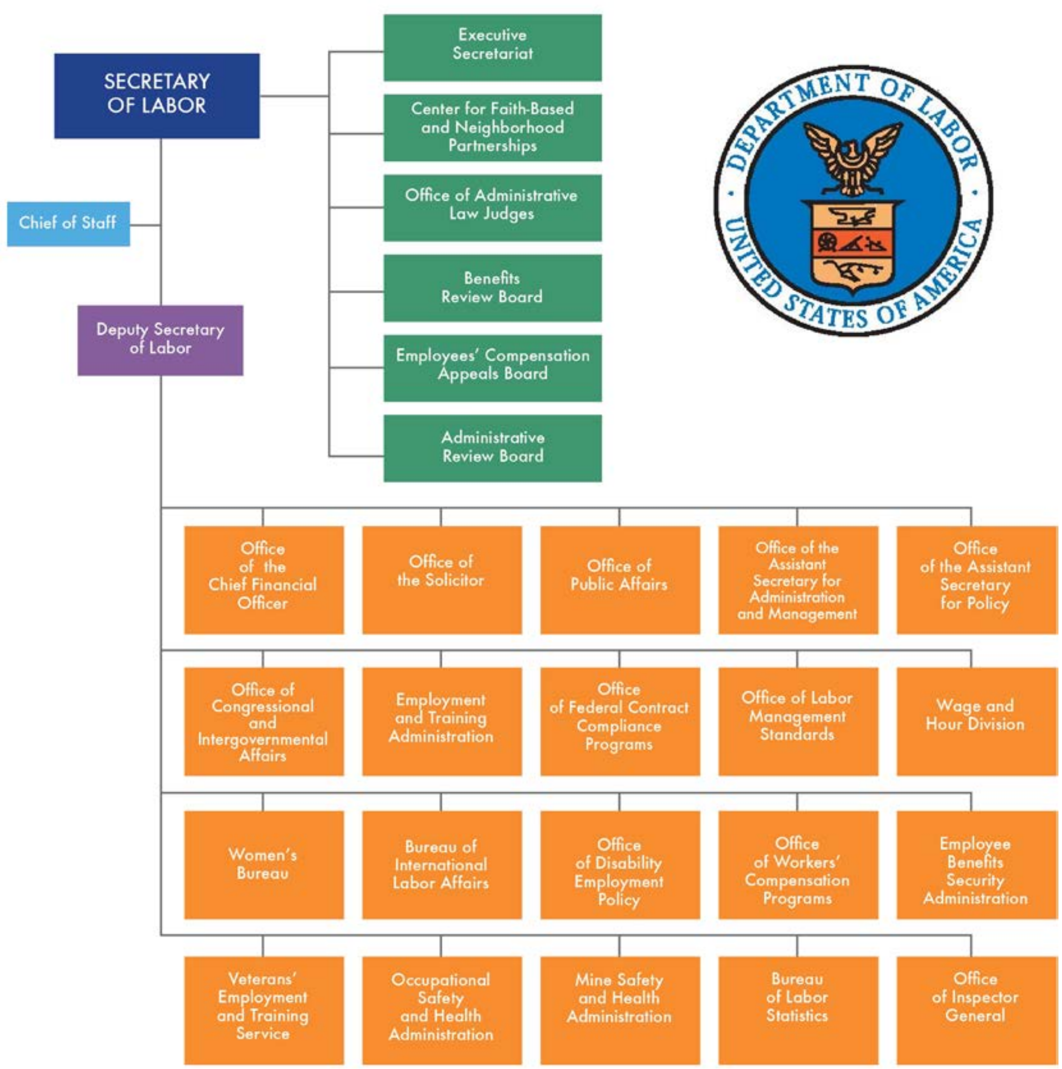
Mission Statement and Organizational Structure

DOL's mission remains as relevant today as at the Department's founding in 1913:

> "*To foster, promote and develop the welfare of the job seekers, wage earners and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work related benefits and rights*."

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

U.S. Department of Labor Organizational Chart



Program Performance Overview

The Program Performance Overview presents the Department's performance goals, objectives, and results. It discusses key performance measures and program priorities. This section includes results for measures related to spending as reported in the following Financial Section. Outcome data reported under the Government Performance and Results Act are included in the *Annual Performance Report*, which will be published in February 2015 with the Fiscal Year (FY) 2016 Congressional Budget Justification. A third report, the *Summary of Performance and Financial Information for Fiscal Year 2014*, will be available on February 16, 2015. All three reports will be posted at http://www.dol.gov/dol/aboutdol/#budget.

The Department's current five-year Strategic Plan- http://www.dol.gov/_sec/stratplan/ includes five strategic goals and 10 strategic objectives that support the Secretary's vision of *promoting and protecting opportunity* for all workers and employers. These goals are presented in the following table:

STRATEGIC GOAL 1: Prepare workers for better jobs.
1.1. Advance employment opportunities for US workers in the 21st century demand sectors and occupations using proven training models through increased employer engagement and partnerships. 1.2. Provide marketable skills and knowledge to increase workers' incomes and help them overcome barriers to the middle class through partnerships among business, education, labor, community organizations, and the workforce system. 1.3. Advance workers' rights, acceptable work conditions, and livelihoods, particularly for the world's vulnerable populations.
STRATEGIC GOAL 2: Improve workplace safety and health.
2.1. Secure safe and healthy workplaces, particularly in high-risk industries.
STRATEGIC GOAL 3: Promote fair and high-quality work environments.
3.1. Break down barriers to fair and diverse work-places and narrow wage and income inequality. 3.2. Protect workers' rights. 3.3. Secure wages and overtime.
STRATEGIC GOAL 4: Secure retirement, health, and other employee benefits and, for those not working, provide income security.
4.1. Provide income support when work is impossible or unavailable and facilitate return to work. 4.2. Improve health benefits and retirement security for all workers.
STRATEGIC GOAL 5: Produce timely and accurate data on the economic conditions of workers and their families.
5.1. Provide sound and impartial information on labor market activity, working conditions, and price changes in the economy for decision making, including support for the formulation of economic and social policy affecting virtually all Americans.

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

The Program Performance Overview organizes DOL program agencies into five categories that report FY 2014 performance data. The Department's mission is also supported by administrative, policy, legal, public affairs, and Congressional liaison offices.

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

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

EMPLOYMENT & TRAINING

Employment and Training Administration (ETA)

ETA provides employment assistance, labor market information, and job training through the administration of programs authorized by the Workforce Investment and Opportunity Act of 2014 (WIOA) for adults, youth, dislocated workers, and other targeted populations. ETA administers Job Corps; Trade Adjustment Assistance (TAA); Employment Services (ES) authorized under the Wagner-Peyser Act; Foreign Labor Certification activities; the Community Service Employment for Older Americans program (CSEOA); and Apprenticeship programs. These programs support the Department's Strategic Goal 1, *Prepare workers for better jobs* and the associated Strategic Objectives 1.1, *Advance employment opportunities for US workers in the 21st century demand sectors and occupations using proven training models through increased employer engagement and partnerships*, and 1.2, *Provide marketable skills and knowledge to increase workers' incomes and help them overcome barriers to the middle class through partnerships among business, education, labor, community organizations, and the workforce system*.

Percent of Grant Reports Issued by Regional Offices – The ETA Regional Offices monitor grants to ensure compliance with Federal statute and regulations and assess performance progress through enhanced desk monitoring reviews and onsite monitoring reviews. ETA's strategy is to monitor 100 percent of all active grants within a four year cycle.

In FY 2014, ETA Regional Offices monitored 28.45 percent of all active grants assigned to the regions, compared to 32.48 percent in FY 2013 and 25.00 percent in FY 2012.

Strategic Goal 1: Prepare workers for better jobs						
Measure	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Percent of Grant Monitoring Reports Issued by Regional Offices	--	--	--	25.00%	32.48%	28.45%

Looking Forward: In 2015, ETA will build upon 2014 efforts to implement the President's Job-Driven Training Agenda and the recently enacted WIOA. In accordance with DOL's industry-recognized credentials priority goal, ETA continues to focus on increasing the percentage of training program completers who attain industry-recognized credentials by 10 percent. Through the American Apprenticeship Grants, ETA will build on successful Registered Apprenticeship models, drive ongoing innovation, and support state and regional strategies to expand quality apprenticeships.

Veterans' Employment and Training Service (VETS)

VETS is committed to the Nation's responsibility to meet the employment, training, and job security needs of Americans who have served in uniform. VETS prepares transitioning service members and military spouses for civilian employment and provides employment and training services to eligible veterans. VETS also protects service members and veterans by ensuring employers respect their rights to employment and reemployment; and ensures that federal employers give appropriate preferential hiring to veterans. VETS supports the Department's Strategic Goal 1, *Prepare workers for better jobs,* and the associated Strategic Objective 1.1, *Advance employment opportunities for US workers in the 21st century demand sectors and occupations using proven training models through increased employer engagement and partnerships.*

VETS tracks timeliness and quality measures for its Uniformed Services Employment and Reemployment Rights Act (USERRA) program. To provide prompt resolution for both claimants and employers, VETS strives to complete USERRA investigations within 90 days. For cases that require investigation beyond 90 days, investigators ensure claimants are consulted to approve an extension. Additionally, VETS conducts a review of a sampling of cases each quarter to ensure that cases meet the quality standards set by the Agency.

In FY 2014, the timeliness of investigations was negatively impacted by the government shutdown, which occurred in the first quarter of the year. Performance for that quarter was 81 percent, the lowest on record. Despite this, performance in the final three quarters of the year raised performance to a level exceeding three of the past five years. The quality of investigations continues to increase as well, as quality reviews become institutionalized in the work of individual investigators nationwide. In FY 2014, VETS expanded the best practice of monthly regional conference calls to discuss USERRA timeliness and quality of investigations, which has had a positive effect on both outcomes.

Strategic Goal 1: Prepare workers for better jobs						
Measure	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Percent of USERRA Investigations Completed Within 90 Days	86%	84%	87%	89%	89.6%	88.0%
Percent of Closed USERRA Cases Meeting Agency's Quality Standard	--	--	--	83%	83%	91.5%

Looking Forward: VETS has a goal to increase the percent of participants who receive intensive services from Disabled Veterans' Outreach Program (DVOP) specialists to 90 percent by September 30, 2016. While American Job Centers continue to make progress toward this target, VETS is also working with ETA to implement WIOA. As part of this act, the types of services provided by American Job Centers, currently "core services" and "intensive services," have been consolidated under the new label of "career services." Upon determining the impact of these changes, VETS and ETA will release guidance to State Workforce Agencies regarding the intensive services target.

WORKER PROTECTION

Office of Federal Contract Compliance Programs (OFCCP)

OFCCP ensures that nearly 200,000 contractor facilities and locations provide equal employment opportunities leading to a fair and diverse workplace. OFCCP administers and enforces three legal authorities that require equal employment opportunity: Executive Order 11246, as amended; Section 503 of the Rehabilitation Act of 1973, as amended; and the Vietnam Era Veterans' Readjustment Assistance Act (VEVRAA) of 1974, as amended. Together, these laws ban discrimination and require Federal contractors and subcontractors to take affirmative action to ensure that all individuals have an equal opportunity for employment, without regard to race, color, religion, sex, gender identity, sexual orientation, national origin, disability, or status as a protected veteran. OFCCP supports the Department's Strategic Goal 3, *Promote fair and high-quality work environments* and the associated Strategic Objective 3.1*, Break down barriers to fair and diverse work-places and narrow wage and income inequality*.

OFCCP's compliance evaluations and complaint investigations play a critical role in measuring Federal contractor compliance with legal obligations under these authorities. In FY 2014, OFCCP staff continued to build knowledge and experience in investigating systemic cases of pay discrimination. These efforts are a further step in the agency's long-term goal to commit the majority of its pay investigation resources to large systemic cases with a greater potential to impact more workers. These cases require additional time and resources; they demand much more sophisticated fact-finding and analysis than do the individual pay cases. Despite the lower number of evaluations, the number of impacted employees increased from 9,268 in FY 2013 to 22,952 in FY 2014.

Strategic Goal 3: Promote fair and high quality work environments						
Measure	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Compliance Evaluations	3,917	4,960	4,014	4,017	4,345	3,985

Looking Forward: In FY 2015, OFCCP will continue to emphasize the strategic priority of investigating a greater proportion of systemic pay discrimination cases, as compared to individual pay discrimination cases. OFCCP will also focus on Mega Construction Projects, which have the potential for better success in increasing the representation of minorities, women, people with disabilities, and protected veterans in skilled trades through effective recruitment and training.

Occupational Safety and Health Administration (OSHA)

OSHA is authorized by the Occupational Safety and Health Act of 1970 to assure safe and healthful conditions for working men and women by setting and enforcing standards and providing training, outreach, education, and technical assistance. OSHA aims to reduce the number of work related illnesses, injuries, and fatalities and contributes to the broader goal to promote competitiveness of our nation's economy. OSHA supports the Department's Strategic Goal 2, *Improve workplace safety and health,* and Strategic Goal 3, *Promote fair and high quality work environments,* and related Strategic Objectives 2.1, *Secure safe and healthy workplaces, particularly in high-risk industries* and 3.2, *Protect workers' rights*. The most recent data for key measures of OSHA's activity – the number of safety and health inspections – are presented in the table below.

Safety inspections conducted in general industry and construction take place in a variety of high-hazard industries, such as the chemical and refinery industries; industries that generate combustible dust; oil and gas well drilling; commercial construction; highway, street, bridge, and tunnel construction; arborist and logging work; water, sewer, pipeline, communications (including telecommunications), and power line construction; power distribution and generation; wind energy; forging; steel manufacturing; food manufacturing; grain handling; demolition;

warehouses; and nursing homes. There are a multitude of serious safety hazards that workers can be exposed to in these industries.

Health inspections are conducted in general industry and construction and address hazards such as chemical hazards, biological hazards (e.g., blood borne pathogens and tuberculosis), physical hazards (e.g., noise, radiation, and heat and cold stress), and ergonomic hazards (e.g., patient handling, repetitive motion, excessive force, and awkward postures). Safety and health inspections increased from FY 2008 through FY 2012, but dropped in FY 2013 due to sequestration. In FY 2014, OSHA committed to addressing more health hazards through the more complex and resource-intensive health inspections process. This shift led to a slight reduction in safety inspections. Additionally, the government shutdown at the beginning of the fiscal year had an impact on the decreasing number of health and safety inspections. Toward the end of FY 2014, OSHA concentrated its efforts on closing existing cases. This production did not impact results for either measure, which track inspections initiated, not their completion.

Strategic Goal 2: Improve workplace safety and health, and Strategic Goal 3: Promote fair and high-quality work environments						
Measure	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Total Number of Safety Inspections Conducted	33,221	34,320	33,341 [r]	33,580	31,948	29,240[1]
Total Number of Health Inspections Conducted	5,783	6,649	7,317	7,381	7,280	6,809[1]

[1]Preliminary results. Final FY 2014 results will be included in the FY 2016 Congressional Budget Justification.

[r] Indicates revised result from the FY 2013 AFR.

Looking Forward: In FY 2015, OSHA will continue to target the most hazardous worksites and focus on complex hazards that require significant resources, such as cases that involve heat stroke hazards, chemical and biological hazards, process safety management hazards, ergonomic hazards, and fatalities, serious injuries, and illnesses.

Wage and Hour Division (WHD)

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

WHD investigators, supervisors, analysts, technicians, and administrative employees enforce and administer the minimum wage, overtime and child labor provisions of the Fair Labor Standards Act (FLSA); the prevailing wage requirements and wage determination provisions of the Davis Bacon and Related Acts (DBRA) and Service Contract Act (SCA); the wages and working conditions under the Migrant and Seasonal Agricultural Worker Protection Act (MSPA); and the Employee Polygraph Protection Act (EPPA). WHD also enforces the field sanitation and temporary labor camp standards in agriculture and certain employment standards and worker protections of the Immigration and Nationality Act (INA). WHD's enforcement responsibilities directly contribute to the Department's Strategic Goal 3, *Promote fair and high–quality work environments*, and related Strategic Objectives 3.2, *Protect workers' rights*, and 3.3, *Secure wages and overtime.*

To be effective in securing compliance, WHD continues to prioritize conducting directed investigations focused on new business models characterized by the use of subcontracting, franchising, temporary employment, labor suppliers, independent contracting, and a contingent workforce. These business models, where companies outsource key aspects of their production, often lead to less compliance with wage and hour related statutes. The first measure below is directed investigations as a percentage of all investigations conducted. In FY 2014, WHD fell below FY 2013 performance (by less than 1 percent) for "Percent of Directed Investigations", but still maintained increases from the four years prior to FY 2013. WHD continued moving resources to directed investigations and prioritizing complaints that point to systemic violations.

The second measure reflects WHD's commitment to maintaining an increased presence in those industries where the misclassification of employees as independent contractors is prevalent, such as the janitorial and residential construction industries. Misclassification adversely affects a worker's ability to receive Unemployment Insurance and Social Security benefits, workers' compensation, health insurance and retirement coverage, and protection under the Fair Labor Standards Act. In FY 2014, WHD continued to increase the "Percent of Directed Investigations in Industries with a High Prevalence of Misclassified as Independent Contractors". WHD has and will continue to focus its presence in those industries that have developed business practices to avoid classifying and treating workers as employees, including those in which employees are misclassified as independent contractors. WHD has established Memorandums of Understanding (MOUs) with Federal and state agencies. These MOUs have and will continue to advance coordination and communication around misclassification between WHD and its MOU counterparts.

Strategic Goal 3: Promote fair and high-quality work environments						
Measure	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Percent of Directed Investigations[1]	35.21%	26.72%	29.21%	40.63%	44.19%	43.51%
Percent of Directed Investigations in Industries with a High Prevalence of Employees Misclassified as Independent Contractors[2]	10.41%	16.68%	21.07%	19.98%	19.08%	21.06%

[1] Prior year data reflect measure revision. Results now exclude conciliations – a customer service function performed by WHD technicians, not investigators.
[2] Changes to FY 2009-11 results from those in FY 2013 AFR attributed to previous rounding.

Looking Forward: The employment relationship has changed enormously. The modern workplace in many industries is no longer a brick and mortar company owned and operated by a single employer. Instead, employment has fissured apart, as companies have shed activities to be done by other businesses. Often those secondary businesses deepen the fissures even further. Fissuring arises from a variety of business organizations: subcontracting, temporary agencies, labor brokers, franchising, licensing, and third party management. It may lead to misclassification of employees as independent contractors in a variety of ways. Employment relationships are more tenuous and the workforce becomes vulnerable to violations of even the most basic protections of our laws. Ensuring that workers receive a fair day's pay for a fair day's work in the millions of workplaces covered by the FLSA and other laws administered by the WHD has always been challenging. The fissured workplace and its ripple effects present new enforcement challenges for WHD.

WHD has three strategic priorities to meet these challenges:

1. Ensuring that the regulatory agenda of providing a fair day's pay for a hard day's work is fully and properly implemented;
2. Building a strategic enforcement system that supports the agency's mission, vision, and values; and
3. Providing support for key initiatives such as government contracts, addressing the fissured workplace, and modernizing WHD's approach in program enforcement areas.

The agency's priorities are supported by performance measures to monitor the organization's progress in achieving strategic enforcement and compliance outcomes. WHD has used a balance of measures to evaluate whether the agency is effective, productive, and consistent in applying new policies and strategies. WHD has consistently prioritized enforcement resources in those industries defined by their fissured structures. The increased level of directed investigations, has increased the agency's presence in those priority industries. By focusing on priority industries, WHD also increases the likelihood of detecting instances of misclassification.

Employee Benefits Security Administration (EBSA)

EBSA protects more than 142 million workers, retirees, and their families which are covered by nearly 677,000 private retirement plans, 2.4 million health plans, and similar numbers of other welfare benefit plans which together hold estimated assets of $8.4 trillion. EBSA's proactive enforcement, outreach, and education programs protect the most vulnerable populations while ensuring broad compliance with the Employee Retirement Income Security Act of 1974 (ERISA) and related laws. In particular, EBSA's enforcement program targets the most egregious and persistent violators; protects the most vulnerable populations while assuring broad-based compliance; and establishes regular processes for evaluating the success of enforcement activities. EBSA supports the Department's Strategic Goal 4*, Secure retirement, health, and other employee benefits and, for those not working, provide income security* and related Strategic Objective 4.2, *Improve health benefits and retirement security for all workers*.

EBSA's enforcement program seeks to detect and correct violations of ERISA through the conduct of civil and criminal investigations. Historical data for two performance measures, "Criminal Investigations Processed" and "Civil Investigations Processed," are shown in the table below. In FY 2014, EBSA focused its enforcement resources on National Projects (including expansion of health investigations initiated pursuant to Health Benefits Security) and the Major Case Enforcement Priority. The Major Case Enforcement Priority concentrates resources on cases with the greatest impact on the protection of plan assets and plan participants.

Strategic Goal 4: Secure retirement, health benefits, and other employee benefits and, for those not working, provide income security						
Measure	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Number of Criminal Investigations Processed	287	281	302	318	320	364
Number of Civil Investigations Processed	3,669	3,112	3,472	3,566	3,677	3,923

Looking Forward: In FY 2015, EBSA will implement performance measurement changes designed to increase the effectiveness of its enforcement program while avoiding reliance on raw case numbers. As a result, the new enforcement program measures/indicators will focus on the areas of: prompt detection and pursuit of violations, effective targeting to detect violations, the successful pursuit of monetary recoveries, non-monetary results that promote compliance with ERISA, and the aggressive and timely pursuit of participant tips and complaints.

Mine Safety and Health Administration (MSHA)

MSHA protects the safety and health of the nation's miners under the provisions of the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response (MINER) Act of 2006. MSHA focuses on the prevention of death, disease, and injury from mining and on promoting safe and healthful workplaces for the Nation's miners. MSHA supports the Department's Strategic Goal 2, *Improve workplace safety and health* and Strategic Goal 3, *Promote fair and high-quality work environments,* and related Strategic Objectives 2.1, *Secure safe and healthy workplaces, particularly in high-risk industries* and 3.2, *Protect workers' rights.*

MSHA is required to conduct four complete inspections annually at active underground mines and two complete inspections annually at active surface mines. The table below shows the number of inspections for Coal vs. Metal and Nonmetal mine types. Fluctuations in the number of inspections over time reflect variation in the number of mines operating during any given time period. Except for the first quarter, when the government shutdown prevented inspections, MSHA performed all mandated inspections.

Strategic Goal 2: Improve workplace safety and health, and Strategic Goal 3: Promote fair and high-quality work environments						
Measure	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Regular Mandated Coal Mine Inspections	5,526	5,121	5,139	5,117	4,658	4,176
Regular Mandated Metal and Nonmetal Mine Inspections	17,168	16,127	16,269	16,620	16,624	16,253

Looking Forward: By September 30, 2015, MSHA aims to reduce worker fatality rates in mining by five percent based on a rolling five-year average. MSHA will use the following strategies in pursuit of achieving this target: increasing inspection and enforcement effectiveness, strengthening and modernizing training and education, improving mine emergency response preparedness, strengthening health and safety regulations, increasing efforts to protect miners from discrimination, and supporting open government.

Office of Labor-Management Standards (OLMS)

OLMS protects the rights of American workers by administering the Labor-Management Reporting and Disclosure Act (LMRDA) and related laws, which safeguard union democracy and union financial integrity. OLMS supports the Department's Strategic Goal 3, *Promote fair and high-quality work-life environments,* and related Strategic Objective 3.2, *Protect workers' rights*.

OLMS focuses audit resources by using advanced targeting techniques to identify the unions most likely to be subject to a violation of the law. The success of audit targeting strategies is measured by "Percent of Audits Resulting in a Criminal Case (Fallout Rate)." Since the implementation of this performance measure, OLMS has consistently increased the fallout rate, reaching its highest percentage to date in FY 2014.

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

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

Strategic Goal 3: Promote fair and high-quality work environments						
Measure	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Percent of Audits Resulting in a Criminal Case (Fallout Rate)	--	--	14.9%	13.8%	20.9%	21.7%
Number of Days to Resolve Union Officer Election Complaints	70	81	79	71	71	72
Percent of LMRDA Reports Filed Electronically	--	--	21.4%	37.8%	42.4%	45.0%

Looking Forward: These results measure progress in the three OLMS high priority programs. In the future, OLMS will focus its efforts on continued improvements. For its fallout measure, OLMS will continue to refine the targeting techniques in an effort to continue, saving resources directed at audits and redirecting these saved resources to high priority programs. While efforts to work closely and cooperatively with the Office of the Solicitor have resulted in dramatic improvement in election case processing, OLMS will explore additional areas of mutual cooperation. OLMS also continues to coordinate efforts between and among National Office and field staff. In the past, these efforts have expedited processing and OLMS believes that by enhancing this coordination and looking for additional areas of increased efficiency, the number of elapsed days can be further reduced. Finally, in FY 2014, OLMS allocated greater resources to its Voluntary Compliance Program (VCP), a cooperative effort with 42 international and national unions designed to provide targeted outreach to their affiliates, with one goal being fostering greater use of the electronic filing capabilities of the OLMS web site.

POLICY

Women's Bureau (WB or Bureau)

The mission of the Women's Bureau is to develop policies and standards and conduct inquiries to safeguard the interests of working women, advocate for their equality and economic security for themselves and their families, and promote quality work environments. The Bureau is the only Federal office dedicated to serving and promoting the interests of women in the workforce. The Bureau supports the Department's Strategic Goal 3, *Promote fair and high-quality work environments* and Strategic Objective 3.1, *Break down barriers to fair and diverse work places and narrow wage and income inequality*.

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

Office of Disability Employment Policy (ODEP)

ODEP utilizes data and evidence to promote the adoption and implementation of policy strategies and effective practices that will positively impact the employment of people with disabilities. ODEP develops effective policy and practices, conducts outreach to share this critical information, and provides technical assistance to all levels of government, service providers and non-governmental organizations, and employers. These ODEP activities support the Department's Strategic Goal 3, *Promote fair and high-quality environments* and the associated Strategic Objective 3.1, *Break down barriers to fair and diverse work-places and narrow wage and income inequality*.

ODEP develops, evaluates, and disseminates policy strategies and effective practices to increase the number and quality of job opportunities for people with disabilities. ODEP's key measures are the numbers of "Policy Outputs", "Effective Practices", and "Formal Agreements." "Policy Outputs" are recommendations for significant policy change or an interpretation of existing policy related to disability employment – which could be legislation, regulations, policy guidance and executive orders, or memoranda. "Effective Practices" are ODEP developed strategies, models or theories that lead directly to an identified outcome and have a documented record of success or validated effectiveness. "Formal Agreements" are collaborations between ODEP and external agencies or nonprofit organizations that are formalized through memoranda of understanding, inter/intra-agency agreements, public private partnership agreements, or alliance agreements.

ODEP has markedly increased its policy outputs, capitalizing on interest by states in implementing effective practices that prioritize competitive, integrated employment and interest by employers in hiring people with disabilities spurred by new regulations. The majority of ODEP work in 2014 was in a later stage in the logic model. This involved producing policy outputs using validated effective practices and existing partners. As a result, there was a decrease in new formal agreements and effective practices.

Strategic Goal 3: Promote fair and high-quality work environments						
Measure	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Policy Outputs	39	35	42	39	54	125
Effective Practices	15	23	44	131	192	147
Formal Agreements	17	30	29	30	103	86

Looking Forward: In FY 2015, ODEP's initiatives and projects include improving community college education and employment opportunities for people with disabilities; providing technical assistance to employers; and disseminating information that counters negative perceptions of hiring people with disabilities. ODEP will also provide support and technical assistance for Executive Order 13548 regarding the recruitment, hiring, and retention of people with disabilities.

Bureau of International Labor Affairs (ILAB)

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

ILAB has three major strategies for achieving its goal: (1) promoting labor standards through an integrated approach; (2) combatting child labor, forced labor, and human trafficking through integrated approaches and evidence; and (3) improving workers' rights through targeted labor policy engagement. ILAB supports the Department's Strategic Goal 1, *Prepare workers for better jobs*, and Strategic Objective 1.3, *Advance workers' rights, acceptable work conditions, and livelihoods, particularly for the world's vulnerable populations.*

Looking Forward: ILAB has adopted an integrated approach that combines efforts to amend laws and strengthen enforcement with activities to assist worker organizations, improve industrial relations, effectively engage companies, and raise awareness about worker rights. In FY 2015, ILAB will continue efforts to monitor and enforce worker rights, provide technical assistance and cooperation including the oversight of $362 million in grants for 68 projects in 66 countries, represent the United States in various international meetings, and provide relevant research and awareness raising including the Trade and Development Act Child Labor Report.

BENEFITS

Office of Workers' Compensation Programs (OWCP)

OWCP is comprised of four separate programs that provide workers' compensation benefits supporting the Department's Strategic Goal 4*, Secure retirement, health, and other benefits and, for those not working, provide income security,* and Strategic Objective 4.1, *Provide income support when work is impossible or unavailable and facilitate return to work*:

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

One of the Federal Employees' Compensation Act program's principal focus areas is to provide disability management intervention and rehabilitative and placement services to assist with injury recovery and to facilitate the return to work of the individuals who sustained an injury or illness. Two measures used to monitor progress in this area are Return to Work (RTW) rates, expressed as the share of injured workers returned to work within two years of injury, and Lost Production Day (LPD) rates, expressed as days of lost production and wages in the first year following injury per 100 employees. These measures have been used over the last several years and provide valuable information on the effectiveness of OWCP's and Federal employers' return to work activities and the overall incidence and severity of workplace injuries for Federal employees. In FY 2014, RTW activities were significantly impacted by sequestration, the government shutdown and ongoing budget reductions. OWCP will continue to place a strong emphasis on RTW; and will carefully monitor progress and work with agencies to leverage best practices and implement new methods and tools.

The Longshore and Harbor Workers' Compensation Act program focuses on employer performance to ensure that injury reports and first payment of benefits are timely and that disputed claims are resolved as quickly as possible. The Percent of First Payment of Compensation for Defense Base Act cases 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 improved over 20 percentage points, and the program expects performance to continue to improve in FY 2015. In the area of first payments, Defense Base Act cases presented significant challenges in FY 2014. Due to security issues, limited access to injured workers and their dependents, as well as limited banking infrastructure, there was a slight decline in the delivery of first payments.

The Black Lung Program monitors the timeliness of black lung disease claim processing through a key measure, Average Time to Render Proposed Decision and Order (PDO) on Black Lung claims. The Patient Protection and Affordable Care Act (PPACA) of 2010 has increased the average time for Black Lung claims decisions, as it reinstated two provisions in the Black Lung Benefits Act favorable to claimants. This change led to a 70 percent increase in claims received – 4,354 claims filed in FY 2009 (pre-PPACA) compared to FY 2014's 7,394 claims.

In FY 2014, the average time to render Black Lung PDO increased as the agency balanced increasing workload, quality and timeliness. OWCP implemented quality control measures, requiring additional development of evidence to ensure that the best and most accurate decisions were issued. The implementation of a focused quality review process also added additional time, leading to an average processing time of 234 days, up from 221 in FY 2013.

The Energy Employees Occupational Illness Compensation Act program has joint timeliness measures with DOE and the National Institute for Occupational Safety and Health (NIOSH), as each partner agency has a role in final claims decisions. The below reported measure focuses on shortening the overall time to make claims decisions through improving program coordination. A priority focus for the program is to reduce the time required to process cases that are sent to NIOSH for dose reconstruction that require an oral hearing. The average number of days between filing date and final decision for cases sent to NIOSH when a hearing was held was 469 days in FY 2014, representing a slight increase from FY 2013, but more than 15 and 24 percent declines from FYs 2012 and 2011, respectively. (See Strategic Goal 4 on next page.)

Strategic Goal 4: Secure retirement, health benefits, and other benefits and, for those not working, provide income security						
Measure	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Government-Wide LPD Rate in Non-Postal Agencies	35.8	34.6	33.8	34.8	34.6	34.5[1]
Government-Wide Share of Injured Workers Returned to Work Within Two Years of Injury	85.8%	89.7%	91.6%	91.5%	91.9%	90.7%
Percent of First Payment of Compensation issued Within 30 days for Defense Base Act	43%	55%	56%	63%	67%	63%
Average Time to Render Proposed Decision and Order on Black Lung Claims (days)	201	210	238	262	221	234
Average Number of Days Between Filing Date and Final Decision for Cases Sent to NIOSH When a Hearing is Held	--	--	619	552	452	469

[1] Preliminary results. Final FY 2014 results will be included in the FY 2016 Congressional Budget Justification.

Looking Forward: In FY 2015, OWCP will continue to chair the Protecting Our Workers and Ensuring Reemployment (POWER) Return to Work Council, consisting of representatives from the 14 executive branch agencies; expand the reemployment pathways and opportunities for injured workers; increase the number of injured workers placed in jobs when they cannot be reemployed by their date-of-injury Federal employer; and establish a candidate bank (Labor for America) of FECA claimants for potential employers in both the public and private sectors. OWCP will also provide training for staff to strengthen dispute resolution quality and monitor the effectiveness of completed dispute resolutions through stakeholder feedback. In addition, OWCP will conduct outreach to Black Lung program customers and medical provider communities to improve the quality of medical evidence that is submitted with claims, foster a better understanding of the claims decisions issued, and use higher-credentialed physicians for diagnostic examinations to increase the credibility of initial eligibility decisions.

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 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.

The decline in First Payment Timeliness performance is related to state staff layoffs, high state staff turnover, and technology issues. The staff layoffs are a consequence of the reduction in administrative funding resulting from lower workloads due to expiration of the Emergency Unemployment Compensation program. States have experienced a high turnover of staff leaving them with a less experienced and trained staff to make claim eligibility determinations which led to workload backlogs in the claims-taking and adjudication units. Additionally, several states have reported technology issues following system modernization implementation efforts or because they have antiquated technology systems. ETA continues to provide intensive technical assistance and monitoring to underperforming states.

Strategic Goal 4: Secure retirement, health benefits, and other benefits and for those not working, provide income security						
Measure	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Total Unemployment Rate	8.5%	9.7%	9.2%	8.3%	7.6%	6.5%
First Payment Timeliness	82.9%	82.2%	84.0%	83.7%	81.0%	79.0%

Looking Forward: ETA will continue to work with states with the poorest performance in the first payment and/or lower authority appeals timeliness measures, providing high-emphasis technical assistance to support performance improvement. ETA UI staff will work with these states to develop comprehensive Corrective Action Plans (CAPs) designed to improve performance. Examples of ETA's customized technical assistance strategies to support performance improvement for the poor performing states include:

- Work collaboratively with the state(s) to conduct enhanced analysis of all relevant data (including performance data) to inform strategic approaches to performance improvement. The data analysis may also involve examining data in similarly situated states.
- Deploy a team of experts from ETA, and possibly other state experts, to conduct a thorough review of the state's administrative and business processes relevant to the poor performance using state-of the-art business process analysis and process mapping tools, resulting in recommendations and an action plan the state will implement, as appropriate.
- Engage high-level state officials to bring focus to the egregious performance and promote prioritizing state resources to support performance improvement.
- Enhanced monitoring and follow-up that may include additional reporting by the state in area(s) of performance deficiency and on-site visits by ETA or partnering with state staff to assess process changes.

ETA in collaboration with the National Association of State Workforce Agencies' Information Technology Support Center (ITSC) continues to diligently work with individual states and state consortia to provide appropriate technical assistance. Pending availability of funding in future years, ETA will continue to support the states' system modernization efforts.

STATISTICS

Bureau of Labor Statistics (BLS)

In support of the Department's Strategic Goal 5, *Produce timely and accurate data on the economic conditions of workers and their families*, BLS produces accurate, objective, relevant, timely, and accessible statistics reflecting labor market activity, working conditions, and price changes in the economy. Its mission is to collect, analyze, and disseminate essential economic information to support public and private decision-making. Policies and decisions based on BLS data affect virtually all Americans, and the wide range of BLS data products is necessary to meet the diverse needs of a broad customer base. In FY 2014, BLS reached 100 percent of the underlying *timeliness* and *relevance* targets for all of its Principal Federal Economic Indicators (PFEIs). BLS reached 95% of the underlying *accuracy* targets for its PFEIs, missing the Producer Price Index (PPI) *Percentage of industry product line indexes published monthly* target by one percentage point. PPI changed its policy for delinquent respondents, resulting in fewer industry indexes meeting publishability requirements. PPI plans to adjust its outyear targets accordingly. Results for the five performance measures are indicated in the table below.

BLS strives to ensure that its data products are readily accessible online and meet users' needs. The most common way that people gain access to BLS data is through bls.gov, which averaged more than 8 million user sessions each month in FY 2014. BLS uses the American Customer Satisfaction Index (ACSI) to measure customer satisfaction with its website. 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. In addition, the BLS uses the number of internet user sessions to track the dissemination of its data.

Strategic Goal 5: Produce timely and accurate data on the economic conditions of workers and their families					
Performance Measure	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Percentage of Timeliness Targets Achieved for the Principal Federal Economic Indicators (PFEIs) [1]	100%	100%	100%	100%	100%
Percentage of Accuracy Targets Achieved for the PFEIs [1]	100%	100%	100%	100%	95%
Percentage of Relevance Targets Achieved for the PFEIs [1]	100%	100%	90%	100%	100%
Average Number of Internet Site User Sessions Each Month (Dissemination)	6,972,577	7,213,823	8,149,686	8,765,143	8,395,453
Customer Satisfaction with the BLS website through the American Customer Satisfaction Index (Mission Achievement)[2]	75	75	77	77	77

[1] Measure is new beginning in FY 2014. The FY 2010 – 2013 results are shown for trend comparison purposes.
[2] ACSI Score is calculated on a 100 point scale.

Looking Forward: BLS will continue to report timeliness, accuracy, and relevance for its Principal Federal Economic Indicators, and use the American Customer Satisfaction Index to measure customer feedback with its website. Note that, in FY 2015, due to a change in software, BLS will replace the current dissemination measure of *Average number of Internet site user sessions each month*, with a new, more comprehensive measure, *Average number of BLS website page views each month*.

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 2014 and FY 2013, DOL used managerial cost accounting for costing programs and performance indicator results in accordance with the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 30, *Inter-Entity Cost Implementation*. The statements outline the standards for Federal entities to provide "reliable and timely information on the full cost of Federal programs, their activities, and outputs." This information can be used to allocate resources and evaluate program performance. Managerial cost accounting directly supports the sections of the AFR that address Net Program Cost in the Statement of Net Cost. Total Net Cost of DOL activities was $55.7 billion for FY 2014 and $82.9 billion for FY 2013.

Analysis of Financial Statements and Stewardship Information

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

Figure 1: Summary of Selected Financial Data for FY 2014 and 2013

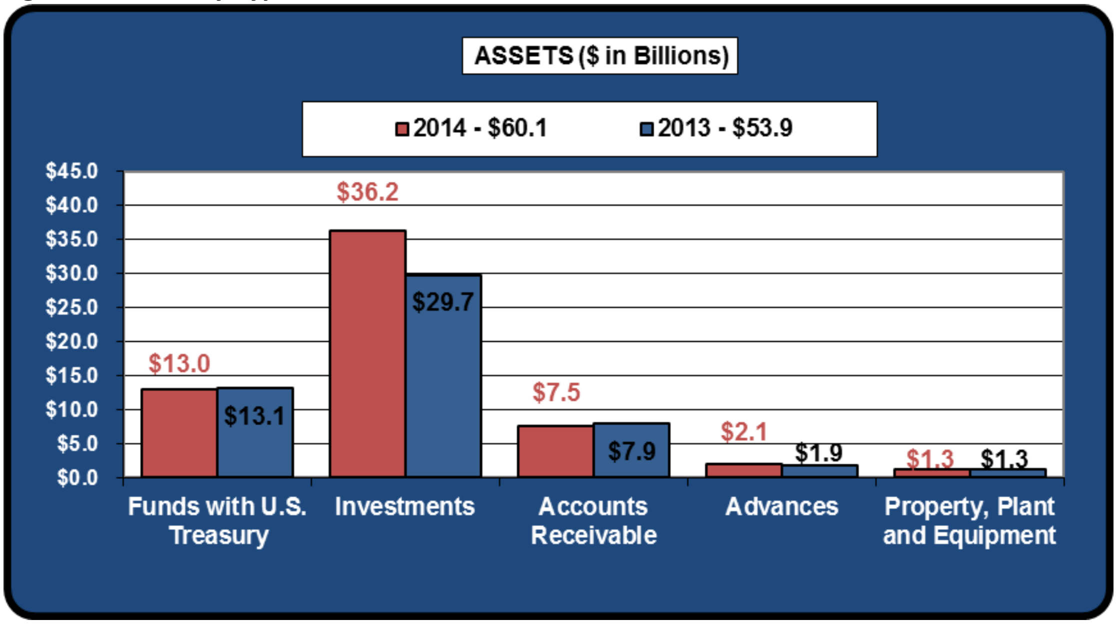
Summary of Selected Financial Data

(Dollars in billions)	**2014**	**2013**	**Change Amount**	**Change Percent**
Financial position				
Total assets	$ 60.1	$ 53.9	$ 6.2	11.5%
Funds with U.S. Treasury	13.0	13.1	(0.1)	(0.8)%
Investments	36.2	29.7	6.5	21.9%
Total liabilities	$ 47.0	$ 57.5	$ (10.5)	(18.3)%
Debt	26.7	35.7	(9.0)	(25.2)%
Net cost of operations				
Net cost of operations	$ 55.7	$ 82.9	$ (27.2)	(32.8)%
Income maintenance	47.0	73.9	(26.9)	(36.4)%
Employment and training	6.3	6.4	(0.1)	(1.6)%
Budgetary resources				
Appropriations	$ 59.4	$ 102.6	$ (43.2)	(42.1)%
Borrowing authority	2.7	7.7	(5.0)	(64.9)%
Obligations incurred	69.9	118.1	(48.2)	(40.8)%

Financial Position

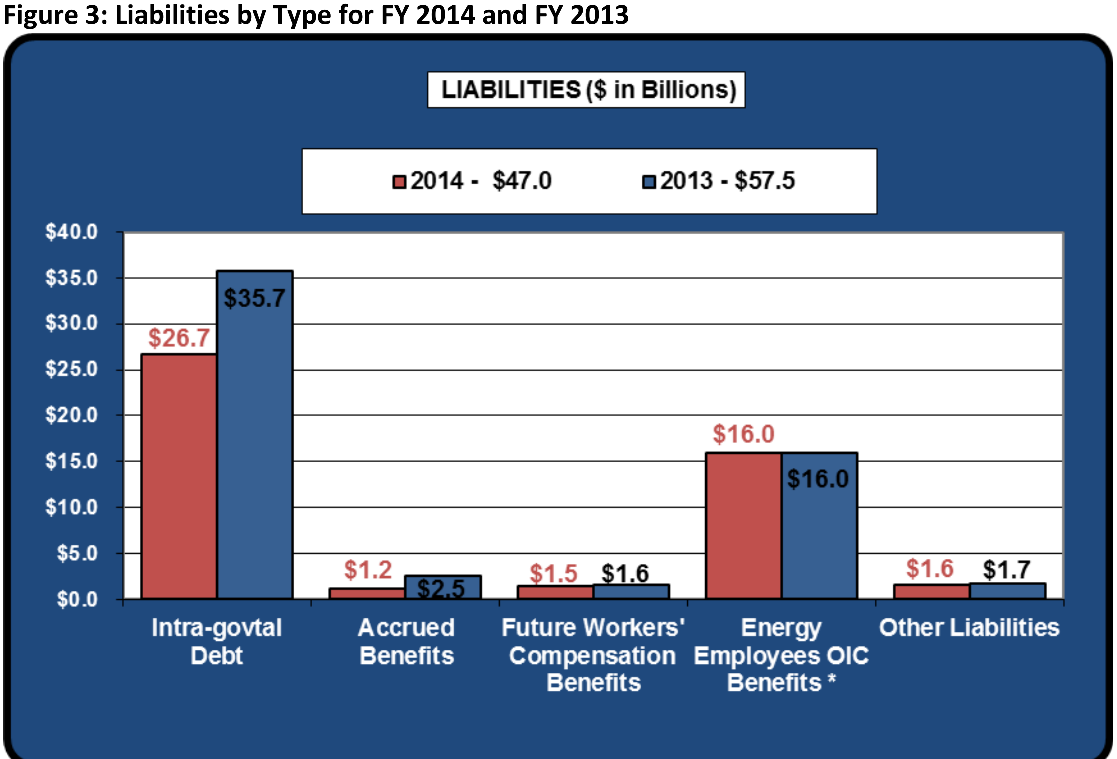
The Department's Balance Sheet presents DOL's financial position through the identification of agency assets, liabilities, and net position, as shown below. The Department's total assets increased from $53.9 billion at the end of FY 2013 to $60.1 billion at the end of FY 2014, an increase of 11.5%, primarily due to an increase in investments. Investments increased primarily due to net inflows in the Unemployment Trust Fund (UTF) in excess of immediate program needs for benefit payments and administrative costs. (See Figure 2 on next page for reported Assets by Type for FY 2014 and FY 2013.)

Figure 2: Assets by Type for FY 2014 and FY 2013



Liabilities decreased from $57.5 billion at the end of FY 2013 to $47.0 billion at the end of FY 2014, a decrease of (18.3)%. This decrease was primarily due to a decrease in intra-governmental debt [(25.2)%] due to UTF repayments of borrowings from the General Fund of the Treasury as tax collections by the states exceeded the requirements for benefit payments.

Figure 3: Liabilities by Type for FY 2014 and FY 2013

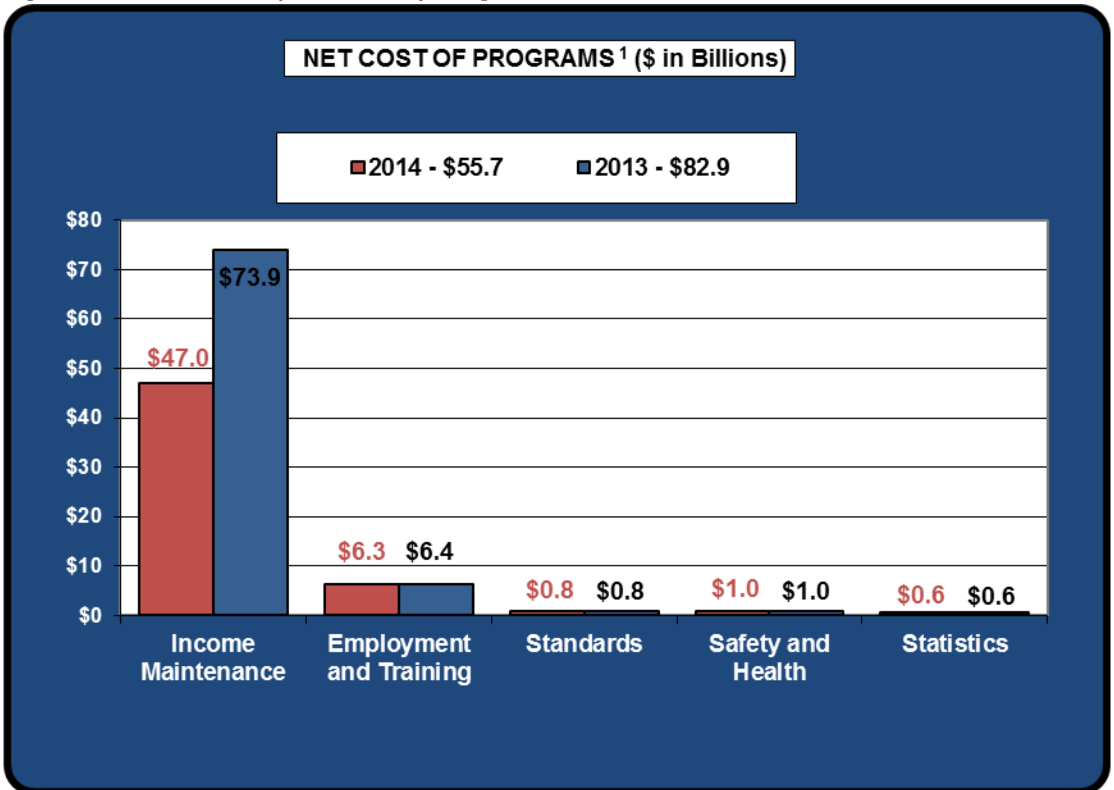


* OIC = Occupational Illness Compensation.

Net Cost of Operations

The Department's net cost of operations for the year ended September 30, 2014, was $55.7 billion, a decrease of $(27.2) billion [(32.8)%] from FY 2013. This decrease was attributable to the decreases in the programs discussed below:

Figure 4: Net Cost of Operations by Program for FY 2014 and FY 2013



[1] Net Cost of Programs include costs not assigned to specific programs, which were $0.03 billion and $0.1 billion for FY 2014 and FY 2013, respectively.

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 $47.0 billion, a decrease of (36.4)% from FY 2013. This decrease was primarily due to decreases in unemployment benefits provided under existing legislation, and lower levels of unemployment as compared to FY 2013.

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 $6.3 billion in FY 2014, a decrease of (1.6)% from FY 2013. This decrease was due to reductions in appropriated amounts for the 2014 program year for various programs.

Budgetary Resources

The Statements of Budgetary Resources report the budgetary resources available to DOL to effectively carry out the activities of the Department during FY 2014 and FY 2013, as well as the status of these resources at the end of each fiscal year. During FY 2014, the Department’s appropriations decreased ($43.2) billion [(42.1)%] primarily due to decreases in transfers to the UTF for Emergency Unemployment Compensation; also, the Department’s borrowing authority decreased ($5.0) billion [(64.9)%], which is consistent with the lower balance of intra-governmental debt at the end FY 2014. The Department had total obligations incurred of $69.9 billion in FY 2014, a decrease of $(48.2) billion [(40.8)%] from FY 2013. This decrease was primarily due to decreases in total obligations incurred for income maintenance programs as noted above.

Social Insurance and the Black Lung Disability Benefit Program

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

The SOSI reports for the projection period (which begins on September 30 of the reporting year and ends September 30, 2040), for all current and future participants, the actuarial present value of future benefits and the present value of future administrative costs, less the present value of future coal excise tax income. For FY 2010 through FY 2014 as presented in the SOSI, the present value of the future coal excise tax income has been greater than the sum of the actuarial present value of the future benefits and the present value of future administrative costs. This amount is also called the open and closed group measure.

Figure 5: Black Lung Disability Benefit Program - Table of Key Measures for FY 2014 and FY 2013

Black Lung Disability Benefit Program – Table of Key Measures

			Change	
(Dollars in millions)	**2014**	**2013**	**Amount**	**Percent**
Financial position				
Total assets	$ 129.4	$ 145.8	$ (16.4)	(11.2)%
Less: total liabilities	(5,884.7)	(6,040.0)	$ 155.3	2.6%
Net position (assets net of liabilities)	$ (5,755.3)	$ (5,894.2)	$ 138.9	2.4%
Costs and changes in net position				
Net cost of operations	$ (388.6)	$ (403.7)	$ 15.1	3.7%
Total financing sources	527.5	487.1	$ 40.4	8.3%
Net change of cumulative results of operations	$ 138.9	$ 83.4	$ 55.5	66.5%
Social insurance				
Open and closed group measure, beginning of year	$ 4,620.3	$ 4,658.5	$ (38.2)	(0.8)%
Open and closed group measure, end of year	$ 4,482.8	$ 4,620.3	$ (137.5)	(3.0)%

The decrease in the net cost of operations for the year ended September 30, 2014 of $15.1 million [3.7%] from FY 2013 was mainly due to lower benefit costs. FY 2014 total financing sources increased $40.4 million [8.3%] from FY 2013 mainly due to increases in tax collections. The resulting net change of cumulative results of operations for FY 2014 was $138.9 million, an increase of $55.5 million [66.5%] from FY 2013.

Total assets decreased $(16.4) million [(11.2)%] at the end of FY 2014 primarily due to a decrease in the Funds with U.S. Treasury balance. Liabilities decreased $(155.3) million [2.6%] at the end of FY 2014 due to repayments of debt. The resulting net position (deficit) decreased $138.9 million at the end of FY 2014.

At the end of FY 2014, the open and closed group measure decreased $(137.5) million [(3.0)%] and at the end of FY 2013 decreased $(38.2) million [(0.8)%]. Reasons for the net decreases in the measures for FY 2014 and FY 2013 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;
- Decreases in future benefits costs; and
- Changes in the interest rates used to discount cash flows (described as changes in assumptions about interest rates on the SCSIA).

The total of open and closed group measure plus fund assets as of September 30, 2014, of $4,612.2 million represents a projected net positive cash flow that may be used to liquidate the liabilities of the BLDTF, which were $5,884.7 million as of September 30, 2014.

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

Limitations on the Principal Financial Statements

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

Reducing Improper Payments

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

In accordance with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), the Improper Payment Elimination and Recovery Improvement Act of 2012 (IPERIA)[1], and as implemented by OMB in Circular No. A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, the Department reviews its programs and activities annually 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.

IPERA Section 2(a) requires agency heads to “review all programs to identify risk susceptibility for improper payments every three years.” As the last Department-wide risk assessment was performed in FY 2011, DOL performed a full assessment of all DOL programs for FY 2014 based on criteria prescribed in IPERA Section 2(a)3(b), outlined on the next page:

[1] IPIA, Public Law (P.L.) 107-300 (2002); IPERA, P.L. 111-204 (2010); IPERIA, P.L. 112-248 (2013). All three laws are codified at 31 U.S.C. 3321 note.

Scope. — In conducting the reviews [. . .] the head of each agency shall take into account those risk factors that are likely to contribute to a susceptibility to significant improper payments, such as —

(i) whether the program or activity reviewed is new to the agency;

(ii) the complexity of the program or activity reviewed;

(iii) the volume of payments made through the program or activity reviewed;

(iv) whether payments or payment eligibility decisions are made outside of the agency, such as by a state or local government;

(v) recent major changes in program funding, authorities, practices, or procedures;

(vi) the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; and

(vii) significant deficiencies in the audit report of the agency or other relevant management findings that might hinder accurate payment certification.

Based on DOL's Department-wide risk assessment, only the Unemployment Insurance (UI) program meets the susceptibility threshold in statute: either potential estimated improper payments greater than 1.5% of outlays and greater than $10 million (IPERA §2(a)(3)(A)(ii)(I)) or potential estimated improper payments of more than $100 million, regardless of percentage (IPERA §2(a)(3)(A)(ii)(II)). Two DOL Programs are required to provide estimates based on inclusion in Exhibit 57B, Section 57, of OMB Circular A-11 (2002)[1]. These programs are the Federal Employees' Compensation Act (FECA) benefit program and the Workforce Investment Act (WIA) of 1998 Title I programs (WIA Programs). In addition to these programs, DOL is required to report an improper payments estimate for funds provided in response to Hurricane Sandy through the Disaster Relief Appropriations Act (Public Law 113-2), signed on January 29, 2013. Section 904(b) of the Act provides that all programs and activities receiving funds under this Act shall be deemed to be "susceptible to significant improper payments" for the purposes of IPIA, notwithstanding IPIA section 2(a)."

[1] In July 2001, OMB issued Section 57, *Information on Erroneous Payments*, as part of the 2002 revision to Circular A-11, *Preparation, Submission, and Execution of the Budget*. Exhibit 57B of Section 57 listed programs required ". . . to provide improper payment data, assessments and action plans with initial budget submission beginning in 2003." All "benefit programs" exceeding obligations of $2 billion were included on Exhibit 57B.

DOL Programs Required to Submit Improper Payments Estimates

Program	Requirement Based on…	Estimated Rate	
Unemployment Insurance (UI)[1]	Risk analysis	Improper Payment Rate (Overpayments plus Underpayments):	11.57%
		Overpayment Rate	11.16%
		Underpayment Rate	0.41%
		Net Improper Payment Rate (Improper Payment Rate Minus Amounts Recovered by States)	8.65%
		Improper Payment Rate Minus "Work Search" Errors	7.85%
Federal Employees' Compensation Act (FECA)[1]	Inclusion in Exhibit 57B of OMB Circular A-11 (2002)	Improper Payment Rate (Overpayments plus Underpayments)	2.5%
Workforce Investment Act (WIA) Title I Programs[1]	Inclusion in Exhibit 57B of OMB Circular A-11 (2002)	Rate of Services to Potentially Ineligible Participants (maximum)	< 1.5%
Hurricane Sandy Funding[1]	Disaster Relief Appropriations Act of 2013	Rate of Salary Spent on Potentially Ineligible Participants (maximum)	< 0.5%

[1] Covers the 12-month period from July 1, 2013 through June 30, 2014.

The Department has implemented various corrective actions to address the causes and to reduce improper payments in these programs. Like many other Federal agencies, the Department faces challenges in meeting its improper payment reduction and recovery targets, particularly with programs that are sensitive to economic fluctuations or natural disasters, such as the UI program. Furthermore, meeting the improper payments reduction and recovery targets of programs such as UI are contingent upon the cooperation and support of State agencies and other outside stakeholders who are intricately involved in the day-to-day administration and management of these programs' activities. A variety of complexities related to administration of the UI program create significant challenges in controlling improper payments as compared to other Federal benefit programs, including state unemployment insurance laws, under which the program is administered; structural impediments such as the Federal requirement to pay UI benefits "when due" causing states to proceed with payment when not all eligibility information has been received and verified; aging information technology (IT) systems; and resource capacity.
See "Improper Payments Reporting Details" in the Other Information section of this report for additional information on improper payments.

Financial Management Systems and Strategy

The Department strives to maintain and enhance financial management systems, processes, and controls that ensure financial accountability and transparency, provide financial management data and information to decision makers, and comply with Federal laws, regulations, and policy. The New Core Financial Management System

(NCFMS) is the system of record for the Department's financial activities in supporting accountability and transparency.

During FY 2014, the Department's financial system private Shared Service Provider (SSP) faced significant managerial, operational, and financial issues which threatened its ability to sustain and maintain NCFMS. Faced with the possibility of service shut down, the federal establishment took extraordinary coordinated mitigation actions. The Departments of Treasury, Transportation, and General Services Administration (GSA) along with OMB working in concert with Labor planned and executed a strategy to procure the system from the SSP and transition it's operation and management to a federal SSP at Transportation. These actions culminated in government ownership of the system and the avoidance of disruption of financial services. Within Labor, senior management within the OASAM, SOL, the Office of Procurement Services (OPS), and the Office of the Chief Financial Officer (OCFO) effectively managed a coordinated response to this situation.

In addition to the successful acquisition and transition of NCFMS, other FY 2014 efforts focused on seamlessly integrating two new major administrative systems: Acquisition Management System (AMS) and HR-Connect for personnel and payroll processing. Other established automated interfaces continued to record the financial activities initiated by these systems in NCFMS.

Emphasis also continued on executive-level reporting with the further development of a set of financial measures included in the Department's Performance Measurement Plan for all agencies. These metrics are reviewed quarterly with the Deputy Secretary.

Computer Based Training continued during FY 2014 as additional courses were developed and made available through DOL's e-Training solution, LearningLink, to all financial management employees and contractors.

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 of 1982
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 of 1982 (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, 2014. 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, 2014 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, 2014.

/S/
Thomas E. Perez
Secretary of Labor

/S/
Chris Lu
Deputy Secretary of Labor

/S/
Karen Tekleberhan
Acting Chief Financial Officer

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

November 17, 2014

Financial Section

UNITED STATES DEPARTMENT OF LABOR

Message from the Chief Financial Officer

During Fiscal Year (FY) 2014, the Department of the Labor (DOL) received an unmodified opinion on its consolidated financial statements for the 18th year. I am very proud of this achievement as it represents our commitment to financial management excellence, transparency, and accountability. In addition, the Association of Government Accountants awarded the Department the Certificate of Excellence in Accountability Reporting for its FY 2013 Annual Financial Report. This prestigious award serves as confirmation of the superior quality of financial reporting that is the cornerstone of our financial management program. The Department's award-winning Agency Financial Report provides extensive program, performance, and financial information that demonstrates our continued commitment and approach to sound financial management.

Karen Tekleberhan
Acting Chief Financial Officer
Department of Labor

OCFO's Mission

"The Office of Chief Financial Officer (OCFO) is responsible for the financial leadership of DOL and its primary duty is to uphold strong financial management and accountability while providing timely, accurate, and reliable financial information and enhancing internal controls."

I am also pleased to report that during the fiscal year, the Department continued to make great strides in reducing costs, strengthening internal controls, and enhancing financial programs, processes, and systems. Some of our most note-worthy achievements are as follows:

- Several initiatives were undertaken to ensure compliance with the tenets of Executive Order 13576 and the Campaign to Cut Waste, both of which promote efficient spending in the federal government. The Department's efforts in this regard resulted in decreased spending on administrative costs across the board, including reductions in travel and conference costs. The Department continues to identify areas in which cost reductions can be achieved while maintaining its commitment to the overall agency mission to protect the rights and welfare of the American workforce.
- The Department successfully planned and executed the transition of its core financial system to a federal shared service provider (FSSP). This was a collaborative effort, with assistance provided by the Office of Management and Budget, the General Services Administration, and the Departments of Treasury and Transportation. It is expected that the transition to a FSSP will result in a streamlined and more effective financial system that will provide increased internal controls and faster processing of financial transactions and data.
- Progress was made in accelerating payments to the many small businesses, vendors, and contractors that conduct business with the Department on a daily basis. As a result of our efforts, accelerated payments were made to 99.68% of all of the Department's prime contractors, which represents a 15 day reduction in the number of days that payments are processed and generated, i.e., a 50 percent reduction. This initiative is in compliance with the Administration's goal to accelerate payments to small businesses for goods and services received in order to improve cash flow, and to spur job creation and economic growth throughout the United States.
- All Financial Management Policy and Procedures manuals were reviewed, revised and/or updated as needed. In addition, a policy/procedures documents review cycle was implemented as a measure of ensuring the integrity

and accuracy of the data. The goals realized as a result of this initiative are enhanced internal controls over financial processes, and reliable policy and procedures manuals that comply and comport with applicable federal regulations and guidance.

I am proud of the Department's financial management accomplishments in FY 2014. These achievements meet the high standards of professionalism demanded by the American people. In addition, the Office of the Chief Financial Officer takes pride is its role as steward of the Department's financial resources. While we have realized significant gains in our continuous journey to strengthen and enhance financial processes, systems, and internal controls, we will seek to identify methods by which we may exceed our goals. In this regard, we look forward to the challenges of maintaining an effective, efficient, and strong financial management program in support of the Department's mission to defend, protect, and safeguard the rights of the American workforce.

Thank you for taking the time to review our Agency Financial Report, and we hope that you find this document both informative and helpful.

/S/
Karen Tekleberhan
Acting Chief Financial Officer
November 17, 2014

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Labor (DOL), which comprise the consolidated balance sheets as of September 30, 2014 and 2013; 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, 2014, 2013, 2012, 2011, and 2010; and the statements of changes in social insurance amounts for the years ended September 30, 2014 and 2013; and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements" or "basic consolidated financial statements").

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor as of September 30, 2014 and 2013; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance as of September 30, 2014, 2013, 2012, 2011 and 2010; and the changes in its social insurance amounts for the years ended September 30, 2014 and 2013, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2014, we considered the DOL's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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

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

KPMG

DOL's Responses to Findings

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

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

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

KPMG LLP

November 17, 2014

1. Lack of Sufficient Information Technology General Controls over Key Financial and Support Systems

In fiscal year (FY) 2014, U.S. Department of Labor (DOL) agencies completed corrective action to address certain previously-identified control deficiencies. However, during our FY 2014 testing of significant DOL financial and support systems, we identified new 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 categories: account management, system access settings, system audit log reviews, configuration management, vulnerability management, and third party oversight.

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

Account Management

- Certain user accounts were not timely removed for separated users, and certain separated users had active system accounts;
- Personnel activities were not consistently controlled through effective segregation of incompatible duties and responsibilities;
- Account management controls were not consistently performed, as evidenced by incomplete or missing access requests, rules of behavior, non-disclosure agreements, and modification forms; and
- Shared, generic, and multiple user accounts for the same user existed on one DOL system.

System Access Settings

- Inactive accounts were not consistently disabled in a timely manner; and
- Certain password settings did not comply with the Office of the Chief Information Officer (OCIO) Computer Security Handbook.

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 certain audit logs were not generated or reviewed timely. The lack of effective and timely system audit log reviews may allow for unauthorized or inappropriate activities to go undetected by management for lengthy periods of time.

Configuration Management

Controls related to configuration management are designed to provide reasonable assurance that changes to information system resources are authorized and systems are configured and operated securely and as intended. Although DOL had designed controls to establish accountability and responsibility for configuration management, including monitoring and tracking of changes, we identified certain segregation of incompatible duties weaknesses in the development and production environments and instances where configuration changes and patches did not follow the DOL configuration management process. The lack of strong change controls may allow for unauthorized or inappropriate changes to be applied and go undetected by management, resulting in lower assurance that the information system will operate as intended and that the data is reliable, valid, and complete.

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 2014 audit procedures, we identified that the following FY 2013 deficiencies had not been remediated despite having associated corrective action plans:

- Numerous critical and high-risk application and operating system patches were not implemented;
- Numerous servers were not compliant with minimum security baselines; and
- Certain logical access control weaknesses, such as the ability to obtain the host security identifier for the remote host without credentials, existed.

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.

Third Party Oversight

DOL did not have formalized policies, procedures, or processes established for monitoring a third party service provider that hosts and operates a financially relevant system used by DOL. Without effective oversight of third parties, an increased risk exists that unauthorized persons could access sensitive resources and disclose sensitive information and that the system's security posture would not be consistently reported to the authorizing officials responsible for adequate security and making informed decisions about residual risks. In addition, without formally established policies, procedures, and processes in place, DOL management risks ineffective monitoring of accounting transaction information hosted by third parties and the inability to consistently support an effective entity-wide system of internal control.

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 specific causes, and the systems impacted by them have been communicated separately to management. These deficiencies were the result of issues in the design, implementation, or 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 developed, implemented, and operating effectively.

The National Institute of Standards and Technology Special Publication 800-53, Revision 4, *Recommended Security Controls for Federal Information Systems and Organizations*, provides federal information systems standards and guidelines for controls that include, but are not limited to, the controls in which deficiencies were identified.

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

a) Coordinate efforts among the DOL agencies to develop procedures and controls to address account management, system access settings, system audit log reviews, configuration management, 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;
c) Coordinate with the applicable agencies to ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address account management, system access settings, system audit log reviews, configuration management, and vulnerability management control deficiencies in financial and support systems; and
d) Establish and implement formal policies, procedures, and processes to monitor third party service providers that host and operate financially relevant systems used by DOL and document these monitoring efforts.

Management's Response: The Office of the Assistant Secretary for Administration and Management (OASAM) is committed to ensuring the Department implements adequate safeguards to protect its information and information systems and appreciates the importance of adequately managing identified security risks. As such, the Department will ensure resources are applied to implement required corrective actions to address all identified security issues. The Chief Information Officer continues to strengthen its Cybersecurity program efforts and completed the following activities in FY 2014:

- Released Computer Security Handbook, Edition 5 to provide agencies with updated policies, procedures, and standards to ensure minimum security requirements for account and configuration management are achieved.
- Released an updated Enterprise Risk Management Strategy and facilitated an Agency training session to ensure DOL's risk management processes are effectively administered across the Department.
- Facilitated a series of Cybersecurity Case Study sessions with DOL Agencies resulting in the identification of proposed enterprise solutions to address account management, information system audit log reviews, as well as vulnerability and configuration management deficiencies. The OCIO performed an in-depth analysis of the proposed solutions and established a priority order for their implementation.
- Monitored the Agencies' progress in mitigating weaknesses found to be contributors to the Department's Significant Deficiency via Agency Operating Plans, Departmental Administrative Measures.
- Documented and began implementing the Information Security Continuous Monitoring (ISCM) Strategy including a focused patch management security monitoring effort resulting in a considerable decrease in system vulnerabilities.
- Acquired additional enterprise ISCM tools from the US Department of Homeland Security (DHS) and General Services Administration's Continuous Diagnostics and Mitigation (CDM) Program that will enhance DOL's current automated solutions for the ISCM Strategy.

OASAM accepts the recommendations in this report. Building on the progress mentioned above, in FY15, OCIO will continue implementation of its ISCM program. DOL will implement the ISCM tools received from the DHS CDM program; ultimately, automating additional DOL ISCM capabilities in alignment with the ISCM Strategy. In addition, DOL will increase the quantity of performance metrics, enhance automated monitoring, and provide data-driven security reporting. The OCIO will re-emphasize communication efforts with DOL agencies to ensure they give priority attention and sufficient resources to prioritize and complete planned corrective action(s) and will monitor agency progress on addressing identified deficiencies. Lastly, the OCIO will finalize and release guidance to DOL agencies to strengthen their practices as it relates to monitoring third-party service providers compliance with its information security requirements.

Auditors' Response: We will conduct follow-up procedures in FY 2015 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 2014 audit procedures, we identified deficiencies in certain controls over grants, as described below. These deficiencies are grouped into two categories, Grant Accrual and Grant Monitoring.

Grant Accrual

Each year, ETA performs a grant accrual accuracy analysis to determine if the methodology used to calculate the previous year's September 30 grant accrual is reasonable, and to develop cost-to-payment ratios for subsequent grant accrual calculations. The accuracy analysis compares the expense amounts accrued at year end to the expenses subsequently reported on the grantees' cost reports. During our FY 2014 testing of controls over ETA's grant accrual accuracy analysis provided on May 27, 2014, we identified 658 document IDs/footprints that were improperly excluded from the accuracy analysis. Sufficiently detailed procedures were not in place to identify discrepancies during the review process. 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 accrual ratios that may result in a misstatement of subsequent grant accruals.

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.

OMB Circular No. A-123 also states:

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

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

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

Grant Monitoring

Site Visits

When a grantee is selected for an on-site monitoring visit, the related Federal Project Officer (FPO) conducts the visit to assess compliance with applicable regulations, policies, and procedures outlined in the ETA *Core Monitoring Guide*. We selected a sample of 45 on-site monitoring reviews planned in FY 2014 as of June 30, 2014, by each of the six regions to determine if the on-site monitoring reviews were properly performed and documented in the Grant Electronic Management System (GEMS). Based on our testwork, we identified issues with both the site visit monitoring plans and the site visit monitoring review reports, as follows:

- For 8 items, the on-site monitoring review was not performed as indicated on the monitoring review plans received from the regions as of August 2014;
- For 5 items, an on-site monitoring review was performed, but the on-site monitoring review report was not issued within 45 business days of the exit conference date; the reports were issued ranging from 4 to 54 days past the due date;
- For 3 items, the on-site monitoring review report was not attached to GEMS as of the date our testing was performed, which was 30 days or greater after the report issuance date;
- For 5 items, GEMS did not include a monitoring history for the corresponding grant file, and neither the findings nor the report were documented in GEMS as of the time our testing was performed;
- For 2 items, the on-site monitoring review report was not included in GEMS within the 30 day period; these reports were uploaded in GEMS 59 and 83 days after issuance of the reports; and
- For 6 items, the on-site monitoring review report was not uploaded in GEMS until after we notified ETA that the report was missing during the completion of our testwork; these reports were uploaded in GEMS ranging from 71 to 175 days after issuance of the reports.

ETA was unable to provide current year on-site monitoring review reports for eight on-site reviews selected from these plans because of inadequate reviews of original on-site regional monitoring plans and lack of periodic reviews for changes to these plans. In addition, ETA did not dedicate resources to update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring or to develop monitoring controls to ensure the timely issuance of on-site monitoring review reports and the completeness of documentation included in GEMS related to these reports.

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

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

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

The Standards states:

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available or examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.
>
> For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events.
>
> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

The ETA *Core Monitoring Guide* states:

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

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

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

The *SES Performance Management; Executive Performance; Agreement Appraisal Cycle [October 1 – September 30]* Results No. 2, Section "Measure of Outcomes/Targets" states:

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

Other Monitoring Procedures

As part of our audit procedures over grant controls as of June 30, 2014, we selected a sample of 45 grants from the population of grant expenses recorded in DOL's financial management system to determine if FPOs' desk reviews were properly performed and documented in GEMS. We noted that for 1 of the 45 grants selected, the desk review was not completed for the quarter selected. ETA management indicated that two desk reviews for the grant had been completed for the prior period, which resulted in GEMS erroneously identifying that a desk review had been completed for the period tested.

In addition, during our April 2014 test of design and implementation, we inquired of five FPOs across multiple regions about their process for documenting communication with delinquent grantees. We noted that responses provided by the FPOs to this inquiry were inconsistent as different interpretations of what information should be documented were provided.

Furthermore, we noted that ETA was in the process of creating a comprehensive Standard Operating Procedures (SOP) manual for all ETA regions, which would address, among other items, the insufficient FPO documentation of grantee delinquent cost reports condition identified in the prior fiscal year; however, ETA had not yet created the policies and procedures over the delinquent cost report process.

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

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

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

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

In addition, the Standards states:

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

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

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

a) Enhance current procedures to ensure that all aspects of the grant accrual accuracy analysis are properly reviewed and approved to prevent potential errors in the preparation of the analysis;
b) Develop and implement a monitoring procedure to ensure changes to original regional site visit plans are appropriate, accurately documented, and reported to the ETA National Office;
c) Update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring;
d) Develop and implement monitoring controls to determine that on-site monitoring review reports are timely issued and uploaded into GEMS with the appropriate documentation;
e) Correct the configuration of GEMS to ensure that multiple desk reviews for the same period are associated with the correct period, and in the interim, implement additional monitoring procedures to verify that desk review submission dates correspond with the appropriate quarterly review timeframe.
f) Complete the process of creating an SOP manual for all regions that will address documentation requirements for FPO follow-up communications with delinquent grantees;
g) Upon completion and dissemination of the SOP manual, provide appropriate training to FPOs to ensure consistency in documentation of delinquent grantee communications across regions; and
h) Provide notification to all regions that all communication with grantees should be properly documented and retained in the interim until the SOP manual is complete.

Management's Response: Grants management and workforce investment system leadership is at the core of ETA's risk management strategy to ensure proper use of Federal funds. The grant management activities carried out by the Regional Offices includes managing 2,021 grants currently totaling nearly $26 billion in taxpayer resources. The ETA Regional Offices provide oversight for ETA's portfolio of investments to ensure accountability, conformity with statute, compliance with regulations, and fiscal accountability. The Regional Offices are primarily responsible for this function through: risk assessments; quarterly desk reviews; reviews of quarterly performance and financial reports; enhanced desk monitoring reviews (EDMR); onsite monitoring; establishing corrective action plans when required; and promoting improved grantee performance by providing direct guidance and technical assistance to grantees. In addition to resolving current problems, these activities allow ETA to proactively provide direct guidance to grantees to help them achieve their stated goals and demonstrate the cost effective use of federal investments in accordance with Federal laws and regulations, and grant terms and conditions.

ETA has a comprehensive grants management strategy and monitoring system, which is focused on continuous improvement; however, the Agency also is very aware of financial and human resource challenges it faces to fully operate this system. In response to specific recommendations:

a) *Enhance current procedures to ensure that all aspects of the grant accrual analysis are properly reviewed and approved to prevent potential errors in the preparation of the analysis.*

ETA has made improvements in its processes and procedures over the reasonableness of the data used in the accuracy analysis. These documented procedures include, but are not limited to, comparing the new ratios to that of prior years and the number of lines analyzed in various parts of the analysis to that of prior years, and investigating variances noted in the overall calculated difference between estimated and actual costs analysis down to the program and individual stratum. Additionally, ETA implemented the use of data analysis software to assist in the analysis, providing a comprehensive review of the updated costs information. The results of the analysis were shared with both ETA and OCFO management during and at the completion of the analysis. Any unusual situations or results that fall outside of management's expectations were further researched.

ETA is currently reviewing all policies and procedures related to the grant accrual analysis to ensure all aspects of the process are completely addressed. Any updates to the policies and procedures will be finalized by December 31, 2014.

b) *Develop and implement a monitoring procedure to ensure changes to original regional site visit plans are appropriate, accurately documented, and reported to the ETA National Office*;

To address this, on October 1, 2013, the regions created and began using a consistent monitoring plan template that captures all the required data fields. The On-Site Monitoring plan represents the proposed number and type of reviews each Regional Office initially plans to undertake, based on grant risk, travel resources and staffing patterns. This plan is completed at the beginning of each fiscal year based on estimated resources. The Monitoring plan is a living document which is updated quarterly or upon request, based on various changes in events; travel allotments, staff workloads, grantee availability, coordination of reviews, complexity of reviews, incident reports or OIG request, complaints, grantee types, etc. Quarterly updates will be monitored for accuracy by ETA's Office of Financial Administration (OFA) as part of the Annual OMB Circular A-123 internal controls process and all discrepancies will be communicated to the Office of Regional Management (ORM). The final Monitoring plan is reported annually to ORM along with final travel expenditures, monitoring reports issued from this plan, and the number of findings issued from each report.

c) *Update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring*;

The policies and procedures related to monitoring have been updated and are in place. Employment and Training Order (ETO) 1-14, which outlines all of the grant management policies and responsibilities for the agency was updated and issued on March 21, 2014. The Regional Administrator (RA), Regional Manager, and Federal Project Officer (FPO) performance standards include the ETA operating metrics established: Percent of grants to be monitored annually; percent of quarterly desk reviews completed timely; the timeliness of monitoring report issuance (80 percent within 45 days of exit date), and the number of findings issued and closed (70 percent closed annually). These Operating Plan metrics are then cascaded down to managers and staff so that all ETA Regional staff have identical goals. ETA will review existing policies and procedures to determine if updates are needed.

d) *Develop and implement monitoring controls to determine that on-site monitoring review reports are timely issued and uploaded into GEMS with the appropriate documentation;*

The RA, Regional Manager, and FPO performance standards require that regions conduct on site monitoring and Enhanced Desk Monitoring Reviews (EDMR), and that 80 percent of all initial written Monitoring Reports are issued within 45 days of the exit conference date. In addition, the RA Standards and an August 30, 2011, Memorandum entitled, Federal Project Officer (FPO) Grant Management Responsibilities Related to the Grants Electronic Management System (GEMS); and a March 27, 2013 Memorandum which updated the August 30, 2011, Memorandum require that copies of all issued monitoring reports be uploaded to GEMS within 30 days of issuance. Staff are informed on a quarterly basis about upcoming GEMS deadline requirements (desk reviews, report acceptance, etc.) and managers monitor the completion. The Regions report their performance under the RA standards each quarter.

ORM will work with ETA, OFA's internal controls group to identify a useful process to ensure adherence to written guidelines.

e) *Correct the configuration of GEMS to ensure that multiple desk reviews for the same period are associated with the correct period, and in the interim, implement additional monitoring procedures to verify that desk review submission dates correspond with the appropriate quarterly review timeframe.*

ETA will research options to design a technology fix in GEMS, if funds are available, and a "fix" is technically feasible. If it is not feasible, ETA will seek to address this requirement in any future specifications for the grant management system. Staff are informed on a quarterly basis about upcoming GEMS deadline requirements (desk reviews, report acceptance, etc.) and managers monitor the completion. The Regions report their performance under the RA standards each quarter. Additionally, ETA notes that the performance standard in question states that 90 percent of quarterly desk reviews will be completed timely; ETA Operating Plan data from the last three years show that the Regions have exceeded this measure by completing nearly 97 percent of their desk reviews within the required timeframe of 30 days.

f) *Complete the process of creating an SOP manual for all regions that will address documentation requirements for FPO follow-up communications with delinquent grantees;*

ETA is in the final stage of reviewing and approving the SOP on the monitoring of ETA – 9130 Quarterly Financial Reports. This SOP addresses the following oversight actions: (1) upgrading the system's automated review of the grantee entering of data on the 9130 report (e.g. improved edit checks, on screen response to triggered edit checks, providing grantee with a report of soft edit checks triggered prior to the final certification, automatic notification to grantee and FPO when report has not been submitted timely, etc.); (2) addressing National Office's oversight through the development and dissemination of a standardized report identifying all 9130 reports which are late or not submitted; and (3) identifying FPO's responsibility in responding to the delinquent 9130 report within 10 work days of receipt.

g) *Upon completion and dissemination of the SOP manual, provide appropriate training to FPOs to ensure consistency in documentation of delinquent grantee communications across regions;*

When ETA completes the SOP, webinar training will be provided to all FPOs and financial reviewers in the National Office and all Regional Offices.

h) *Provide notification to all regions that all communication with grantees should be properly documented and retained in the interim until the SOP manual is complete.*

Interim guidance is being prepared for immediate dissemination to all ETA offices responsible for reviewing the 9130 quarterly reports, ensuring that appropriate documentation on communication with grantees regarding their 9130 reports is being retained in GEMS or other established recording system.

Auditors' Response: We will conduct follow-up procedures in FY 2015 to determine whether corrective actions have been developed and implemented.

Annual Financial Statements

Principal Financial Statements and Notes

Principal Financial Statements Included in This Report

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

The Department's principal financial statements for FY 2014 and 2013 consist of the following:

- The **Consolidated Balance Sheets**, which presents as of September 30, 2014 and 2013, 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 Statements of Net Cost**, which presents the net cost of DOL operations for the years ended September 30, 2014 and 2013. DOL's net cost of operations includes the gross costs incurred by DOL less any exchange revenue earned from DOL activities. The classification of gross cost and exchange revenue by program and program agency is presented in Note 15 to the consolidated financial statements.

- The **Consolidated Statements 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 revenue, and other financing sources for the years ended September 30, 2014 and 2013.

- The **Combined Statements of Budgetary Resources**, which presents the budgetary resources available to DOL, change in obligated balance, and budget authority and net outlays of budgetary resources for FYs 2014 and 2013; and the status of these resources as of September 30, 2014 and 2013.

- The **Statements of Social Insurance**, which presents the net present value of projected cash inflows and cash outflows of the Black Lung Disability Trust Fund (BLDTF) as of September 30, 2014, 2013, 2012, 2011, and 2010; 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 **Statements of Changes in Social Insurance Amounts**, which presents the net change in the open and closed group measure of the BLDTF for the years ended September 30, 2014 and 2013, and provides information about the change.

CONSOLIDATED BALANCE SHEETS
As of September 30, 2014 and 2013
(Dollars in Thousands)

	2014	2013
ASSETS		
Intra-governmental		
Funds with U.S. Treasury (Note 1-C and 2)	$ 13,004,346	$ 13,110,719
Investments (Note 1-D and 3)	36,151,884	29,684,278
Accounts receivable (Note 1-E and 4)	5,618,751	5,824,506
Advances (Note 1-G and 6)	3,410	1,928
Total intra-governmental	54,778,391	48,621,431
Accounts receivable, net of allowance (Note 1-E and 4)	1,888,592	2,090,927
Property, plant and equipment, net of accumulated depreciation (Note 1-F and 5)	1,290,869	1,269,915
Advances (Note 1-G and 6)	2,162,421	1,925,678
Total assets	$ 60,120,273	$ 53,907,951
LIABILITIES AND NET POSITION		
Liabilities (Note 1-I and 12)		
Intra-governmental		
Accounts payable	$ 19,444	$ 28,086
Debt (Note 1-J and 8)	26,695,818	35,722,273
Other liabilities (Note 9)	259,716	312,778
Total intra-governmental	26,974,978	36,063,137
Accounts payable	276,003	282,751
Accrued benefits (Note 1-K and 10)	1,220,941	2,517,122
Future workers' compensation benefits (Note 1-L and 11)	1,495,446	1,613,335
Energy employees occupational illness compensation benefits (Note 1-M)	15,970,176	16,016,729
Accrued leave (Note 1-N)	122,368	121,677
Other liabilities (Note 9)	944,596	917,682
Total liabilities	47,004,508	57,532,433
Contingencies (Note 13)		
Net position (Note 1-R)		
Funds from dedicated collections		
Cumulative results of operations (Note 21)	11,304,501	(5,038,568)
All other funds		
Unexpended appropriations	9,272,731	9,346,932
Cumulative results of operations	(7,461,467)	(7,932,846)
Total net position - all other funds	1,811,264	1,414,086
Total net position	13,115,765	(3,624,482)
Total liabilities and net position	$ 60,120,273	$ 53,907,951

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2014 and 2013
(Dollars in Thousands)

	2014	2013
NET COST OF OPERATIONS (Note 1-S and 15)		
CROSSCUTTING PROGRAMS		
Income maintenance		
Gross Cost	$ 50,757,490	$ 77,921,579
Less earned revenue	(3,806,525)	(4,037,710)
Net Program Cost	46,950,965	73,883,869
Employment and training		
Gross Cost	6,267,289	6,432,749
Less earned revenue	(251)	(12,408)
Net Program Cost	6,267,038	6,420,341
Labor, employment and pension standards		
Gross Cost	785,094	839,964
Less earned revenue	(4,406)	(10,357)
Net Program Cost	780,688	829,607
Worker safety and health		
Gross Cost	1,046,288	1,009,235
Less earned revenue	(4,560)	(5,305)
Net Program Cost	1,041,728	1,003,930
OTHER PROGRAMS		
Statistics		
Gross Cost	635,677	635,763
Less earned revenue	(17,196)	(12,083)
Net Program Cost	618,481	623,680
COSTS NOT ASSIGNED TO PROGRAMS		
Gross Cost	30,394	110,672
Less earned revenue not attributed to programs	(296)	(816)
Net cost not assigned to programs	30,098	109,856
Net cost of operations	$ 55,688,998	$ 82,871,283

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30, 2014 and 2013

(Dollars in Thousands)

	2014 Consolidated			2013 Consolidated		
	Funds from Dedicated Collections	All Other Funds	Total	Funds from Dedicated Collections	All Other Funds	Total
Cumulative results of operations, beginning	$ (5,038,568)	$ (7,932,846)	$ (12,971,414)	$ (18,333,071)	$ (8,641,960)	$ (26,975,031)
Budgetary financing sources (Note 1-T)						
Appropriations used	-	15,624,282	15,624,282	-	38,260,332	38,260,332
Non-exchange revenue (Note 16)						
Employer taxes	53,150,871	-	53,150,871	54,494,335	-	54,494,335
Interest	1,206,326	-	1,206,326	1,272,176	-	1,272,176
Reimbursement of unemployment benefits and other	2,171,480	5,820	2,177,300	2,509,745	22,716	2,532,461
Total non-exchange revenue	56,528,677	5,820	56,534,497	58,276,256	22,716	58,298,972
Transfers without reimbursement (Note 17)	1,039,871	(816,448)	223,423	22,153,422	(21,953,782)	199,640
Other financing sources (Note 1-U)						
Imputed financing from costs absorbed by others	3,284	117,263	120,547	2,992	109,937	112,929
Transfers without reimbursement (Note 17)	-	6,498	6,498	-	4,764	4,764
Other	-	(5,801)	(5,801)	-	(1,737)	(1,737)
Total financing sources	57,571,832	14,931,614	72,503,446	80,432,670	16,442,230	96,874,900
Net cost of operations	(41,228,763)	(14,460,235)	(55,688,998)	(67,138,167)	(15,733,116)	(82,871,283)
Net change	16,343,069	471,379	16,814,448	13,294,503	709,114	14,003,617
Cumulative results of operations, end of year	11,304,501	(7,461,467)	3,843,034	(5,038,568)	(7,932,846)	(12,971,414)
Unexpended appropriations, beginning	-	9,346,932	9,346,932	-	10,476,263	10,476,263
Budgetary financing sources (Note 1-T)						
Appropriations received (Note 18-F)	-	16,856,873	16,856,873	-	43,105,275	43,105,275
Appropriations used	-	(15,624,282)	(15,624,282)	-	(38,260,332)	(38,260,332)
Appropriations transferred	-	-	-	-	3,202	3,202
Other adjustments	-	(1,306,792)	(1,306,792)	-	(5,977,476)	(5,977,476)
Subtotal	-	(74,201)	(74,201)	-	(1,129,331)	(1,129,331)
Unexpended appropriations, end of year	-	9,272,731	9,272,731	-	9,346,932	9,346,932
Net position	$ 11,304,501	$ 1,811,264	$ 13,115,765	$ (5,038,568)	$ 1,414,086	$ (3,624,482)

The accompanying notes are an integral part of these statements.

COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2014 and 2013
(Dollars in Thousands)

(Note 18)	2014	2013
BUDGETARY RESOURCES		
Unobligated balance brought forward, October 1	$ 4,655,078	$ 4,391,699
Recoveries of prior year unpaid obligations	436,816	461,549
Other changes in unobligated balance	(299,604)	(221,903)
Unobligated balance from prior year budget authority, net	4,792,290	4,631,345
Appropriations (discretionary and mandatory)	59,435,713	102,609,040
Borrowing authority (discretionary and mandatory)	2,700,000	7,700,000
Spending authority from offsetting collections (discretionary and mandatory)	7,604,889	7,826,120
Total budgetary resources	$ 74,532,892	$ 122,766,505
STATUS OF BUDGETARY RESOURCES		
Obligations incurred	$ 69,921,152	$ 118,111,427
Unobligated balance, end of year		
Apportioned	2,979,755	3,071,003
Exempt from apportionment	46,795	54,279
Unapportioned	1,585,190	1,529,796
Total unobligated balance, end of year	4,611,740	4,655,078
Total budgetary resources	$ 74,532,892	$ 122,766,505
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1	$ 14,992,121	$ 15,529,168
Obligations incurred	69,921,152	118,111,427
Less: outlays (gross)	(70,423,240)	(118,186,925)
Less: recoveries of prior year unpaid obligations	(436,816)	(461,549)
Unpaid obligations, end of year	14,053,217	14,992,121
Uncollected Payments:		
Uncollected payments, Federal sources, brought forward, October 1	(1,946,057)	(2,324,892)
Change in uncollected payments, Federal sources	(71,646)	378,835
Uncollected payments, Federal sources, end of year	(2,017,703)	(1,946,057)
Obligated balance, start of year	$ 13,046,064	$ 13,204,276
Obligated balance, end of year	$ 12,035,514	$ 13,046,064
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (discretionary and mandatory)	$ 69,740,602	$ 118,135,160
Less: actual offsetting collections (discretionary and mandatory)	(7,533,243)	(8,204,955)
Less: change in uncollected customer payments from Federal sources (discretionary and mandatory)	(71,646)	378,835
Budgetary authority, net (discretionary and mandatory)	$ 62,135,713	$ 110,309,040
Outlays, gross (discretionary and mandatory)	$ 70,423,240	$ 118,186,925
Actual offsetting collections (discretionary and mandatory)	(7,533,243)	(8,204,955)
Outlays, net (discretionary and mandatory)	62,889,997	109,981,970
Distributed offsetting receipts	(6,482,060)	(28,189,684)
Agency outlays, net (discretionary and mandatory)	$ 56,407,937	$ 81,792,286

The accompanying notes are an integral part of these statements.

STATEMENTS OF SOCIAL INSURANCE

As of September 30, 2014, 2013, 2012, 2011, and 2010
(Dollars in Thousands)

	For the Projection Period Ending September 30, 2040				
	2014	2013	2012	2011	2010
BLACK LUNG DISABILITY BENEFIT PROGRAM (Note 1-W)					
Actuarial present value of future benefit payments during the projection period to disabled coal miners and dependent survivors	$ 1,876,522	$ 1,953,763	$ 2,181,654	$ 1,951,755	$ 2,125,231
Present value of estimated future administrative costs during the projection period	942,107	920,740	963,995	935,444	881,311
Actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants	2,818,629	2,874,503	3,145,649	2,887,199	3,006,542
Less the present value of estimated future excise tax income during the projection period	7,301,416	7,494,800	7,804,178	7,607,428	8,457,022
Excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants (open and closed group measure)	$ 4,482,787	$ 4,620,297	$ 4,658,529	$ 4,720,229	$ 5,450,480
Trust fund net position deficit at start of projection period (Note 1-W and 21)	$ (5,755,352)	$ (5,894,222)	$ (5,977,619)	$ (6,099,261)	$ (6,238,612)
Summary Section					
Open and closed group measure	$ 4,482,787	$ 4,620,297	$ 4,658,529	$ 4,720,229	$ 5,450,480
Add: Funds with U.S. Treasury and receivables from benefit overpayments (Note 21)	129,376	145,794	102,498	63,814	68,028
Total of open and closed group measure plus fund assets (Note 1-W)	$ 4,612,163	$ 4,766,091	$ 4,761,027	$ 4,784,043	$ 5,518,508

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN SOCIAL INSURANCE AMOUNTS
For the Years Ended September 30, 2014 and 2013
(Dollars in Thousands)

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

	2014	2013
Excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants (open and closed group measure), beginning of year	$ 4,620,297	$ 4,658,529
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	120,126	203,710
Changes in assumptions about coal excise tax revenues	(443,815)	(141,062)
Changes in assumptions about Federal civilian pay raises for income benefits	7,245	13,254
Changes in assumptions about medical cost inflation for medical benefits	(1,179)	1,004
Changes in assumptions about administrative costs	(13)	33,575
Changes in assumptions about interest rates	180,126	(148,713)
Net change in open and closed group measure	(137,510)	(38,232)
Open and closed group measure, end of year	$ 4,482,787	$ 4,620,297

The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

DOL, a cabinet level agency of the Executive Branch of the United States Government, was established in 1913, to promote the welfare of the wage earners of the United States. Today the Department's mission remains the same: To foster, promote and develop the welfare of the wage earners, job seekers and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights.

DOL accomplishes this mission through the execution of its congressionally approved budget, operating under four major budget functions: (i) education, training, employment, and social services; (ii) health (occupational health and safety); (iii) income security; and (iv) veterans benefits and services (veterans education and training). DOL is organized into program agencies, which administer the various statutes and programs for which the Department is responsible. DOL's program agencies are shown below.

1. 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)

Other Program Agencies

- Office of Federal Contract Compliance Programs (OFCCP)
- Office of Labor-Management Standards (OLMS)
- Departmental Management
  - *Office of the Secretary*
  - *Office of the Assistant Secretary for Administration and Management*
  - *Office of the Assistant Secretary for Policy*
  - *Office of Congressional and Intergovernmental Affairs*
  - *Women's Bureau*
  - *Office of the Deputy Secretary*
  - *Office of Inspector General*
  - *Office of the Solicitor*
  - *Office of Public Affairs*
  - *Office of the Chief Financial Officer*
  - *Office of Disability Employment Policy*
  - *Bureau of International Labor Affairs*

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

2. Major programs

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

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

Strategic Goals / Major Programs	Income Maintenance	Employment and Training	Labor, Employment and Pension Standards	Worker Safety and Health	Statistics
1: Prepare workers for better jobs		•	•		
2: Improve workplace safety and health				•	
3: Promote fair and high-quality work environments			•		
4: Secure retirement, health, and other employee benefits and, for those not working, provide income security	•		•		
5: Produce timely and accurate data on the economic conditions of workers and their families					•

3. Fund accounting structure

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

Funds from dedicated collections

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3. Fund accounting structure - continued

Funds from dedicated collections - continued

Black Lung Disability Trust Fund (BLDTF) was established under Part C of the Black Lung Benefits Act, to provide compensation and medical benefits to coal miners who suffer total disability due to pneumoconiosis (Black Lung disease), and compensation benefits to their dependent survivors for claims filed subsequent to June 30, 1973. Claims filed from the origination of the program until June 30, 1973, are paid by the Special Benefits for Disabled Coal Miners fund. (See Note 1.A.3 – All other funds.)

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

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

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

Fiduciary funds

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

Wage and Hour and Public Contracts Restitution Fund, a deposit fund established by the Fair Labor Standards Amendments of 1949, receives deposits from employers assessed by the Department for unpaid minimum wages or unpaid overtime compensation owed to employees as a result of labor law violations, and pays these wages directly to the affected employees.

Longshore and Harbor Workers' Compensation Act Trust Fund, established under the authority of the Longshore and Harbor Workers' Compensation Act, provides medical benefits, compensation for lost wages, and rehabilitation services for job-related injuries and diseases or death to private sector workers engaged in certain maritime and other employment covered by extensions such as the Defense Base Act. The Act authorizes the Department to assess insurance carriers on behalf of these beneficiaries.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3. Fund accounting structure - continued

Fiduciary funds - continued

Davis-Bacon Act Trust Fund established under the Davis-Bacon Act, provides payment for claims relating to violations of the Davis-Bacon Act and Contract Work Hours and Safety Standards Act. Effective November 21, 2013, responsibility for administrating this fund was transferred from Government Accountability Office (GAO) to the Department of Labor. The Department investigates violation allegations to determine if federal contractors owe additional wages to covered employees. If the Department concludes that a violation has occurred, the Department collects the amount owed from the contracting federal agency, deposits the funds into an account with the U.S. Treasury, and remits payment to the claimant.

All other funds

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

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

Office of Job Corps supports the administration and management of the Job Corps program, which helps at-risk youth who need and can benefit from intensive education and training services to become more employable, responsible, and productive citizens.

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

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

Advances to the Unemployment Trust Fund and Other Funds provides advances to other accounts within the UTF to pay UC whenever the balances in these accounts prove insufficient or whenever reimbursements to certain accounts, as allowed by law, are to be made. This account also makes advances to the Federal Unemployment Benefits and Allowances account to pay the cost of benefits and services

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A. Reporting Entity - Continued

3. Fund accounting structure - continued

All other funds - continued

under the Trade Adjustment Assistance (TAA) for Workers program; and provides loans to the BLDTF to make disability payments whenever the fund balance proves insufficient.

Revolving fund for Advances to Employment Security Administration Account (ESAA), Unemployment Trust Fund was established under the authority of Social Security Administration (SSA) Section 901(e), to advance amounts to ESAA in the event that balances in this account prove insufficient to cover expenditures relating to administrative costs associated with the administration of the UTF.

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity - Continued

3. Fund accounting structure - continued

All other funds - continued

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 SSA, after which time DOL began processing new claims under Part C. SSA continued to administer Part B claims until DOL permanently assumed responsibility effective October 1, 2003.

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

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

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

4. Inter-departmental relationships

DOL and Treasury are jointly responsible for the operations of the UTF and the BLDTF. DOL is responsible for the administrative oversight and policy direction of the programs financed by these trust funds. Treasury acts as custodian over monies deposited into the funds and also invests amounts in excess of disbursing requirements in Treasury securities on behalf of DOL. DOL consolidates the financial results of the UTF and the BLDTF into these financial statements.

B. Basis of Accounting and Presentation

These financial statements present the financial position, net cost of operations, changes in net position and budgetary resources of DOL, and estimated and actuarial projections, and changes therein, for the Department's Black Lung social insurance program, in accordance with U.S. GAAP and the form and content requirements of OMB Circular No. A-136. To ensure that the Department's financial statements are meaningful, other liabilities as defined by OMB Circular No. A-136 have been disaggregated on the balance sheet. These include energy employees occupational illness compensation benefits, accrued leave, and other liabilities. Except as described in the following paragraphs, the financial statements have been prepared from the books and records of DOL, and include the accounts of all funds under the control of the DOL reporting entity. All inter-fund balances and transactions have been eliminated, except in the Statements of Budgetary Resources, which are presented on a combined basis, as required by OMB Circular No. A-136.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Basis of Accounting and Presentation - Continued

DOL is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are delegations by one department of its authority to obligate budget authority and outlay funds to another agency as prescribed by law. OMB Circular No. A-136 requires the parent to report all budgetary and proprietary activity in its financial statements. DOL (parent entity) allocates appropriations to the U.S. Department of Agriculture and the U.S. Department of the Interior (child entities) to provide funds for youth training programs. Accordingly, all activity for these allocation accounts is included in the DOL financial statements. DOL (child entity) receives allocated appropriations from the U.S. Department of State to support international HIV/AIDS relief efforts and the Executive Office of the President of the United States to support an unemployment insurance (UI) financial data access project (parent entities). Accordingly, activity for these allocation accounts is excluded from the DOL financial statements and reported by the parent agencies.

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

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

C. Funds with U.S. Treasury

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

D. Investments

Funds from Dedicated Collections

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

Balances held in the Panama Canal Commission Compensation Fund are invested in marketable Treasury securities. These investments are stated at amortized costs that equal their net carrying value on the Consolidated Balance Sheet. Discounts and premiums are amortized using the effective interest method. Interest rates and maturity dates vary. Management expects to hold these marketable securities until maturity; therefore, no provision is made in the financial statements for unrealized gains or losses. (See Note 3)

All Other Funds

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

E. Accounts Receivable, Net of Allowance

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

1. Intra-governmental accounts receivable

The Federal Employees Compensation (FEC) account within the UTF provides unemployment compensation to eligible Federal employees (UCFE) and ex-service members (UCX). DOL recognizes as accounts receivable amounts due from other Federal agencies for unreimbursed UCFE and UCX benefits. DOL's FECA Special Benefit Fund provides workers' compensation benefits to eligible Federal workers on behalf of other Federal agencies. DOL recognizes as accounts receivable amounts due from other Federal agencies to the Special Benefit Fund for unreimbursed FECA benefits.

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

2. Accounts receivable due from the public

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

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

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.

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

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

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

PP&E purchases and additions are stated at cost. Normal repairs and maintenance are charged to expense as incurred. PP&E are depreciated over their estimated useful lives using the straight-line method of depreciation.

Job Corps center construction costs are capitalized as construction-in-progress until completed. Upon completion they are reclassified as structures and facilities and depreciated over their estimated useful lives. Structures and facilities also includes DOL's only asset under capital lease. Leasehold improvements made at Job Corps centers and DOL facilities leased from the General Services Administration (GSA) are capitalized as construction-in-progress until completed. Upon completion, they are reclassified as improvements to leased facilities, and amortized over the remaining life of the lease or the useful life of the improvements, whichever is shorter, using the straight-line method of amortization. DOL operating leases have one-year terms with multiple option years. The leases are cancelable by the government upon appropriate notice as specified in the lease agreements. Historically, these leases have not been canceled and DOL has no intention to cancel these leases in the near term. (See Note 5)

G. Advances

DOL advances consist primarily of payments made to State Employment Security Agencies (SESA) and to grantees and contractors to provide for future DOL program expenditures. These advance payments are recorded by DOL as an asset, which is reduced when actual expenditures or the accrual of estimated expenditures are recorded by DOL. (See Note 6)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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. Unemployment Trust Fund advances from U.S. Treasury

UTF advances from U.S. Treasury outstanding as of September 30, 2014, and September 30, 2013, represent borrowings from the General Fund of the U.S. Treasury pursuant to the authority of Sections 905(d) and 1203 of the Social Security Act (42 USC 1323). These advances were appropriated in FY 2014 through two continuing resolutions with P.L. 113-46 and P.L. 113-73 and an appropriations act P.L. 113-76 and in FY 2013 through two continuing resolutions with P.L. 112-175 and P.L. 113-6 to pay unemployment benefits when amounts in the UTF are insufficient to fund these benefits. These repayable advances bear interest rates ranging between 2.375% and 3.250%, which were computed as the average interest rate, as of the end of the calendar month preceding the issuance date of the advance, for all interest bearing obligations of the United States then forming the public debt, to the nearest lower one-eighth of 1%. Interest on the repayable advances is due on September 30th of each year or upon the repayment of an advance. Advances are repaid by transfers from the UTF to the General Fund of the U.S. Treasury when the Secretary of the Treasury, in consultation with the Secretary of Labor, has determined that the balances in the UTF allow repayment. (See Note 8)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Debt - Continued

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

The Energy Improvement and Extension Act of 2008 (P.L. 110-343, section 113), enacted October 3, 2008, authorized restructuring of the BLDTF debt by the repayment at market value the fund's outstanding repayable Advances from U.S. Treasury, using the proceeds from borrowings from Treasury's Bureau of the Fiscal Service and a one-time appropriation. Pursuant to this authority, in FY 2009, the BLDTF borrowed from Treasury $6.496 billion which was structured into 32 discounted instruments with sequential annual September 30th maturities over the 32-year period 2009 through 2040, bearing interest rates ranging from 1.412% to 4.556%. Interest on each instrument accrues until its September 30th maturity date or the instrument's prepayment, whichever occurs first. These debt payments are to be made from the excise taxes assessed on mined coal. In the event that the BLDTF cannot repay a discounted instrument when it matures, or make benefit payments or other authorized expenditures, the Act authorizes the issuance of one-year discounted instruments to finance these activities. The BLDTF issued additional debt on September 30, 2013 (due September 30, 2014) bearing an interest rate of 0.098%, and on September 30, 2014 (due September 30, 2015) bearing an interest rate of 0.11%. (See Note 8)

K. Accrued Benefits

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

1. Unemployment benefits payable

The UTF provides benefits to unemployed workers who meet state and Federal eligibility requirements. Regular and extended unemployment benefits are paid from state accounts within the UTF, financed primarily by a state unemployment tax on employer payrolls. Fifty percent of the cost of extended unemployment benefits is paid from the Extended Unemployment Compensation Account (EUCA) within the UTF, financed by a Federal unemployment tax on employer payrolls. The Recovery Act provided for a 100% Federal funding of Extended Benefits (EB) through December 2009. This 100% Federal funding provision has been extended several times, which phased out on January 1, 2014.

The Recovery Act also provided for Federal Additional Unemployment Compensation (FAUC), a $25 weekly supplement entirely funded from Treasury General Fund revenues, payable through December 2009, to individuals who were entitled under state law to otherwise receive any type of UC. FAUC benefits were extended several times, with phase-out of benefit eligibility by December 2010. Although the vast majority of FAUC activity has ceased, states are still reporting residual transactions related to the program on monthly reports.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

K. Accrued Benefits - Continued

1. Unemployment benefits payable - continued

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

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

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

3. Black lung disability benefits payable

The BLDTF and Special Benefits for Disabled Coal Miners provide compensation and medical benefits for eligible coal miners who are totally disabled due to pneumoconiosis (black lung disease). DOL recognizes a liability for disability benefits to the extent of unpaid benefits applicable to the current period.

4. Energy employees occupational illness compensation benefits payable

The Energy Employees Occupational Illness Compensation Fund provides benefits to eligible current or former employees of the DOE and its contractors suffering from designated illnesses incurred as a result of their work with DOE. Benefits are also paid to certain survivors of those employees and contractors, as well as to certain beneficiaries of the Radiation Exposure Compensation Act (RECA). DOL recognizes a liability for disability benefits to the extent of unpaid benefits applicable to the current period.

L. Future Workers' Compensation Benefits

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

The actuarial methodology provides for the effects of inflation and adjusts historical payments to current year constant dollars by applying wage inflation factors (cost-of-living adjustments or COLA) and medical inflation factors

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L. Future Workers' Compensation Benefits - Continued

(consumer price index-medical or CPIM) to the calculation of projected benefits. The COLAs and CPIMs used in the projections for FY 2014 and FY 2013 were as follows:

	COLA		CPIM	
FY	2014	2013	2014	2013
2014	N/A	1.67 %	N/A	3.46 %
2015	1.73 %	1.80 %	2.93 %	3.82 %
2016	2.17 %	2.20 %	3.76 %	3.83 %
2017	2.13 %	2.20 %	3.86 %	3.82 %
2018	2.23 %	2.20 %	3.90 %	3.82 %
2019+	2.30 %	2.20 %	3.90 %	3.82 %

In FY 2014, based on the approach used in FY 2013, DOL refined the approach for selecting the interest rate assumptions. For FY 2014, projected annual payments were discounted to present value based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues to reflect the average duration for income payments of 15.1 years and medical payments of 9.9 years. For FY 2014, interest rate assumptions were 3.455% for years one, two, and thereafter for income payments and 2.855% for years one, two, and thereafter for medical payments.

For FY 2013, projected annual payments were discounted to present value based on OMB's interest rate assumptions which were interpolated to reflect the average duration for income payments of 14.7 years and medical payments of 9.6 years. For FY 2013, interest rate assumptions were 2.727% in year one and 3.127% in year two and thereafter for income payments and 2.334% in year one and 2.869% in year two and thereafter for medical payments.

M. Energy Employees Occupational Illness Compensation Benefits

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

The Ronald Reagan National Defense Authorization Act of 2005 amended EEOICPA to include Subtitle E – Contractor Employee Compensation. The amended program grants workers' compensation benefits to covered employees and their families for illness and death arising from exposure to toxic substances at a DOE facility. The amendment also makes it possible for uranium workers as defined under Section 5 of RECA to receive compensation under Part E for illnesses due to toxic substance exposure at a uranium mine or mill covered under that Act.

DOL has recognized a $16.0 billion and $16.0 billion actuarial liability for estimated future benefits payable by DOL as of September 30, 2014 and September 30, 2013, respectively, to eligible individuals under the EEOICPA.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

M. Energy Employees Occupational Illness Compensation Benefits - Continued

In FY 2014, based on the approach used in FY 2013, DOL refined the approach for selecting the interest rate assumptions. For FY 2014, projected payments were discounted to present value based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues to reflect the average duration for compensation payments of 8.9 years and medical payments of 16.7 years. As of September 30, 2014, the undiscounted liability was $23.5 billion discounted to a present value liability of $16.0 billion based on an interest rate of 2.661% for compensation payments and 3.560% for medical payments projected over a 58-year period.

For FY 2013, projected payments were discounted to present value based on OMB's interest rate assumptions which were interpolated to reflect the average duration for compensation payments of 9.2 years and medical payments of 17.3 years. As of September 30, 2013, the undiscounted liability was $23.0 billion discounted to a present value liability of $16.0 billion based on an interest rate of 2.826% for compensation payments and 3.245% for medical payments projected over a 58-year period.

The estimated liability includes the expected compensation and estimated medical payments for approved compensation cases and cases filed pending approval, as well as claims incurred but not yet filed. The actuarial projection methodology provided an estimate of the ultimate number of reported cases as a result of estimating future reported claims from the historical patterns of reported claims and subsequent claim approval rates. Medical payments were derived by estimating an average benefit award per living employee claimant.

N. Accrued Leave

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

O. Employee Health and Life Insurance Benefits

DOL employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP). DOL matches the employee contributions to each program to pay for current benefits. During FY 2014, DOL's contributions to the FEHBP and FEGLIP were $111.0 million and $2.4 million, respectively. During FY 2013, DOL's contributions to the FEHBP and FEGLIP were $110.1 million and $2.4 million, respectively. These contributions are recognized as current operating expenses.

P. Other Retirement Benefits

DOL employees eligible to participate in the FEHBP and the FEGLIP may continue to participate in these programs after their retirement. DOL recognizes a current operating expense for the future cost of these other retirement benefits (ORB) at the time the employee's services are rendered. This ORB expense must be financed by the U.S. Office of Personnel Management (OPM). Using cost factors supplied by OPM, DOL recorded ORB imputed costs and imputed financing sources of $68.2 million in FY 2014 and $70.3 million in FY 2013.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Q. Employee Pension Benefits

DOL employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). For employees participating in CSRS, 7.0% of their gross earnings is withheld and transferred to the Civil Service Retirement and Disability Fund. DOL contributes an additional 7.0% of the employee gross earnings to the Civil Service Retirement and Disability Fund. P.L. 112-96, Section 5001, the "Middle Class Tax Relief and Job Creation Act of 2012," changed the employee and employer contributions for new employees participating in FERS. For those employees designated by OPM as FERS Revised Annuity Employees (RAEs, i.e., new employees who, in general, were hired on or after January 1, 2013), DOL withholds 3.1% of gross earnings and makes a 9.6% employer contribution; for FERS employees hired on December 31, 2012 and before, DOL withholds 0.8% of gross earnings and makes an 11.9% employer contribution. The Bipartisan Budget Act of 2013, section 401, further changed the employee and employer contributions for new employees participating in FERS. For those employees designated by OPM as FERS Further Revised Annuity Employees (FRAEs, i.e., new employees who, in general, were hired on or after January 1, 2014), DOL withholds 4.4% from gross earnings and makes a 9.6% contribution for FERS FRAE employees.

	Percentage of Gross Earnings		
	FERS	FERS RAE	FERS FRAE
Employee contribution/withholding	0.8%	3.1%	4.4%
DOL contribution	11.9%	9.6%	9.6%

These totals are transferred to the Federal Employees' Retirement Fund. The CSRS and FERS retirement funds are administered by OPM. DOL contributions to the CSRS and FERS are recognized as current operating expenses. FERS participants are also covered under the Federal Insurance Contribution Act (FICA) and are subject to withholdings. DOL makes matching FICA contributions, recognized as current operating expenses. DOL's matching contributions were $117.3 million in FY 2014 and $115.5 million in FY 2013.

The Thrift Savings Plan (TSP) is a defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS. CSRS participants may contribute up to $17,500 of their gross pay to the TSP during calendar years 2014 and 2013, but there is no departmental matching contribution. FERS participants may contribute up to $17,500 of their gross pay to the TSP during calendar years 2014 and 2013. 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 2014 and 2013, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Q. Employee Pension Benefits - Continued

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. 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.

2. Unexpended appropriations

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

S. Net Cost of Operations

1. Operating costs

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

2. Earned revenue

Earned revenues arise from exchange transactions which occur through the provision of goods and services for a price, and are deducted from the full cost of DOL's major programs to arrive at net program cost. Earned revenues are recognized by DOL to the extent reimbursements are payable from other Federal agencies and from the public, as a result of costs incurred or services performed on their behalf. Major sources of DOL's earned revenue include reimbursements to the FECA Special Benefit Fund from Federal agencies for the costs of disability compensation and medical care provided to or accrued on behalf of their employees and reimbursements to the UTF from Federal agencies for the cost of unemployment benefits provided to or accrued on behalf of their former employees. (See Note 15)

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 Statements 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 used, appropriations transferred, and adjustments

DOL receives financing sources through congressional appropriations to support its operations. A financing source is recognized for these appropriated funds received, less appropriations transferred, or adjusted due to rescission, cancellation, sequestration, or return of permanent indefinite authority. Appropriations are considered used as a financing source when goods and services are received or benefits are provided.

2. Non-exchange revenue

Non-exchange revenues arise primarily from the Federal government's power to demand payments from the public. Non-exchange revenues are recognized by DOL on the Consolidated Statements of Changes in Net Position and are discussed below. (See Note 16)

Employer taxes

Employer tax revenues are recognized on a modified cash basis, to the extent of cash transferred by the collecting entity to DOL, plus the change in inter-entity balances between the collecting entity and DOL. Inter-entity balances represent revenue received by the collecting entity, net amounts due to the collecting entity and adjustments made to previous transactions by the collecting entity which have not been transferred to DOL.

Federal and state unemployment taxes represent non-exchange revenues collected from employers based on wages paid to employees in covered employment. Federal unemployment taxes are collected by the Internal Revenue Service and transferred to designated accounts within the UTF. State unemployment taxes are collected by each state and deposited in separate state accounts within the UTF. Among other things, Federal unemployment taxes are used to pay the Federal share of extended unemployment benefits and to provide for Federal and state administrative expenses related to the operation of the UI program, employment services including veterans' ES, and foreign labor certifications (FLC). Additional Federal collections from states with advances from the fund that have been outstanding for more than two years are used to reduce states' outstanding advance balances. State unemployment taxes are restricted in their use to the payment of unemployment benefits.

Interest

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

T. Budgetary Financing Sources – Continued

2. Non-exchange revenue - continued

Reimbursement of unemployment benefits and other

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

3. Transfers without reimbursement

Transfers recognized as budgetary financing sources by DOL include transfers from the Department of Homeland Security H-1B Nonimmigrant Petitioner Account to H-1B Funds in ETA and WHD. There are also transfers between DOL entities, primarily for the administration of the UI program and of appropriations for extended unemployment benefits. (See Note 17)

U. Other Financing Sources

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

1. Imputed financing from costs absorbed by others

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

2. Transfers without reimbursement

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

V. Custodial Activity

DOL collects and transfers to the General Fund of the U.S. Treasury custodial non-exchange revenues for penalties levied against employers by OSHA, MSHA, WHD, and EBSA for regulatory violations; and for FECA administrative costs assessed against government corporations in excess of amounts reserved to finance capital improvements in the FECA Special Benefit Fund; and for ETA collections and administrative charges and restitution payments. These collections are not available to the agencies for obligation or expenditure. Penalties and other assessments are recognized as custodial non-exchange revenues when collected or subject to collection. (See Note 20)

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

1. Program Background

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

1. Program Background - continued

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 domestic 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 low interest rate discounted debt instruments similar in form to zero-coupon bonds, plus a one-time appropriation. This Act also allowed that any subsequent debt issued by the BLDTF may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing. (See Notes 1-J and 8)

2. Significant Assumptions

The significant assumptions used in the projections for the Statements of Social Insurance (SOSI) are the coal excise tax revenue estimates, the tax rate structure, the number of beneficiaries, life expectancy, Federal civilian pay raises, and medical cost inflation. These assumptions affect the amounts reported on the SOSI, summary section and the Statements 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 10 years of tax receipt estimates. The remaining years are estimated using a growth rate based on both historical tax receipts and the Treasury's estimated tax receipts. The coal excise tax rates of $1.10 per ton of underground-mined coal and $0.55 per ton of surface-mined coal sold, with a cap of 4.4% of sales price, continue until the earlier of December 31, 2018 or the first December 31 in which there exists no (1) balance of repayable debt described in section 9501 of the Internal Revenue Code and (2) unpaid interest on the debt. At that time, the tax rates revert to $0.50 per ton of underground-mined coal and $0.25 per ton of surface-mined coal sold, with a limit of 2.0% of sales price.

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

SSA life tables are used to project the life expectancies of the beneficiary population. OMB supplies assumptions for future monthly benefit rate increases based on increases in the Federal pay scale and future medical cost inflation based on increases in the CPIM, which are used to calculate future benefit costs.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

2. Significant Assumptions - continued

During the current projection period, the future benefit rate (annualized for the fiscal year) increases 3.56% in 2015, 3.49% in 2016, 3.20% in 2017 and 2018, and approximately 3.10% in each year thereafter and medical cost increases 3.3% in 2015, 3.8% in 2016, and 3.9% in each year thereafter. Estimates for administrative costs for the first 10 years of the projection period 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.

In FY 2014, DOL further refined the approach for selecting the interest rate assumptions to enhance matching between the timing of cash flows and interest rates and increase comparability. For FY 2014, projected annual cash flows were discounted to present value based on Treasury rates that reflect the average duration of cash flows between 10.4 and 12.2 years for income payments, medical payments, administrative expenses, and coal excise tax collections. The interest rates used to discount FY 2014 projections are 2.50% for income payments and 2.63% for medical payments, administrative expenses, and coal excise tax collections.

In FY 2013, DOL refined the approach for selecting the interest rate assumptions and enhanced matching between the timing of cash flows and interest rates. For FY 2013, projected annual cash flows were discounted to present value based on OMB's interest rate assumptions which were interpolated to reflect the average duration of cash flows between 21.3 and 25.4 years for income payments, medical payments, administrative expenses, and coal excise tax collections. The interest rates used to discount FY 2013 projections were between 2.79% and 2.95% for income payments, medical payments, administrative expenses, and coal excise tax collections.

For FYs 2010 through 2012, the projections were discounted using an interest rate published by Treasury as of the start of the projection period for Treasury loans to government agencies for loans with a duration that approximated the projection period. The valuation date for the FY 2014 and FY 2013 information presented in the SOSI, including the summary section, and in the SCSIA is September 30, 2014, and 2013, respectively.

The accumulated deficit of all past disbursements over past cash receipts, including interest on investments, is ($5.76) billion, the amount of the trust fund net position deficit at the start of the projection period, September 30, 2014. The excess of the present value of estimated future excise tax income over the actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants (open and closed group measure) is calculated by adding the outflows of:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

2. Significant Assumptions - continued

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

and then subtracting the inflows of:

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

As a result of changes in the assumptions above:

- in FY 2014, the open and closed group measure decreased by ($137.5) million primarily due to projected lower coal excise tax revenues, offset in part due to lower beneficiary costs and the change in interest rates used to discount the cash flows from between 2.79% and 2.95% in FY 2013 to 2.50% for income payments and 2.63% for medical payments, administrative expenses, and coal excise tax collections in FY 2014; and
- in FY 2013, the open and closed group measure decreased by ($38.2) million primarily due to projected lower coal excise tax revenues and the change in the interest rates used to discount the cash flows from 2.75% in FY 2012 to between 2.79% and 2.95% in FY 2013 for income payments, medical payments, administrative expenses, and coal excise tax collections, offset in part due to lower beneficiary costs.

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.

NOTE 2 - FUNDS WITH U.S. TREASURY

Funds with U.S. Treasury as of September 30, 2014, consisted of the following:

(Dollars in thousands)	Revolving funds	Trust funds	Special funds	General funds	Other	Total
Unobligated Balance Available	$ 1,761	$ 163	$ 345,638	$ 2,632,358	$ -	$ 2,979,920
Unobligated Balance Unavailable	21,868	-	55,114	1,508,208	-	1,585,190
Obligated Balance Not Yet Disbursed	87,385	12,910	327,939	7,911,976	-	8,340,210
Non-Budgetary Fund Balance with Treasury	-	97,577	239	292	-	98,108
Total Entity Assets	111,014	110,650	728,930	12,052,834	-	13,003,428
Non-entity Assets	-	(2,577)	-	-	3,495	918
Fund Balance with Treasury	$ 111,014	$ 108,073	$ 728,930	$ 12,052,834	$ 3,495	$ 13,004,346

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

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

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

The negative fund balance reported as of September 30, 2014, relates to the UTF and is the result of the timing of processing the investments and redemptions of UTF. The investments and redemptions relating to the last business day of the month are not processed until the first day of the next month. This results in a negative cash position for the preceding business day when the disbursements are greater than the receipts to the fund.

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

Unobligated Balance Available as of September 30, 2014 and 2013, includes $486.6 million and $991.7 million, respectively, of funds apportioned for use in the subsequent year period.

NOTE 3 - INVESTMENTS

Investments as of September 30, 2014, 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					
2.375% maturing June 30, 2016	$ 3,751,987	$ -	$ 22,277	$ 3,774,264	$ 3,751,987
Special issue Certificate of Indebtedness					
2.375% maturing June 30, 2015	32,167,350	-	162,657	32,330,007	32,167,350
	35,919,337	-	184,934	36,104,271	35,919,337
Panama Canal Commission Compensation Fund					
Marketable					
U.S. Treasury Notes					
4.250% maturing November 15, 2014	46,631	239	743	47,613	46,631
	$ 35,965,968	$ 239	$ 185,677	$ 36,151,884	$ 35,965,968
Entity investments	$ 35,838,676	$ 239	$ 185,022	$ 36,023,937	$ 35,838,676
Non-entity investments	127,292	-	655	127,947	127,292
	$ 35,965,968	$ 239	$ 185,677	$ 36,151,884	$ 35,965,968

NOTE 3 - INVESTMENTS - Continued

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

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

NOTE 4 - ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

Accounts receivable, net as of September 30, 2014, consisted of the following:

(Dollars in thousands)	Gross Receivables	Allowance	Net Receivables
Entity intra-governmental assets			
Due for UCFE and UCX benefits	$ 348,885	$ -	$ 348,885
Due for workers' compensation benefits	5,262,857	-	5,262,857
Other	7,009	-	7,009
	5,618,751	-	5,618,751
Entity assets			
State unemployment taxes	1,294,831	(870,938)	423,893
Due from reimbursable employers	718,016	(69,204)	648,812
Benefit overpayments	3,912,278	(3,212,275)	700,003
Other	11,699	-	11,699
	5,936,824	(4,152,417)	1,784,407
Non-entity assets			
Fines and penalties	222,614	(118,429)	104,185
	6,159,438	(4,270,846)	1,888,592
	$ 11,778,189	$ (4,270,846)	$ 7,507,343

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

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

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

Property, plant and equipment, net as of September 30, 2014, consisted of the following:

(Dollars in thousands)	2014 Cost	2014 Accumulated Depreciation/ Amortization	2014 Net Book Value
Structures, facilities and improvements			
Structures and facilities	$ 1,435,293	$ (630,328)	$ 804,965
Improvements to leased facilities	398,288	(288,939)	109,349
	1,833,581	(919,267)	914,314
Furniture and equipment			
Equipment held by contractors	146,748	(134,906)	11,842
Furniture and equipment	40,540	(31,773)	8,767
	187,288	(166,679)	20,609
Internal use software and software in development	248,404	(115,839)	132,565
Construction-in-progress	123,847	-	123,847
Land	99,534	-	99,534
	$ 2,492,654	$ (1,201,785)	$ 1,290,869

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

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

NOTE 6 - ADVANCES

Advances as of September 30, 2014 and 2013, consisted of the following:

(Dollars in thousands)	2014	2013
Intra-governmental		
Advances	$ 3,410	$ 1,928
Advances to states for UI benefit payments	2,155,414	1,916,300
Other	7,007	9,378
	2,162,421	1,925,678
	$ 2,165,831	$ 1,927,606

NOTE 7 - NON-ENTITY ASSETS

Non-entity assets as of September 30, 2014 and 2013, consisted of the following:

(Dollars in thousands)	2014	2013
Intra-governmental		
Funds with U.S. Treasury	$ 918	$ 4,560
Investments	127,947	187,254
	128,865	191,814
Accounts receivable, net of allowance	104,185	115,555
Total non-entity assets	233,050	307,369
Total entity assets	59,887,223	53,600,582
	$ 60,120,273	$ 53,907,951

NOTE 8 - DEBT

Debt during FY 2014 consisted of the following:

(Dollars in thousands)	Balance at September 30, 2013	Additional Borrowing	Repayment of Debt	Interest	Balance at September 30, 2014
Intra-governmental debt to Treasury					
Unemployment Trust Fund					
Advances from U.S. Treasury	$ 29,695,634	$ 2,700,000	$ (11,578,829)	$ 6,794	$ 20,823,599
Black Lung Disability Trust Fund					
Borrowing from U.S. Treasury	6,026,639	496,000	(798,383)	147,963	5,872,219
	$ 35,722,273	$ 3,196,000	$ (12,377,212)	$ 154,757	$ 26,695,818

Debt during FY 2013 consisted of the following:

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

NOTE 8 - DEBT - Continued

For the year ended September 30, 2014, interest expense for the UTF was $780.3 million, of which $773.5 million was paid. For the year ended September 30, 2013, interest expense for the UTF was $968.4 million, of which $919.0 million was paid.

For the year ended September 30, 2014, interest expense for the BLDTF was $223.8 million, of which $148.0 million was capitalized interest and $75.8 million was paid. For the year ended September 30, 2013, interest expense for the BLDTF was $226.6 million, of which $170.5 million was capitalized interest and $56.1 million was paid.

NOTE 9 - OTHER LIABILITIES

Other liabilities as of September 30, 2014 and 2013, consisted of the following:

(Dollars in thousands)	2014	2013
Intra-governmental		
Non-entity receivables due to U.S. Treasury	$ 104,011	$ 115,044
Accrued payroll and other liabilities	155,705	197,734
Total intra-governmental	259,716	312,778
Grant accruals	793,703	778,731
Capital lease liability	40,379	41,811
Environmental and disposal liability	31,063	31,501
Accrued payroll and other liabilities	79,451	65,639
Total other liabilities with the public	944,596	917,682
	$ 1,204,312	$ 1,230,460

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

NOTE 10 - ACCRUED BENEFITS

Accrued benefits as of September 30, 2014 and 2013, consisted of the following:

(Dollars in thousands)	2014	2013
State regular and extended unemployment benefits payable	$ 543,540	$ 1,017,609
Federal extended unemployment benefits payable	95,567	242,907
Federal emergency unemployment benefits payable	204,952	808,505
Federal employees' unemployment benefits payable	174,759	259,137
Federal additional unemployment benefits payable	28,340	26,364
Total unemployment benefits payable	1,047,158	2,354,522
Black lung disability benefits payable	22,381	24,562
Federal employees' disability and 10(h) benefits payable	121,686	115,125
Energy employees occupational illness compensation benefits payable	29,716	22,913
	$ 1,220,941	$ 2,517,122

NOTE 11 - FUTURE WORKERS' COMPENSATION BENEFITS

DOL's liability for future workers' compensation benefits as of September 30, 2014 and 2013, consisted of the following:

(Dollars in thousands)	2014	2013
Projected gross liability of the Federal government for future FECA benefits	$ 36,550,420	$ 36,787,794
Less liabilities attributed to other agencies:		
U.S. Postal Service	(16,022,491)	(15,824,912)
Department of the Navy	(2,412,365)	(2,492,678)
Department of Homeland Security	(2,539,846)	(2,507,229)
Department of Veterans Affairs	(2,263,351)	(2,220,399)
Department of the Army	(1,866,670)	(1,927,282)
Department of Justice	(1,679,244)	(1,632,706)
Department of the Air Force	(1,395,204)	(1,441,960)
Department of Transportation	(999,991)	(1,047,454)
Department of Agriculture	(954,753)	(986,318)
Department of Defense, Other	(856,734)	(888,494)
Department of the Interior	(821,633)	(846,634)
Department of the Treasury	(615,139)	(618,603)
Tennessee Valley Authority	(427,367)	(460,475)
Social Security Administration	(348,538)	(368,218)
Department of Health and Human Services	(288,214)	(292,875)
Department of Commerce	(226,371)	(242,691)
General Services Administration	(132,817)	(138,657)
Department of Energy	(102,200)	(101,333)
Department of State	(96,054)	(88,426)
Department of Housing and Urban Development	(74,365)	(76,903)
National Aeronautics and Space Administration	(47,600)	(50,822)
Environmental Protection Agency	(49,060)	(51,818)
Small Business Administration	(34,627)	(33,703)
Agency for International Development	(26,520)	(26,047)
Office of Personnel Management	(25,692)	(24,750)
Department of Education	(16,328)	(17,575)
Nuclear Regulatory Commission	(6,669)	(7,023)
National Science Foundation	(1,330)	(1,425)
Other	(723,801)	(757,049)
	(35,054,974)	(35,174,459)
	$ 1,495,446	$ 1,613,335
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	$ 1,217,382	$ 1,323,300
FECA benefits due to eligible workers of DOL and Job Corps enrollees	234,974	243,612
FECA benefits due to eligible workers of the Panama Canal Commission	43,090	46,423
	$ 1,495,446	$ 1,613,335

NOTE 12 - LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources as of September 30, 2014 and 2013, consisted of the following:

(Dollars in thousands)	2014	2013
Intra-governmental		
Debt	$ 26,695,818	$ 35,722,273
Future workers' compensation benefits	106,167	546,873
Accrued annual leave	116,755	116,030
Other liabilities	64,320	60,943
	287,242	723,846
Total liabilities not covered by budgetary resources	26,983,060	36,446,119
Total liabilities covered by budgetary resources	20,021,448	21,086,314
	$ 47,004,508	$ 57,532,433

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 2014 consisted of the following:

(Dollars in thousands)	Employer Contributions	Costs Imputed by OPM	Total Pension Expense
Civil Service Retirement System	$ 10,417	$ 27,197	$ 37,614
Federal Employees' Retirement System	151,085	25,104	176,189
Thrift Savings Plan	55,252	-	55,252
	$ 216,754	$ 52,301	$ 269,055

Pension expense in FY 2013 consisted of the following:

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

NOTE 15 - NET COST OF OPERATIONS

Note 15 A and B present detailed cost and revenue information by program and program agency (responsibility segment) in support of the summary information presented in the Consolidated Statements of Net Cost for FY 2014 and FY 2013, respectively. Note 15 C presents a further breakdown of this cost and revenue information for DOL's two largest program agencies, ETA, and the OWCP. (See Note 1-A.1 and 1-S)

NOTE 15 - NET COST OF OPERATIONS - Continued

A. Consolidating Statements of Net Cost by Program Agency

Net cost of operations by program agency for the year ended September 30, 2014, 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	$ 889,609	$ 307,020	$ -	$ -
With the public	45,040,591	4,509,356	-	-
Gross cost	45,930,200	4,816,376	-	-
Intra-governmental earned revenue	(831,755)	(2,964,728)	-	-
Public earned revenue	(310)	(9,490)	-	-
Less earned revenue	(832,065)	(2,974,218)	-	-
Net program cost	45,098,135	1,842,158	-	-
Employment and training				
Intra-governmental	41,310	-	28,677	-
With the public	4,415,412	-	1,508,563	-
Gross cost	4,456,722	-	1,537,240	-
Intra-governmental earned revenue	(99)	-	(24)	-
Public earned revenue	-	-	-	-
Less earned revenue	(99)	-	(24)	-
Net program cost	4,456,623	-	1,537,216	-
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	-	-	-	119,419
With the public	-	-	-	481,052
Gross cost	-	-	-	600,471
Intra-governmental earned revenue	-	-	-	(376)
Public earned revenue	-	-	-	(1,846)
Less earned revenue	-	-	-	(2,222)
Net program cost	-	-	-	598,249
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	$ 49,554,758	$ 1,842,158	$ 1,537,216	$ 598,249

Bureau of Labor Statistics	Mine Safety and Health Administration	Employee Benefits Security Administration	Veterans' Employment and Training	Wage and Hour Division	Other Program Agencies	Total
$ -	$ -	$ 396	$ 26	$ -	$ -	$ 1,197,051
-	-	1,716	114	-	8,662	49,560,439
-	-	2,112	140	-	8,662	50,757,490
-	-	(227)	(15)	-	-	(3,796,725)
-	-	-	-	-	-	(9,800)
-	-	(227)	(15)	-	-	(3,806,525)
-	-	1,885	125	-	8,662	46,950,965
-	-	-	10,967	9	2,734	83,697
-	-	-	252,220	48	7,349	6,183,592
-	-	-	263,187	57	10,083	6,267,289
-	-	-	(53)	-	(75)	(251)
-	-	-	-	-	-	-
-	-	-	(53)	-	(75)	(251)
-	-	-	263,134	57	10,008	6,267,038
-	77	56,671	332	86,258	59,158	202,496
-	168	163,999	7,650	214,867	195,914	582,598
-	245	220,670	7,982	301,125	255,072	785,094
-	-	(230)	(10)	(5)	(1,359)	(1,604)
-	-	(2)	-	(2,800)	-	(2,802)
-	-	(232)	(10)	(2,805)	(1,359)	(4,406)
-	245	220,438	7,972	298,320	253,713	780,688
-	125,790	-	-	-	-	245,209
-	320,027	-	-	-	-	801,079
-	445,817	-	-	-	-	1,046,288
-	(312)	-	-	-	-	(688)
-	(2,026)	-	-	-	-	(3,872)
-	(2,338)	-	-	-	-	(4,560)
-	443,479	-	-	-	-	1,041,728
222,862	-	-	-	-	-	222,862
412,815	-	-	-	-	-	412,815
635,677	-	-	-	-	-	635,677
(17,196)	-	-	-	-	-	(17,196)
-	-	-	-	-	-	-
(17,196)	-	-	-	-	-	(17,196)
618,481	-	-	-	-	-	618,481
-	-	-	-	-	30,394	30,394
-	-	-	-	-	(296)	(296)
-	-	-	-	-	30,098	30,098
$ 618,481	$ 443,724	$ 222,323	$ 271,231	$ 298,377	$ 302,481	$ 55,688,998

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2014 and 2013

NOTE 15 - NET COST OF OPERATIONS - Continued

B. Consolidating Statements of Net Cost by Program Agency

Net cost of operations by program agency for the year ended September 30, 2013, consisted of the following:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2014 and 2013

NOTE 15 - NET COST OF OPERATIONS – Continued

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

Net cost of operations for the year ended September 30, 2014, consisted of the following:

(Dollars in thousands)	Employment and Training Administration	Office of Workers' Compensation Programs
CROSSCUTTING PROGRAMS		
Income maintenance		
Benefits	$ 39,588,100	$ 4,213,783
Grants	4,243,834	-
Interest	781,245	223,823
Administrative and other	1,317,021	378,770
Gross cost	45,930,200	4,816,376
Less earned revenue	(832,065)	(2,974,218)
Net program cost	45,098,135	1,842,158
Employment and training		
Grants	4,166,872	-
Administrative and other	289,850	-
Gross cost	4,456,722	-
Less earned revenue	(99)	-
Net program cost	4,456,623	-
Net cost of operations	$ 49,554,758	$ 1,842,158

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

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

NOTE 16 - NON-EXCHANGE REVENUE

Non-exchange revenues reported on the Consolidated Statements of Changes in Net Position in FY 2014 and FY 2013 consisted of the following:

(Dollars in thousands)	2014	2013
Employer taxes		
Unemployment Trust Fund		
State unemployment taxes	$ 44,100,597	$ 46,205,383
Federal unemployment taxes	8,469,495	7,747,614
	52,570,092	53,952,997
Black Lung Disability Trust Fund excise taxes	580,779	541,338
	53,150,871	54,494,335
Interest		
Unemployment Trust Fund	1,205,037	1,270,780
Other	1,289	1,396
	1,206,326	1,272,176
Reimbursement of unemployment benefits and other	2,177,300	2,532,461
	$ 56,534,497	$ 58,298,972

NOTE 17 - TRANSFERS WITHOUT REIMBURSEMENT

Transfers from other Federal agencies in FY 2014 and FY 2013 consisted of the following:

(Dollars in thousands)	2014	2013
Budgetary financing sources		
From H-1B Nonimmigrant Petitioner Account, Department of Homeland Security and other	$ 223,423	$ 199,640
Other financing sources		
From General Services Administration	6,498	4,764
	$ 229,921	$ 204,404

The balance of $223.4 million and $200.0 million in budgetary financing sources for FY 2014 and FY 2013, respectively, reflect the elimination of intra-DOL transfers of $1 billion and $22.2 billion, respectively.

NOTE 18 - STATUS OF BUDGETARY RESOURCES

A. Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Combined Statements of Budgetary Resources in FY 2014 and FY 2013 consisted of the following:

(Dollars in thousands)	2014	2013
Direct obligations		
Category A	$ 4,840,064	$ 4,446,633
Category B	14,883,429	37,017,563
Exempt from apportionment	47,125,978	73,913,459
Total direct obligations	66,849,471	115,377,655
Reimbursable obligations		
Category A	293,824	334,110
Category B	2,777,857	2,399,662
Total reimbursable obligations	3,071,681	2,733,772
	$ 69,921,152	$ 118,111,427

B. Permanent Indefinite Appropriations

DOL's permanent indefinite appropriations include trust funds, the FAUC Fund, the Panama Canal Commission Compensation Fund, the Energy Employees Occupational Illness Compensation Fund, ETA and WHD H-1B funds, ETA's Advances and Payments to the UTF, Short-Time Compensation, and portions of SUIESO and Federal Unemployment Benefits and Allowances. These funds are described in Note 1-A.3. As of September 30, 2014 and 2013, the Department returned unobligated, indefinite authority to Treasury in the amount of $1.35 billion and $8.4 billion, respectively.

C. Legal Arrangements Affecting Use of Unobligated Balances

UTF receipts are reported as budget authority in the Combined Statements 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 is classified as temporarily not available pursuant to public law at September 30. Therefore, these excess receipts are reported as a reduction to Appropriations and Unobligated Balances – Exempt from Apportionment in the Combined Statements of Budgetary Resources. Conversely, when obligations exceed receipts in the current year, amounts are drawn from the temporarily unavailable collections to increase current year Appropriations and Unobligated Balances – Exempt from Apportionment on the Combined Statements of Budgetary Resources to cover these obligations. All excess receipts are reported as assets of the UTF and are included in the Consolidated Balance Sheets.

The cumulative amounts of excess UTF receipts are denoted as unavailable collections in the Budget of the United States Government. The cumulative amount of these excess receipts as of September 30, 2014 and 2013, 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)	2014	2013
Unemployment Trust Fund unavailable collections, beginning	$ 24,378	$ 14,908
Budget authority from current year appropriations	$ 50,493	$ 74,237
Budget authority from current year borrowing authority	2,700	7,700
Less: obligations	(45,764)	(72,467)
Excess of budget authority over obligations	7,429	9,470
Unemployment Trust Fund unavailable collections, ending	$ 31,807	$ 24,378

D. Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government for FY 2013

The Budget of the United States Government with actual amounts for the year ended September 30, 2014, has not been published as of the issue date of these financial statements. This document will be available in February 2015 at http://www.dol.gov/dol/aboutdol/.

A reconciliation of budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays, as presented in the Combined Statement of Budgetary Resources (SBR) for FY 2013, to amounts included in the Budget of the United States Government for the year ended September 30, 2013, is shown below.

(Dollars in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 122,766	$ 118,111	$ 28,190	$ 109,982
Pension Benefit Guaranty Corporation reported separately	23,042	5,860	-	(1,576)
Fiduciary activity	196	133	-	131
Expired accounts	(1,585)	(169)	-	-
Other	11	15	-	(39)
Budget of the United States Government	$ 144,430	$ 123,950	$ 28,190	$ 108,498

E. Undelivered Orders

Undelivered orders as of September 30, 2014 and 2013, were as follows:

(Dollars in thousands)	2014	2013
Undelivered orders	$ 12,075,285	$ 11,590,796

NOTE 18 - STATUS OF BUDGETARY RESOURCES - Continued

F. Appropriations Received

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

(Dollars in millions)	FY 2014	FY 2013
Appropriations Received, Consolidated Statements of Changes in Net Position	$ 16,857	$ 43,105
Receipts recognized as revenue in current or prior years		
Unemployment Trust Fund	54,645	76,029
Black Lung Disability Trust Fund	598	501
Other funds from dedicated collections	221	198
Repayment of debt from appropriated receipts		
Unemployment Trust Fund	(11,579)	(10,986)
Black Lung Disability Trust Fund	(302)	(209)
Return of permanent indefinite authority	(901)	(5,241)
Reduction for sequestration, across the board reductions, and other	(103)	(788)
	42,579	59,504
Appropriations, Combined Statements of Budgetary Resources	$ 59,436	$ 102,609

G. Borrowing Authority

As of September 30, 2014 and 2013, P.L. 113-76 (128 Stat. 352 dated January 17, 2014) and P.L. 113-6 (127 Stat. 412 dated March 26, 2013), respectively, granted borrowing authority for repayable advances and other debt in the amount of “such sums as may be necessary” to (1) the UTF for advances as authorized by sections 905(d) and 1203 of the Social Security Act and (2) the BLDTF for advances as authorized by section 9501(c)(1) of the Internal Revenue Code. Although section 9501 of the Internal Revenue Code and P.L. 113-76 use the terminology “advance," the Treasury has interpreted this to mean any debt owed by the BLDTF to the Bureau of the Fiscal Service.

Borrowing authority for the UTF was $2.7 billion and $7.7 billion for FY 2014 and FY 2013, respectively. The borrowing authority was used to allow states to borrow, as necessary, from the Federal government to pay unemployment benefits.

Borrowing authority for the BLDTF was $496 million and $401 million for FY 2014 and FY 2013, respectively. The borrowing authority was applied to repay debt of $496 million and $401 million for FY 2014 and FY 2013, respectively.

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

(Dollars in thousands)	FY 2014	FY 2013
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 69,921,152	$ 118,111,427
Recoveries of prior year unpaid obligations	(436,816)	(461,549)
Less: spending authority from offsetting collections	(7,604,889)	(7,826,120)
Obligations, net of offsetting collections and recoveries	61,879,447	109,823,758
Other resources		
Imputed financing from costs absorbed by others	120,547	112,929
Transfers without Reimbursement	6,498	4,764
Exchange revenue not in budget	(738,077)	(985,901)
Total resources used to finance activities	61,268,415	108,955,550
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	(444,498)	(160,936)
Resources that finance the acquisition of assets	(93,847)	(66,477)
Transfers that do not affect the net cost of operations	(5,012,892)	(26,393,701)
Total resources used to finance items not part of the net cost of operations	(5,551,237)	(26,621,114)
Total resources used to finance the net cost of operations	55,717,178	82,334,436
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in other periods		
Increase (decrease) in annual leave liability	691	(39)
(Decrease) increase in benefits liabilities	(189,774)	299,882
Increase in capitalized interest and other	72,092	196,245
Total	(116,991)	496,088
Components not requiring or generating resources		
Depreciation and amortization	71,683	73,501
Revaluation of assets and liabilities	904,334	1,062,620
Benefit overpayments	(887,206)	(1,095,362)
Total	88,811	40,759
Total components of the net cost of operations that will not require or generate resources in the current period	(28,180)	536,847
Net cost of operations	$ 55,688,998	$ 82,871,283

NOTE 20 - CUSTODIAL REVENUE

Custodial revenues in FY 2014 consisted of the following:

(Dollars in thousands)	Net Cash Collections and Transfers to U.S. Treasury General Fund	Increase (Decrease) in Amounts to be Collected and Transferred	Total Revenues
Civil monetary penalties			
Occupational Safety and Health Administration	$ 102,966	$ (5,714)	$ 97,252
Mine Safety and Health Administration	79,869	(5,480)	74,389
Employee Benefits Security Administration	21,688	506	22,194
Wage and Hour Division	32,734	(16)	32,718
	237,257	(10,704)	226,553
Other custodial activity			
Employment and Training Administration and other agencies	3,219	(326)	2,893
	$ 240,476	$ (11,030)	$ 229,446

Custodial revenues in FY 2013 consisted of the following:

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

NOTE 21 – FUNDS FROM DEDICATED COLLECTIONS

DOL is responsible for the operation of certain funds from dedicated collections. Other funds from dedicated collections include Gifts and Bequests, Panama Canal Commission Compensation Fund, and H-1B Funds. See Note 2 for the explanation of the negative FBWT. The financial position of the funds from dedicated collections as of September 30, 2014, is shown below.

(Dollars in thousands)	Unemployment	Black Lung Disability	Other	Total
Assets				
Intra-governmental				
Funds with U.S. Treasury	$ (4,064)	$ 111,966	$ 729,190	$ 837,092
Investments	36,104,271	-	47,613	36,151,884
Accounts receivable				
Due from other Federal agencies for UCFE and UCX benefits	348,885	-	-	348,885
Other	-	-	3,060	3,060
Total intra-governmental	36,449,092	111,966	779,863	37,340,921
Accounts receivable, net of allowance				
State unemployment tax	423,893	-	-	423,893
Due from reimbursable employers	648,812	-	-	648,812
Benefit overpayments	655,009	17,410	-	672,419
Other	84	-	2	86
Advances	2,134,502	-	-	2,134,502
Other	-	-	652	652
Total assets	$ 40,311,392	$ 129,376	$ 780,517	$ 41,221,285
Liabilities				
Intra-governmental				
Accounts payable to DOL agencies	$ 1,983,842	$ -	$ 1	$ 1,983,843
Debt	20,823,599	5,872,219	-	26,695,818
Amounts held for the Railroad Retirement Board	125,370	-	-	125,370
Other	-	1	10,238	10,239
Total intra-governmental	22,932,811	5,872,220	10,239	28,815,270
Accounts payable	-	-	4,204	4,204
Future workers' compensation benefits	-	-	43,090	43,090
Accrued benefits	1,018,818	12,508	-	1,031,326
Other liabilities	-	-	22,894	22,894
Total liabilities	23,951,629	5,884,728	80,427	29,916,784
Net position				
Cumulative results of operations	16,359,763	(5,755,352)	700,090	11,304,501
Total liabilities and net position	$ 40,311,392	$ 129,376	$ 780,517	$ 41,221,285

NOTE 21 - FUNDS FROM DEDICATED COLLECTIONS - Continued

The net results of operations of the funds from dedicated collections for the year ended September 30, 2014, are shown below.

(Dollars in thousands)	Unemployment	Black Lung Disability	Other	Total
Cost, net of earned revenues				
Benefits	$ (39,597,023)	$ (164,812)	$ -	$ (39,761,835)
Grants	-	-	(94,112)	(94,112)
Interest	(781,245)	(223,823)	-	(1,005,068)
Administrative and other	(1,117,028)	-	(77,940)	(1,194,968)
	(41,495,296)	(388,635)	(172,052)	(42,055,983)
Earned revenue	827,220	-	-	827,220
Net cost of operations	(40,668,076)	(388,635)	(172,052)	(41,228,763)
Net financing sources				
Taxes	52,570,092	580,779	-	53,150,871
Interest	1,205,037	1,223	66	1,206,326
Reimbursement of unemployment benefits and other	2,171,480	-	-	2,171,480
Imputed financing	-	-	3,284	3,284
Transfers-in				
Department of Homeland Security	-	-	237,624	237,624
DOL entities	5,015,034	-	-	5,015,034
Transfers-out				
DOL entities	(4,141,947)	(54,497)	-	(4,196,444)
Other	-	-	(16,343)	(16,343)
	56,819,696	527,505	224,631	57,571,832
Change in net position	16,151,620	138,870	52,579	16,343,069
Net position, beginning of period	208,143	(5,894,222)	647,511	(5,038,568)
Net position, end of period	$ 16,359,763	$ (5,755,352)	$ 700,090	$ 11,304,501

NOTE 21 - FUNDS FROM DEDICATED COLLECTIONS - Continued

The financial position of the funds from dedicated collections as of September 30, 2013, is shown below.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2014 and 2013

NOTE 21 – FUNDS FROM DEDICATED COLLECTIONS - Continued

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

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

NOTE 22 - FIDUCIARY ACTIVITY

The schedule of fiduciary activity and net assets for the fiduciary funds for the year ended and as of September 30, 2014, 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	Davis-Bacon Act Trust Fund	Total Fiduciary Funds
Fiduciary activity					
Assessments	$ 71,778	$ 119,053	$ 6,111	$ -	$ 196,942
Transfer of funds from GAO	-	-	-	5,277	5,277
Investment earnings	-	12	2	-	14
Administrative and other	-	32	2	(5,277)	(5,243)
Transfer of funds to Treasury	(17,643)	(2,142)	-	-	(19,785)
Disbursements to beneficiaries	(39,767)	(119,084)	(8,197)	-	(167,048)
Increase (decrease) in fiduciary net assets	14,368	(2,129)	(2,082)	-	10,157
Fiduciary net assets, beginning of year	149,784	22,689	4,846	-	177,319
Fiduciary net assets, end of year	$ 164,152	$ 20,560	$ 2,764	$ -	$ 187,476
Fiduciary assets					
Cash	$ 162,542	$ 1	$ 2	$ 5,277	$ 167,822
Investments	-	58,693	4,432	-	63,125
Other assets	1,610	2,467	42	-	4,119
Less: liabilities	-	(40,601)	(1,712)	(5,277)	(47,590)
Total fiduciary net assets	$ 164,152	$ 20,560	$ 2,764	$ -	$ 187,476

The schedule of fiduciary activity and net assets for the fiduciary funds for the year ended and as of September 30, 2013, is shown below.

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

Note 22 - FIDUCIARY ACTIVITY - Continued

FY 2012 audits were performed on the Longshore and Harbor Workers' Compensation Act Trust Fund and the District of Columbia Workmen's Compensation Act Trust Fund is available on DOL's website at www.oig.dol.gov.

NOTE 23 - MATERIAL CONCENTRATION OF RISK

The Division of FEC within OWCP administers the payment of workers' compensation benefits to federal and postal workers for employment-related injuries and occupational diseases. Federal agencies and the U.S. Postal Service (USPS) reimburse the FECA Special Benefit Fund for payments made on behalf of its workers. In Note 11, Future Workers' Compensation Benefits, the USPS liability as of September 30, 2014, of $16.0 billion represents the largest portion of the total projected gross liability of the Federal government for future FECA benefits attributed to other agencies of $35.1 billion as of September 30, 2014.

In October 2014 and 2013, USPS timely reimbursed the FECA Special Benefit Fund for costs incurred on its behalf during the 12 months ended June 30, 2014 and 2013, respectively. The USPS disclosed its lack of liquidity in its FY 2013 audited financial statements and it's FY 2014 interim unaudited financial statements. The USPS's portion of the FECA actuarial liability as of September 30, 2014, together with the USPS's poor financial condition, represent a material concentration of risk for the Department.

NOTE 24 - SUBSEQUENT EVENTS

Management has determined that there are no subsequent events.

Required Supplementary Stewardship Information

(Unaudited)

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(Unaudited)

STEWARDSHIP INVESTMENTS IN HUMAN CAPITAL

Stewardship investments are made by DOL on behalf of the nation, providing long-term benefits that cannot be measured in traditional financial reports. These investments are made for the general public, and are intended to maintain or increase national economic productive capacity. DOL's stewardship investments are in human capital, reported as employment and training expenses in DOL's net cost of operations. Within DOL, 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 OJC, incurred total net costs of $51.1 billion in FY 2014. The majority of these costs consisted of unemployment benefits, which totaled $39.6 billion in FY 2014, a decrease of $25.9 billion (39.5%) over the previous fiscal year. Also included in ETA's total net costs were investments in human capital of $4.5 billion, which provided services to over 7.9 million participants in FY 2014. 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 (ARRA) and other legislation.

Within ETA the OJC also invests in human capital through WIA's Job Corps training program. OJC's investment in human capital in FY 2014 was $1.5 billion, providing services to 109.6 thousand participants in primarily residential settings at 125 Job Corps centers. The ETA and OJC job training programs authorized by WIA are discussed below.

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

- **Adult employment and training programs** – ETA awards grants to states to design and operate training and employment assistance programs for disadvantaged adults, including public assistance recipients. ETA's FY 2014 investment in human capital through WIA adult programs was $846 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 2014 investment in human capital through WIA dislocated worker programs was $1.189 billion.
- **Youth programs** – ETA awards grants to states to support a wide range of program activities and services to prepare low-income youth for academic and employment success, including summer jobs, by linking academic and occupational learning with youth development activities. ETA's FY 2014 investment in human capital through WIA youth programs was $905 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 2014 investment in human capital through the Job Corps program was $1.537 billion.
- **Reintegration of Ex-Offenders programs** – ETA supports programs to help individuals exiting prison make a successful transition to community life and long-term employment through the provision of mentoring and job training programs to promote the successful return of adult and juvenile ex-offenders into mainstream society. ETA's FY 2014 investment in human capital through ex-offender programs was $85 million.
- **National programs** – ETA's National programs provide evaluation resources and program support for WIA activities; including nationally administered programs providing employment and training services to

segments of the population that have special disadvantages in the labor market, including grants to federally recognized Indian tribes and other Native American governments or non-profit organizations, and to Migrant and Seasonal Farmworker service organizations ETA's FY 2014 human capital investment in WIA National Programs was $149 million.

Community Service Employment for Older Americans (CSEOA) Program

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 ages 55 and older, so that they can prepare to enter or re-enter the workforce. ETA's FY 2014 investment in human capital through the CSEOA's SCSEP was $428 million.

Trade Adjustment Assistance for Workers Program

The TAA for Workers program was authorized by the Trade Act of 1974, as amended and reauthorized with expanded eligibility to service sector workers by the Trade and Globalization Adjustment Assistance Act of 2009. This expanded eligibility was extended through December 31, 2014, by the Trade Adjustment Assistance Extension Act of 2011. The TAA for Workers program provides cash benefits; job search and relocation allowances; employment services; and training to eligible workers displaced by international trade. Only TAA training costs are considered investments in human capital these costs were $277 million for FY 2014.

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 2014 human capital investment in the TAACCCT Grant Fund was $416 million.

National Apprenticeship Program

The National Apprenticeship Act of 1937 established the foundation for development of the nation's skilled workforce through apprenticeship programs, which combine on-the-job learning with related technical instruction to teach workers the theoretical aspects of skilled occupations. Funding provides oversight for a national system of skilled and technical occupational training, which promotes apprentices, registers apprenticeship programs, certifies apprenticeship standards, and safeguards the welfare of apprentices. ETA's FY 2014 investment in apprenticeship programs was $32 million.

Program Costs and Outputs

The cost of ETA and OJC investments in human capital and the participants served are shown in the chart on the next page, for the five year period FY 2010 through FY 2014.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(Unaudited)

ETA and OJC Investments in Human Capital
Program Costs (in Millions) and Participants Served [1] (in Thousands)
For The Five Year Period FY 2010 through FY 2014

	2014		2013		2012		2011		2010	
Program	**Costs**	***Part. Served***	**Costs**	***Part. Served***	**Costs**	***Part. Served***	**Costs**	***Part. Served***	**Costs**	***Part. Served***
WIA										
Adult	$846	*6,105.3*	$883	*6,761.5*	$861	*6,979.1*	$960	*7,025.2*	$899	*6,695.30*
Dislocated Worker [2]	1,189	*853.8*	1,329	*1,340.4*	1,524	*1,358.4*	2,039	*1,570.6*	2,539	*1,250.4*
Youth	905	*204.1*	942	*224.0*	944	*239.6*	1,124	*245*	1,431	*316.3*
Job Corps [3]	1,537	*109.6*	1,525	*79.6*	1,770	*97.5*	1,717	*99.4*	1,663	*102.4*
Ex-Offenders	85	*11.8*	96	*22.2*	76	*49.1*	67	*39*	70	*36.1*
National Programs [4]	149	*52.2*	170	*60.0*	180	*38.7*	150	*38.9*	134	*61.3*
CSEOA										
SCSEP	428	*67.7*	445	*66.9*	492	*76.9*	707	*105.9*	740	*103.6*
TAA for Workers	277	*67.9*	257	*105.1*	431	*144.7*	506	*193.1*	540	*232.7*
TAACCCT	416	*66.5*	266	*18.1*						
Apprenticeship	32	*392.1*	28	*366.0*	29	*410.0*	32	*432.2*	28	*485.4*
Other [5]	113	*28.8*	212	*109.3*	95	*357.7*	135	*104.9*	139	*95.8*
TOTAL[6]	$5,977	*7,959.8*	$6,153	*9,153.1*	$6,402	*9,751.7*	$7,437	*9,854.2*	$8,183	*9,379.3*

[1] Participant numbers are from grantee reports submitted for the Program Year (PY) ending on June 30 of the corresponding fiscal year.
[2] Dislocated Worker programs include Community Based Job Training Grants and National Emergency Grants.
[3] Job Corps participants served in the FY 2013 and prior years report switches from reporting only the number of new enrollees to the number of participants served.
[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. (High Growth and Emerging Industry Grants were reclassified from Dislocated Workers to Other in FY 2013.)
[6] FY 2014 and FY 2013 total Program Costs reported in this table differ from the Statements of Net Costs because these Human Capital Costs don't include allocated costs.

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

Method/Reporting Year	2014	2013	2012	2011	2010
New students enrolled (reporting method used in prior FYs reports)	53,862	40,800	55,029	56,204	59,839
Students Served (reporting method used in the FY 2014 report)	109,627	79,595	97,474	99,431	102,411

Program Outcomes

Outcomes for training programs comprising ETA's investment in human capital are presented in the Department's Annual Performance Report for FY 2014, available on the DOL website at www.dol.gov/ sec/media/reports/ in February 2015.

Veterans' Employment and Training Service

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

Program Activities

Jobs for Veterans State Grants (JVSG)

The Jobs for Veterans Act (JVA) of 2002, which allocates resources to the states through the JVSG program (38 U.S.C. 4102A(b)(5)), supports the majority of VETS activities through two 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 with barriers to employment.
- **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 educate partners within the American Job Centers on current employment initiatives and programs for veterans.

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.

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.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(Unaudited)

Program Costs and Outputs

The full cost of VETS programs is presented in the Consolidated Statements 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 2010 through FY 2014

	2014		2013		2012		2011		2010	
Program	Cost	Part. Served	Cost	Part. Served	Cost[1]	Part. Served	Cost	Part. Served	Cost	Part. Served
JVSG[2]	$170,764	332.0	$162,999	450.6	$210,671	508.8	$171,497	631.6	$191,802	709.0
TAP[3]	14,103	180.5	13,176	187.0	13,093	153.0	7,089	143.1	7,928	129.0
USERRA[4]	37,997	10.9	11,381	47.5	12,361	74.7	9,874	79.9	11,043	101.6
HVRP	36,885	16.1	40,691	17.4	35,562	19.8	28,385	17.0	31,746	14.4
VWIP[5]	1,894	2.1	2,157	1.9	9,855	4.3	7,863	3.9	8,794	3.3
TOTAL[6]	**$261,643**	***541.6***	**$230,404**	***704.4***	**$281,542**	***760.6***	**$224,708**	***875.5***	**$251,313**	***957.3***

[1] FY 2012 and prior cost allocated based on historical program cost.
[2] 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.
[3] Department of Defense participant estimates, which are not finalized until the end of the first quarter of the following fiscal year.
[4] USERRA Participants (USERRA Outreach Measure) reflects the number of people VETS connects with each year (service members, spouses, and employers) to inform them of their rights and responsibilities under the law. In addition, measure assumes 30% of USERRA authorized staff workload is dedicated to USERRA outreach efforts.
[5] Public Law 113-6, Consolidated and Further Continuing Appropriations Act, 2013, did not provide funding for the Veterans' Workforce Investment Program.
[6] FY 2014 and FY 2013 total Program Costs reported in this table differ from the Statements of Net Costs because these Human Capital Costs don't include allocated costs.

Program Outcomes

Outcomes for the programs comprising VETS' investment in human capital are presented in the Department's Annual Performance Report for FY 2014, available in February 2015 on the DOL website at: www.dol.gov/_sec/media/reports/.

Required Supplementary Information
(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

DEFERRED MAINTENANCE AND REPAIRS

DOL reports as general purpose plant, property and equipment, *Structures, facilities and improvements* on which maintenance and repair activities may be deferred (deferred maintenance or DM). Over 99.3% of these buildings and other structures (based on net book value) are owned by ETA-OJC, and located at one hundred twenty-five (125) Job Corps centers throughout the United States. The remaining 0.7% is owned by MSHA. Periodic maintenance is performed to keep these properties in acceptable condition, as determined by DOL management. Maintenance requirements are stratified into critical and non-critical projects. Critical maintenance involves health and life safety deficiencies and certain environmental and building code compliance deficiencies. To the extent possible, critical maintenance projects are funded shortly after they are identified. Non-critical maintenance projects are performed each year to the extent that funding constraints allow. Critical and non-critical maintenance projects that cannot be funded when scheduled are deferred to a future period.

Condition Assessment Surveys

Condition assessment surveys are conducted every three years at each property to determine the current condition of buildings and structures (constructed assets) and the estimated maintenance cost to correct deficiencies. Surveys conducted during years one and two of this three year cycle are updated to reflect maintenance and repairs performed, and rolled up with current assessments to provide a condition assessment for the entire DOL portfolio of constructed assets. Condition assessment surveys are based on methods and standards consistently applied, including descriptions of the facility condition; standardized condition codes, classifications and categories; estimated costs of maintenance and repair actions and recommended maintenance schedules.

Asset Condition

Condition assessment surveys are used to estimate the current plant replacement value and deferred maintenance repair backlog for each constructed asset. Plant replacement value and repair backlog are used to calculate a Facilities Condition Index (FCI) for each building and structure. The chart below ranks each asset within one of five categories of asset condition, based on the assets FCI score, for the previous five year period.

Job Corps Center and MSHA Constructed Assets
Ranking of Individual Asset Condition by FCI Score[1]
Fiscal Years 2010 – 2014

		2014		2013		2012		2011		2010	
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%*	3,720	87.9	3,593	88.4	3,454	86.8	3,338	86.2	3,273	86.4
Good	*80- 89%*	264	6.2	234	5.8	303	7.6	301	7.8	282	7.4
Fair	*70- 79%*	127	3.0	117	2.9	93	2.3	100	2.6	90	2.4
Poor	*60- 69%*	38	0.9	34	0.8	57	1.4	52	1.3	57	1.5
Very Poor	*< 60%*	82	2.0	88	2.1	74	1.9	83	2.1	88	2.3
TOTALS		**4,231**	**100.0**	**4,066**	**100.0**	**3,981**	**100.0**	**3,874**	**100.0**	**3,790**	**100.0**

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

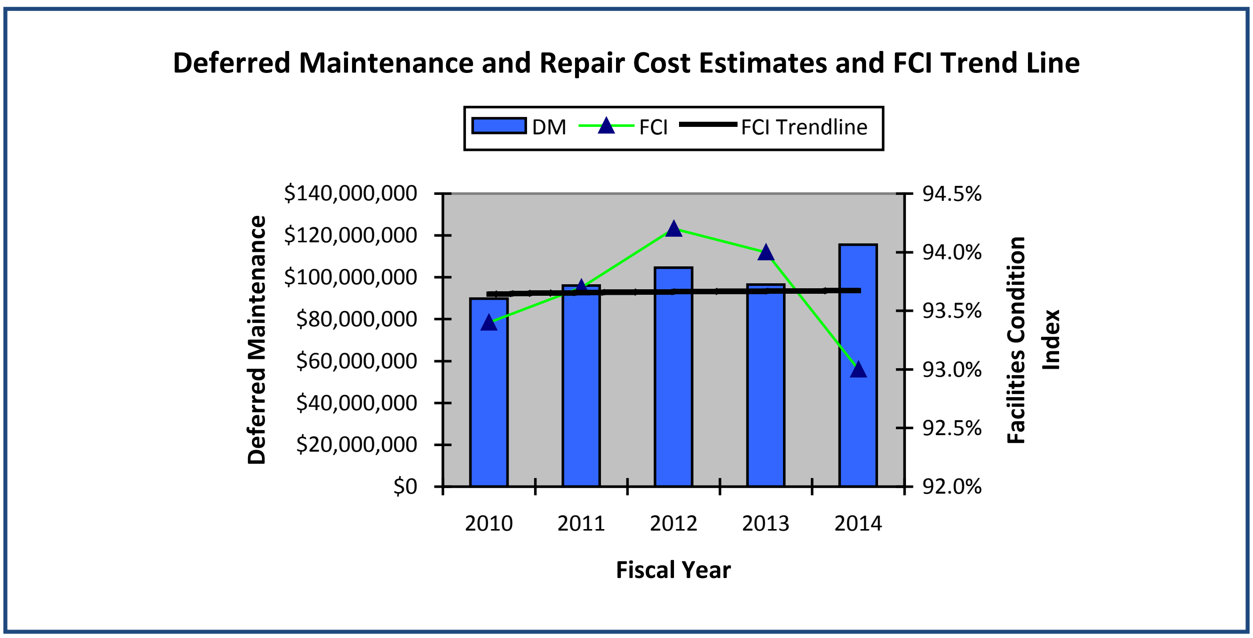
Portfolio Condition and Deferred Maintenance and Repair Cost Estimates

The FCI assessments by structures, facilities and improvements are consolidated to calculate an FCI score for the entire portfolio of constructed assets, which is used to evaluate the overall asset condition of the Job Corps and MSHA portfolios. Job Corps and MSHA have set the goal of achieving and maintaining an FCI of 90% or greater (the standard used by the National Association of College and University Business Offices) for its portfolio of constructed assets as a level of acceptable condition for the periods reported. In 2014, the portfolio's aggregate FCI score for 4,231 constructed assets was 93.0%, and deferred maintenance and repair costs to return the portfolio to an acceptable condition were estimated at $115.6 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 ended September 30, 2014.

Job Corps Center and MSHA Constructed Assets
Portfolio Condition and Deferred Maintenance and Repair Cost Estimates
Fiscal Years 2010 - 2014

Constructed Assets - FY	Number of Constructed Assets[1]	Portfolio Condition Based on Aggregate FCI Score	Deferred Maintenance Costs to Return Assets To Acceptable Condition
Structures, facilities and improvements - 2014	4,231	Excellent - 93.0%	$115,644,267
Structures, facilities and improvements - 2013	4,066	Excellent - 94.0%	$96,507,601
Structures, facilities and improvements - 2012	3,981	Excellent - 94.2%	$104,599,502
Structures, facilities and improvements - 2011	3,874	Excellent - 93.7%	$96,136,092
Structures, facilities and improvements - 2010	3,790	Excellent - 93.4%	$89,827,363

[1] Includes capitalized and non-capitalized assets.



REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

SOCIAL INSURANCE PROGRAMS

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.

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

Unemployment Insurance Program

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

Program Administration and Funding

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

Federal and State Unemployment Taxes

The UI program is financed through the collection of Federal and state unemployment taxes levied on subject employers and deposited in the UTF and Federal appropriations. The UTF was established to account for the receipt, investment, and disbursement of unemployment taxes. Federal unemployment taxes are used to pay for the administrative costs of the UI program, including grants to each state to cover the costs of state UI operations and the Federal share of extended UI benefits. Federal unemployment taxes are also used to fund an account within the UTF, to make advances to state UI accounts that are unable to make benefit payments because the state UI account balance has been exhausted. State UI taxes are used exclusively for the payment of regular UI benefits, as well as the state's share of EB.

Federal Unemployment Taxes

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

State Unemployment Taxes

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

Unemployment Trust Fund

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

Federal Accounts

The Employment Security Administration Account (ESAA) was established pursuant to Section 901 of the Act. Tax receipts collected under the FUTA are appropriated to the ESAA and used to pay the costs of Federal and state administration of the UI program and veterans' ES and 97% of the costs of the state ES; and, amounts collected due to FUTA credit reductions are transferred to the FUA and are used to pay down balances of state advances that have been outstanding for more than two years. Excess balances in ESAA, as defined under the Act, are transferred to other Federal accounts within the Fund, as described below.

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

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

The Federal Employees Compensation (FEC) Account was established pursuant to Section 909 of the Act. The FEC account provides funds to States for unemployment compensation benefits paid to eligible former Federal civilian personnel and ex-service members. Generally, benefits paid are reimbursed to the Federal Employees Compensation Account by the various Federal agencies. Any additional resources necessary to assure that the account can make the required payments to States, due to the timing of the benefit payments and subsequent reimbursements, will be provided by non-repayable advances from the General Fund of the U.S. Treasury.

State Accounts

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

Railroad Retirement Accounts

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

UI Program Benefits

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

Regular UI Benefits

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

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

Extended UI Benefits

The Federal/State Extended Unemployment Compensation Act of 1970 provides for the extension of the duration of UI benefits during periods of high unemployment. When the insured unemployment level within a state, or in some cases total unemployment, reaches certain specified levels, the state must extend benefit duration by 50%, up to a combined maximum of 39 weeks; certain states voluntarily extended the benefit duration up to a combined maximum of 46 weeks. Fifty percent of the cost of extended unemployment benefits is paid from the EUCA within the UTF, and 50% by the state, from the state's UTF account. The ARRA of 2009 began temporary 100% Federal funding of EB. Subsequent legislation, most recently P.L. 112-240, the American Taxpayer Relief Act of 2012, authorized continuing 100% Federal funding of extended unemployment benefits to December 31, 2013.

Emergency UI Benefits

During prolonged periods of high unemployment, Congress may authorize the payment of emergency unemployment benefits to supplement extended UI benefit payments. Emergency benefits began in July 2008, authorized under the Supplemental Appropriations Act, 2008. This emergency program was temporarily extended and additionally funded by the Recovery Act and has been subsequently modified several times, most recently by P.L. 112-240, the American Taxpayer Relief Act of 2012, which extended the emergency unemployment insurance program to January 1, 2014.

Federal UI Benefits

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

Program Finances and Sustainability

As of September 30, 2014, total assets within the UTF exceeded total liabilities by $16.4 billion. At the present time there is a surplus; any surplus of tax revenues and earnings on these revenues over benefit payment expenses is available to finance benefit payments in future periods when tax revenues may be insufficient. Treasury invests any accumulated surplus in Federal securities. The net value of these securities, including interest receivable, as of September 30, 2014 was $36.1 billion. This interest is distributed to eligible state and Federal accounts within the UTF. Interest income from these investments during FY 2014 was $1.2 billion. Federal and state UI tax and reimbursable revenues of $54.7 billion and regular, extended and emergency benefit payment expense of $39.6 billion were recognized for the year ended September 30, 2014.

As discussed in Note 1-K.1 to the consolidated financial statements, DOL recognized a liability for regular, extended and emergency unemployment benefits to the extent of unpaid benefits applicable to the current period and for benefits paid by states that have not been reimbursed by the UTF. Accrued unemployment benefits payable as of September 30, 2014 were $1.0 billion.

During FY 2014, both the FUA and EUCA borrowed from the General Fund of the U.S. Treasury in the form of repayable advances and also repaid certain prior year (PY) advances. FUA had an outstanding repayable advances balance of $2.6 billion, bearing interest at 2.375% as of September 30, 2014. EUCA had an outstanding repayable advances balance of $18.2 billion bearing interest between 2.375% and 3.250% as of September 30, 2014.

Subsequent Events

Management has determined that there are no subsequent events.

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

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

The significant assumptions used in the projections include total unemployment rates, civilian labor force levels, percent of unemployed receiving benefits, total wages, distribution of benefit payments by state, state tax rate structures, state taxable wage bases, interest rates on UTF investments, and the Consumer Price Index-Urban (CPI-U) for goods and services. The use of CPI-U factors allows the projections to be presented in constant dollars with FY 2014 as the base year. The valuation date for the projections is September 30, 2014. Cash projections depend on the assumptions used and actual experience may differ materially 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. Amount totals for expected sensitivity analyses may differ due to rounding.

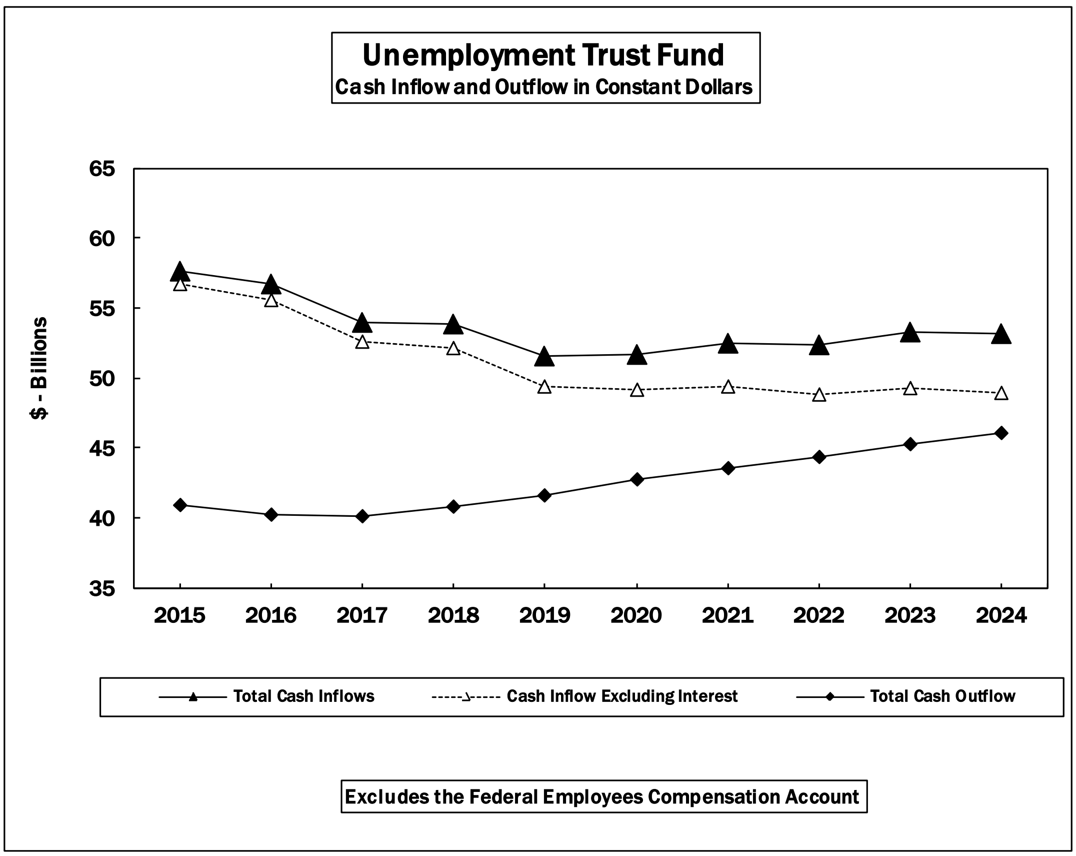
Expected Economic Conditions

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 5.85% during FY 2015, decreasing steadily to 5.40% in FY 2018 and thereafter. Total cash inflows exceed total cash outflows in FY 2015 and through the end of the projected period. The net inflow decreases from $16.7 billion in FY 2015 to $13.1 billion in FY 2018, and ranges between $9.9 billion and $7.1 billion thereafter. The net inflow is sustained primarily by the excess of Federal tax collections over Federal expenditures.

Chart I



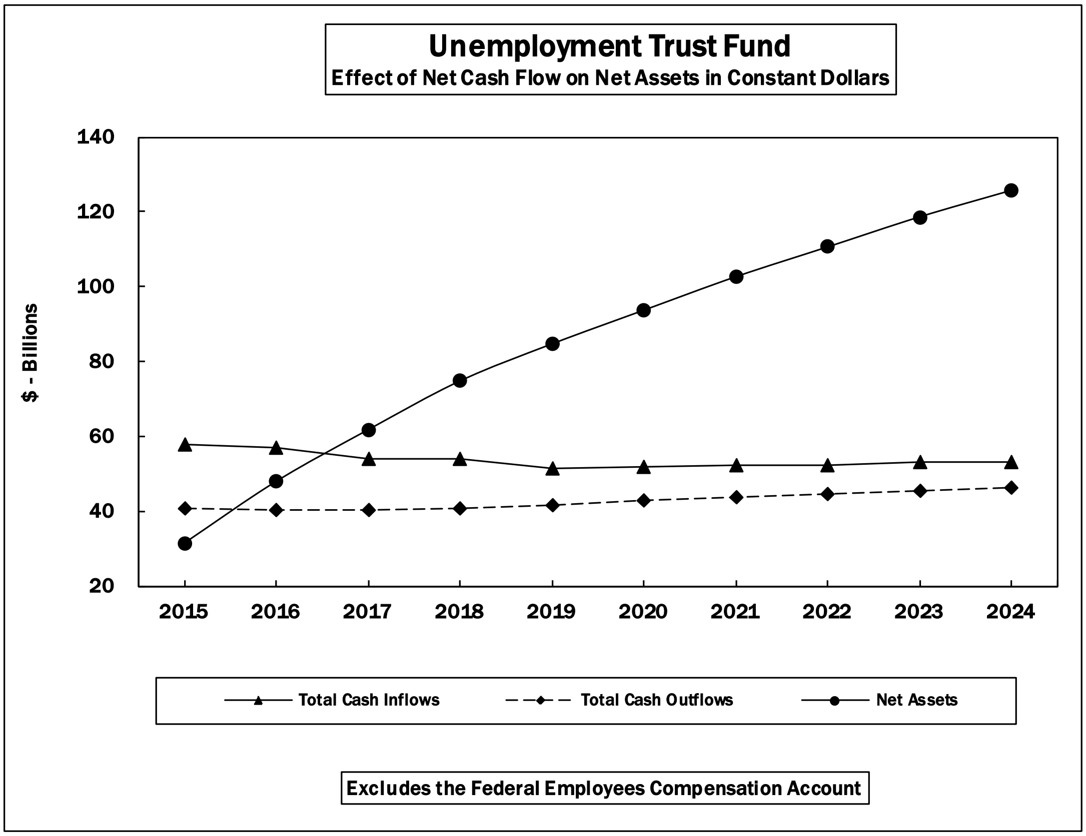
Effect of Expected Cash Flows on UTF Assets in Constant Dollars

Chart II demonstrates the effect of these expected cash inflows and outflows on the net assets of the UTF, in constant dollars, over the ten-year period ending September 30, 2024. 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.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Total cash inflows exceed total cash outflows in FY 2015 and all other years in the projected period. The excess of total cash inflows over total cash outflows is highest in FY 2015. Starting at a $14.7 billion fund balance at the beginning of FY 2015, net UTF assets increase by about $111.0 billion over the next ten years to a $125.7 billion fund net assets balance by the end of FY 2024.

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, 2024, 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 higher rates of unemployment and Sensitivity Analysis II assumes even higher rates of unemployment compared to the expected economic conditions as shown in Charts I and II. Table I below summarizes the unemployment rates for expected conditions, Sensitivity Analysis I, and Sensitivity Analysis II.

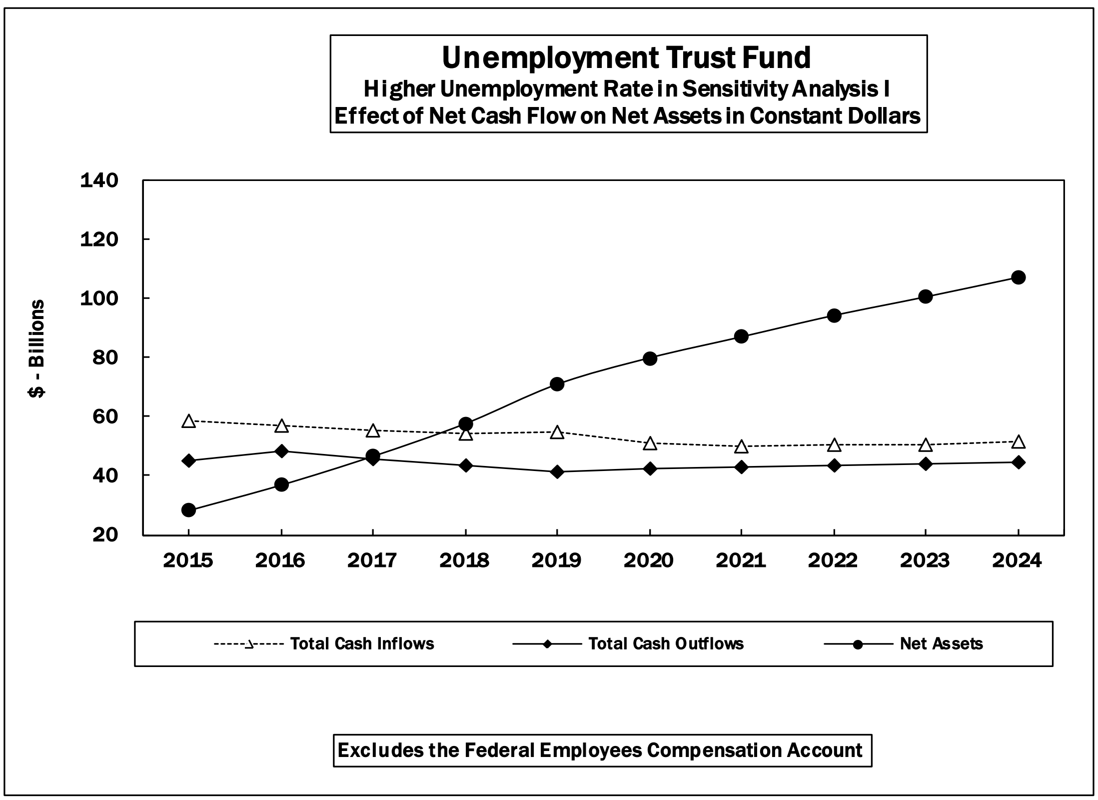
Table I

Total Unemployment Rate for the Ten-Year Period Ending September 30, 2024										
Conditions	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Expected	5.85%	5.52%	5.42%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%
Sensitivity Analysis I	6.84%	7.51%	6.91%	6.08%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%
Sensitivity Analysis II	7.81%	10.11%	8.95%	7.37%	7.13%	6.90%	5.96%	5.42%	5.40%	5.40%

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

In this sensitivity analysis, which utilizes a higher unemployment rate of 6.84% beginning in FY 2015, net cash inflows peak in FY 2015 and continue to be positive through 2024. Starting at a $14.7 billion fund balance at the beginning of FY 2015, net UTF assets increase by about $92.5 billion over the next ten years to about a $107.2 billion fund net assets balance by the end of FY 2024.

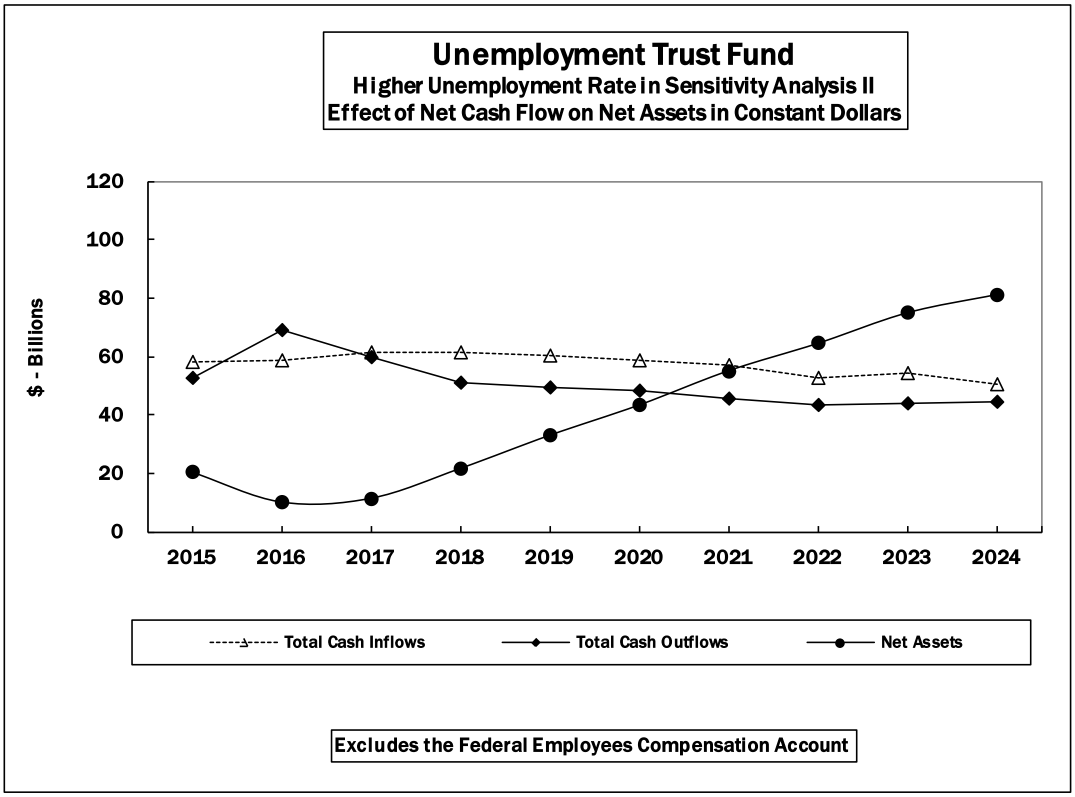
Chart III



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

In this sensitivity analysis, net cash inflows including interest earnings and expenses are projected in FY 2015, but outflows exceed inflows by $10.2 billion in FY 2016. Net cash inflows are reestablished in FY 2017 and peak in FY 2021 with a drop in the unemployment rate below 6.0% and then about 5.4% for FYs 2022 through 2024. The net assets increase $66.5 billion from a $14.7 billion fund balance at the beginning of FY 2015 to an $81.2 billion fund balance in FY 2024. At the end of the projection period of Sensitivity Analysis II, net assets are $44.5 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 inflows during periods of low unemployment that are depleted by net cash outflows during periods of increased unemployment. 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, 2024
(1) EXPECTED ECONOMIC CONDITIONS

(Dollars in millions)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Balance, start of year	$ 14,723	$ 31,420	$ 47,927	$ 61,718	$ 74,769	$ 84,661	$ 93,678	$ 102,612	$ 110,589	$ 118,612
Cash inflow										
State unemployment taxes	47,898	46,745	45,219	44,547	44,117	43,853	44,108	43,588	44,150	43,797
Federal unemployment taxes	8,442	8,629	7,153	7,433	5,208	5,170	5,138	5,101	5,066	5,033
General revenue appropriation	-	-	-	-	-	-	-	-	-	-
Interest on loans	252	129	61	17	2	2	2	2	2	2
Deposits by the Railroad Retirement Boa	76	129	137	108	86	102	122	117	101	100
Total cash inflow excluding interest	56,668	55,632	52,570	52,105	49,413	49,127	49,370	48,808	49,319	48,932
Interest on Federal securities	965	1,142	1,406	1,751	2,159	2,620	3,093	3,550	3,946	4,302
Total cash inflow	57,633	56,774	53,976	53,856	51,572	51,747	52,463	52,358	53,265	53,234
Cash outflow										
State unemployment benefits	36,261	35,716	35,731	36,441	37,365	38,447	39,269	40,115	40,972	41,838
State administrative costs	3,992	3,998	3,996	3,993	3,993	3,990	3,987	3,993	3,999	4,009
Federal administrative costs	185	184	183	183	182	180	179	179	178	178
Interest on tax refunds	1	1	1	1	1	1	1	1	1	1
Interest on advances	402	269	178	92	45	18	-	-	-	-
Railroad Retirement Board withdrawals	95	99	96	95	94	94	93	93	92	92
Total cash outflow	40,936	40,267	40,185	40,805	41,680	42,730	43,529	44,381	45,242	46,118
Excess of total cash inflow excluding interest over total cash outflow	15,732	15,365	12,385	11,300	7,733	6,397	5,841	4,427	4,077	2,814
Excess of total cash inflow over total cash outflow	16,697	16,507	13,791	13,051	9,892	9,017	8,934	7,977	8,023	7,116
Balance, end of year	$ 31,420	$ 47,927	$ 61,718	$ 74,769	$ 84,661	$ 93,678	$ 102,612	$ 110,589	$ 118,612	$ 125,728
Total unemployment rate	5.85%	5.52%	5.42%	5.40%	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, 2024
(2) SENSITIVITY ANALYSIS I HIGHER UNEMPLOYMENT RATE

(Dollars in millions)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Balance, start of year	$ 14,723	$ 28,181	$ 36,777	$ 46,557	$ 57,594	$ 70,965	$ 79,889	$ 87,038	$ 94,253	$ 100,574
Cash inflow										
State unemployment taxes	48,829	47,377	46,945	45,656	45,542	43,723	42,231	42,547	41,892	42,194
Federal unemployment taxes	8,379	8,380	7,064	7,146	7,426	4,989	4,958	4,921	4,887	5,148
General revenue appropriation	-	-	-	-	-	-	-	-	-	-
Interest on loans	256	146	82	35	9	2	5	15	47	86
Deposits by the Railroad Retirement Board	76	129	137	108	86	102	122	117	101	100
Total cash inflow excluding interest	57,540	56,032	54,228	52,945	53,063	48,816	47,316	47,600	46,927	47,528
Interest on Federal securities	940	1,020	1,172	1,435	1,839	2,302	2,727	3,121	3,495	3,826
Total cash inflow	58,480	57,052	55,400	54,380	54,902	51,118	50,043	50,721	50,422	51,354
Cash outflow										
State unemployment benefits	40,293	43,788	41,054	38,891	37,175	37,882	38,614	39,249	39,843	40,496
State administrative costs	4,056	4,134	4,098	4,044	3,998	3,984	3,981	3,984	3,987	3,994
Federal administrative costs	185	184	183	183	182	180	179	179	178	178
Interest on tax refunds	1	1	1	1	1	1	1	1	1	1
Interest on advances	392	250	188	129	81	53	26	-	-	-
Railroad Retirement Board withdrawals	95	99	96	95	94	94	93	93	92	92
Total cash outflow	45,022	48,456	45,620	43,343	41,531	42,194	42,894	43,506	44,101	44,761
Excess of total cash inflow excluding interest over total cash outflow	12,518	7,576	8,608	9,602	11,532	6,622	4,422	4,094	2,826	2,767
Excess of total cash inflow over total cash outflow	13,458	8,596	9,780	11,037	13,371	8,924	7,149	7,215	6,321	6,593
Balance, end of year	$ 28,181	$ 36,777	$ 46,557	$ 57,594	$ 70,965	$ 79,889	$ 87,038	$ 94,253	$ 100,574	$ 107,167
Total unemployment rate	6.84%	7.51%	6.91%	6.08%	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, 2024
(3) SENSITIVITY ANALYSIS II HIGHER UNEMPLOYMENT RATE

(Dollars in millions)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Balance, start of year	$ 14,723	$ 20,383	$ 10,139	$ 11,436	$ 21,672	$ 33,026	$ 43,389	$ 55,130	$ 64,530	$ 74,989
Cash inflow										
State unemployment taxes	48,774	49,311	51,466	51,639	50,211	49,057	47,535	45,162	43,401	42,392
Federal unemployment taxes	8,136	8,145	8,556	8,278	8,905	7,852	7,662	5,128	7,864	4,849
General revenue appropriation	-	-	-	-	-	-	-	-	-	-
Interest on loans	278	262	277	214	121	55	28	20	8	21
Deposits by the Railroad Retirement Board	76	129	137	108	86	102	122	117	101	100
Total cash inflow excluding interest	57,264	57,847	60,436	60,239	59,323	57,066	55,347	50,427	51,374	47,362
Interest on Federal securities	911	816	793	953	1,205	1,531	1,935	2,436	2,855	3,224
Total cash inflow	58,175	58,663	61,229	61,192	60,528	58,597	57,282	52,863	54,229	50,586
Cash outflow										
State unemployment benefits	47,614	63,747	54,877	46,090	44,429	43,510	40,873	38,834	39,158	39,753
State administrative costs	4,169	4,454	4,352	4,183	4,118	4,080	4,026	3,986	3,980	3,986
Federal administrative costs	185	184	183	183	182	180	179	179	178	178
Interest on tax refunds	1	1	1	1	1	1	1	1	1	1
Interest on advances	451	422	423	404	350	369	369	370	361	329
Railroad Retirement Board withdrawals	95	99	96	95	94	94	93	93	92	92
Total cash outflow	52,515	68,907	59,932	50,956	49,174	48,234	45,541	43,463	43,770	44,339
Excess of total cash inflow excluding interest over total cash outflow	4,749	(11,060)	504	9,283	10,149	8,832	9,806	6,964	7,604	3,023
Excess of total cash inflow over total cash outflow	5,660	(10,244)	1,297	10,236	11,354	10,363	11,741	9,400	10,459	6,247
Balance, end of year	$ 20,383	$ 10,139	$ 11,436	$ 21,672	$ 33,026	$ 43,389	$ 55,130	$ 64,530	$ 74,989	$ 81,236
Total unemployment rate	7.81%	10.11%	8.95%	7.37%	7.13%	6.90%	5.96%	5.42%	5.40%	5.40%

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

States with Minimally Solvent UTF Account Balances

Each state's accumulated UTF net assets or reserve balance should provide a defined level of benefit payments over a defined period. To be minimally solvent, a state's reserve balance should provide for one year's projected benefit payment needs based on the highest levels of benefit payments experienced by the state over the last twenty years. A ratio of 1.00 or greater indicates that the state UTF account balance is minimally solvent. States below this level are vulnerable to exhausting their funds in a recession. States exhausting their reserve balance must borrow funds from FUA to make benefit payments. During FY 2009, the balances in the FUA were depleted and the FUA borrowed from the General Fund of the U.S. Treasury and continued to do so through FY 2014, although in FY 2012 through FY 2014 the FUA repaid some borrowings.

Chart V presents the state by state results of this analysis at September 30, 2014 in descending order by ratio. As the chart below illustrates, 36 state UTF accounts were below the minimal solvency ratio of 1.00 at September 30, 2014. Some states borrow from the FUA and then issue bonds to repay their FUA borrowings; the ratios do not reflect a state's debt to bondholders.

Chart V

Minimally Solvent	
State	Ratio
Wyoming	2.42
Oklahoma	2.23
Nebraska	1.81
Mississippi	1.68
Utah	1.61
Oregon	1.51
Alaska	1.36
South Dakota	1.33
Idaho	1.37
Iowa	1.31
Montana	1.30
Louisiana	1.25
Washington	1.23
New Hampshire	1.17
North Dakota	1.09
Hawaii	1.04
Maine	1.00

Not Minimally Solvent			
State	Ratio	State	Ratio
Minnesota	0.96	New Mexico	0.24
District of Columbia	0.94	Nevada	0.24
Puerto Rico	0.93	New Jersey	0.15
Tennessee	0.85	Pennsylvania	0.14
Vermont	0.84	Missouri	0.10
Maryland	0.78	Wisconsin	0.10
Florida	0.64	Delaware	0.09
Michigan	0.62	Rhode Island	0.00
Alabama	0.61	South Carolina	0.00
Colorado	0.61	Arizona	0.00
Virginia	0.47	North Carolina	0.00
Texas	0.44	Connecticut	0.00
Kansas	0.40	New York	0.00
Illinois	0.37	Ohio	0.00
West Virginia	0.36	Kentucky	0.00
Arkansas	0.35	Indiana	0.00
Georgia	0.32	California	0.00
Massachusetts	0.32	Virgin Islands	0.00

Black Lung Disability Benefit Program

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

Program Administration and Funding

The Federal Coal Mine Health and Safety Act sets Black Lung benefits at 37.5% of the base salary of a Federal employee at level GS-2, Step 1. Black lung disability benefit payments are funded by excise taxes from coal mine operators based on the domestic sale of coal, as are the program's administrative costs. These taxes are collected by the Internal Revenue Service and transferred to the BLDTF, which was established under the authority of the Black Lung Benefits Revenue Act, and administered by the U.S. Department of the Treasury.

P.L. 110-343, Division B-Energy Improvement and Extension Act of 2008, enacted on October 3, 2008, in section 113, (1) allowed for the temporary increase in coal excise tax rates to continue an additional five years beyond the statutory limit and (2) restructured the BLDTF debt by refinancing the outstanding repayable advances (which had higher interest rates) with discounted debt instruments similar in form to zero-coupon bonds (which had lower interest rates), plus a one-time appropriation. This Act also allowed that any subsequent debt issued by the BLDTF may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing. All debt issued by the BLDTF was effected as borrowing from the Treasury's Bureau of Public Debt. (See Notes 1-J and 8)

Program Finances and Sustainability

At September 30, 2014, total liabilities of the BLDTF exceeded assets by nearly $5.8 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, 2014 was $5.9 billion, bearing interest rates ranging from 0.110% to 4.556%. Excise tax revenues of $580.8 million, benefit payment expense of $164.8 million, and interest expense of $223.8 million were recognized for the year ended September 30, 2014. 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, 2014, the BLDTF issued debt in the amount of $496.0 million, bearing interest at 0.110% and maturing on September 30, 2015. At September 30, 2014, there were 27 debt instruments with staggered maturities of September 30 for years 2015 through 2040, with a total carrying value of nearly $5.9 billion and a total face value at maturity of nearly $9.5 billion. Of these 27 debt instruments, 26 are from the October 2008 refinancing and one debt instrument was issued on September 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Projected Cash Inflows and Outflows, in Constant Dollars

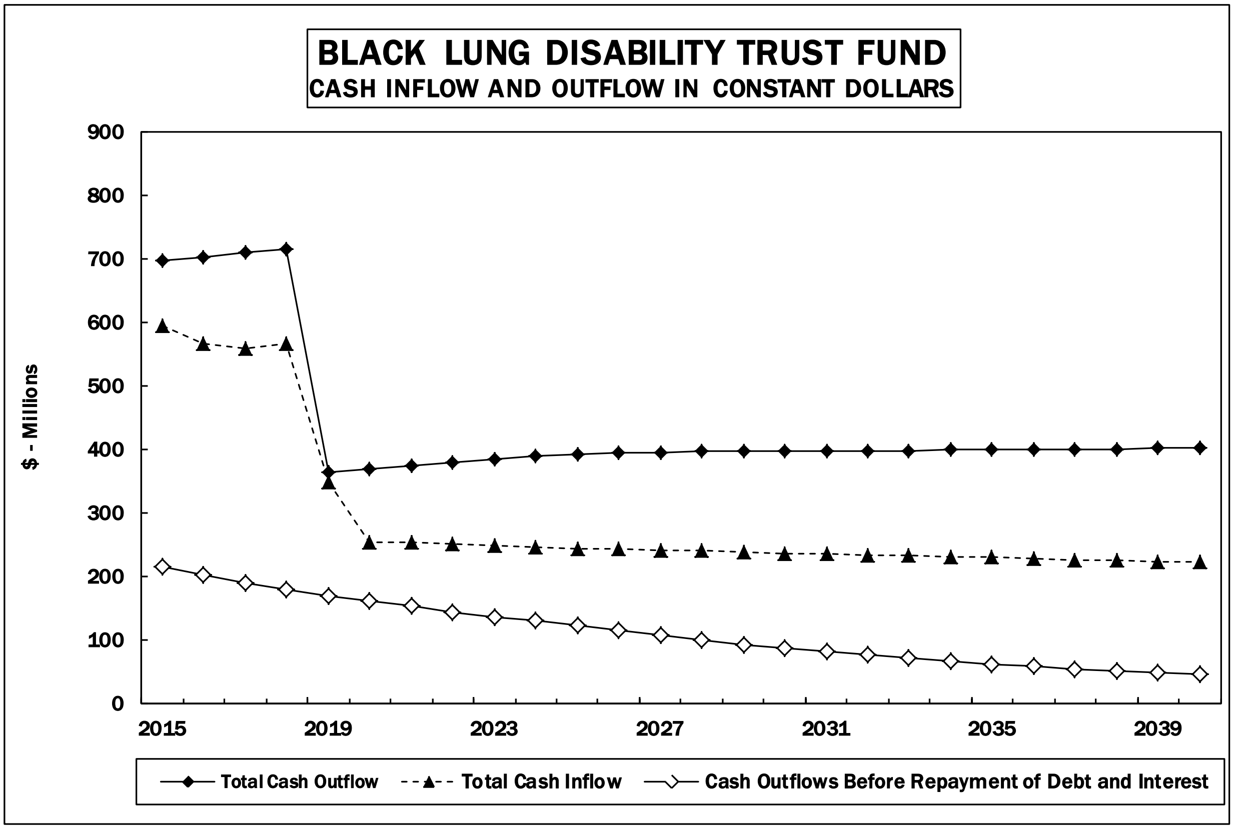
The beneficiary population is a nearly closed universe in which attrition by death exceeds new entrants by a ratio of more than ten to one. Projections for new participants are included in the overall projections and are considered immaterial. Therefore, the difference between the open group measure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

The significant assumptions used in the projections, in constant dollars, are coal excise tax revenue estimates, the tax rate structure, the number of beneficiaries, life expectancy, Federal civilian pay raises, medical cost inflation, the interest rate on new debt issued by the BLDTF, and the CPI-U for goods and services. The use of CPI-U factors allows the projections to be presented in constant dollars with FY 2014 as the base year. The valuation date for the projections is September 30, 2014. Cash projections depend on the assumptions used and actual experience may differ materially from the projections.

These projections, in constant dollars, made over the 26-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 $4.7 billion by FY 2040. However, when payments from the BLDTF's maturing debt are applied against this surplus cash inflow, the BLDTF's cash flow turns negative in all periods included in the projections. Net cash outflows after payments on maturing debt are projected to reach $3.8 billion by the end of FY 2040, resulting in a projected deficit of $6.2 billion at September 30, 2040. Amount totals in tables may differ slightly due to rounding (See Chart I and Table I).

The net present value of future projected benefit payments and other cash inflow and outflow activities together with the fund's deficit positions as of September 30, 2014, 2013, 2012, 2011, and 2010 are presented in the SOSI.

Chart I



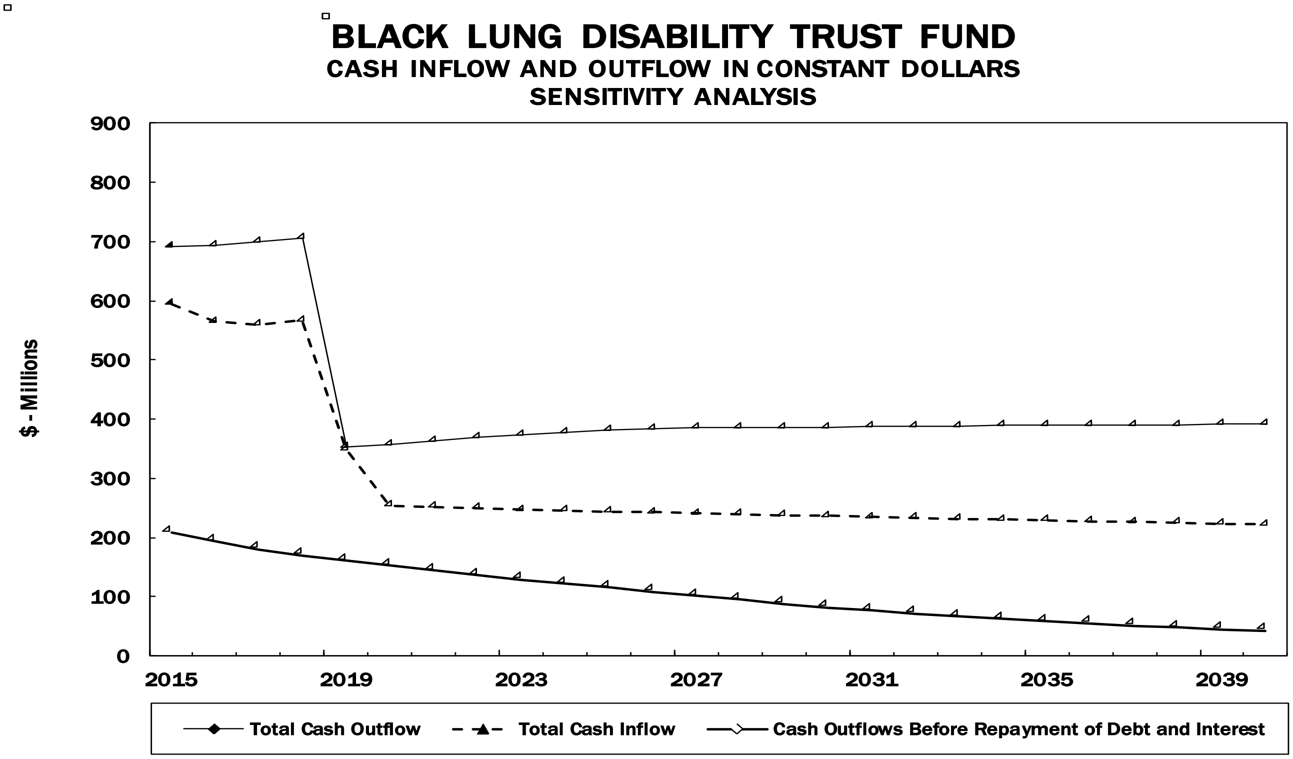
Projected Cash Inflows and Outflows with Sensitivity Analysis, in Constant Dollars

For the projected cash inflows and outflows with sensitivity analysis, in constant dollars, the significant assumptions for Federal civilian pay raises were reduced by one-half in calendar years 2015 through 2017 (which in turn affected income benefits) and the administrative costs were reduced by 7.5% for FYs 2015 through 2024; however, the other significant assumptions were left unchanged. The Federal Coal Mine Health and Safety Act sets Black Lung benefits at 37.5% of the base salary of a Federal employee at level GS-2. The significant assumptions for Federal civilian pay raises were modified to reflect that only one-half of the pay adjustment would take effect through December 31, 2017. As a result, because the Federal employee base salary would experience smaller increases through 2017, the rates for Black Lung benefits would likewise be affected through 2017. Even after statutory pay adjustments return to the full amount in 2018, they would be applied to lower amounts of benefits and this would decrease the benefit amounts through FY 2040. The administrative costs were reduced to reflect the effects of reduced budgets overall due to the sequestration which occurred during FY 2013 and continued into FY 2014. Cash projections depend on the assumptions used and actual experience may differ materially from the projections.

These projections with sensitivity analysis, in constant dollars, made over the 26-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 $4.85 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 nearly $3.6 billion by the end of the year 2040, and would result in a projected deficit of $5.9 billion at September 30, 2040 (See Chart II and Table II). Amount totals in tables may differ slightly due to rounding.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Chart II



Open and Closed Group Measure with Sensitivity Analysis

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

In FY 2014, for the SOSI, DOL further refined the approach for selecting the interest rate assumptions to enhance matching between the timing of cash flows and interest rates and increase comparability. For FY 2014, projected annual cash flows were discounted to present value based on Treasury rates that reflect the average duration of cash flows between 10.4 and 12.2 years for income payments, medical payments, administrative expenses, and coal excise tax collections. The interest rates used to discount FY 2014 projections are 2.50% for income payments and 2.63% for medical payments, administrative expenses, and coal excise tax collections.

For the Sensitivity Analysis, the changes that we made in the assumptions as described above (see projected Cash Inflows and Outflows with Sensitivity Analysis, in Constant Dollars) did not result in different average durations or in different interest rates used to discount the income payments, medical payments, administrative expenses, and coal excise tax collections as compared to the average durations and interest rates used in the SOSI.

As a result of changing the significant assumptions for Federal civilian pay raises and administrative costs as described above (see projected Cash Inflows and Outflows with Sensitivity Analysis, in Constant Dollars), at September 30, 2014 (in thousands of dollars):

In the SOSI,

(a) the actuarial present value of future benefit payments during the projection period to disabled coal miners and dependent survivors would decrease ($71,064) from $1,876,522 to $1,805,458;

(b) the present value of estimated future administrative costs during the projection period would decrease ($70,669) from $942,107 to $871,438;
(c) the actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants would decrease ($141,733) from $2,818,629 to $2,676,896;
(d) the excess of present value of estimated future excise tax income over actuarial present value of future benefit payments and present value of estimated future administrative costs during the projection period for current and future participants (open and closed group measure) would increase $141,733 from $4,482,787 to $4,624,520;
(e) the trust fund net position deficit at the start of the projection period would remain unchanged;

In the SOSI Summary Section,
(f) the open and close group measure would increase as described in (d) above;
(g) the Funds with U.S. Treasury and receivables from benefit overpayments at the start of the projection period would remain unchanged; and
(h) the Total of open and closed group measure plus fund assets would increase $141,733 from $4,612,163 to $4,753,896.

Cash projections depend on the assumptions used and actual experience may differ materially from the projections.

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 26-YEAR PERIOD ENDING SEPTEMBER 30, 2040

(Dollars in thousands)	2015	2016	2017	2018	2019	2020 - 2040	Total
Balance, start of year	$ (5,755,352)	$ (5,470,213)	$ (5,227,049)	$ (5,007,328)	$ (4,801,042)	$ (4,710,081)	$ (5,755,352)
Cash inflow							
Excise taxes	594,860	565,440	559,644	567,324	349,322	4,978,358	7,614,948
Total cash inflow	594,860	565,440	559,644	567,324	349,322	4,978,358	7,614,948
Cash outflow							
Disabled coal miners benefits	155,927	144,530	133,772	124,499	116,105	1,255,664	1,930,497
Administrative costs	58,356	57,389	56,133	54,878	53,682	700,216	980,655
Cash outflows before repayment of debt and interest	214,283	201,919	189,905	179,377	169,788	1,955,880	2,911,151
Cash inflow over cash outflow before repayment of debt and interest	380,577	363,521	369,739	387,947	179,534	3,022,478	4,703,796
Maturity of obligations refinanced October 2008	482,757	496,808	507,551	514,675	162,982	4,580,434	6,745,206
Interest on annual borrowings	535	3,914	11,612	21,305	31,202	1,717,125	1,785,693
Total cash outflow	697,575	702,640	709,068	715,357	363,971	8,253,438	11,442,050
Total cash outflow over total cash inflow	(102,715)	(137,200)	(149,424)	(148,033)	(14,649)	(3,275,080)	(3,827,102)
Reduction of debt refinanced October 2008	387,854	380,364	369,145	354,319	105,610	1,806,964	3,404,256
Balance, end of year	$ (5,470,213)	$ (5,227,049)	$ (5,007,328)	$ (4,801,042)	$ (4,710,081)	$ (6,178,198)	$ (6,178,198)

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 26-YEAR PERIOD ENDING SEPTEMBER 30, 2040

(Dollars in thousands)	2015	2016	2017	2018	2019	2020 - 2040	Total
Balance, start of year	$ (5,755,352)	$ (5,463,651)	$ (5,212,010)	$ (4,982,279)	$ (4,765,746)	$ (4,664,579)	$ (5,755,352)
Cash inflow							
Excise taxes	594,860	565,440	559,644	567,324	349,322	4,978,358	7,614,948
Total cash inflow	594,860	565,440	559,644	567,324	349,322	4,978,358	7,614,948
Cash outflow							
Disabled coal miners benefits	153,742	140,402	128,214	118,984	111,021	1,205,122	1,857,484
Administrative costs	53,978	53,083	51,922	50,761	49,655	647,695	907,094
Cash outflows before repayment of debt and interest	207,721	193,485	180,136	169,745	160,676	1,852,816	2,764,578
Cash inflow over cash outflow before repayment of debt and interest	387,139	371,955	379,508	397,579	188,646	3,125,541	4,850,369
Maturity of obligations refinanced October 2008	482,757	496,808	507,551	514,675	162,982	4,580,434	6,745,206
Interest on annual borrowings	535	3,871	11,371	20,690	30,109	1,614,917	1,681,492
Total cash outflow	691,013	694,164	699,058	705,109	353,766	8,048,167	11,191,276
Total cash outflow over total cash inflow	(96,153)	(128,724)	(139,414)	(137,785)	(4,444)	(3,069,809)	(3,576,329)
Reduction of debt refinanced October 2008	387,854	380,364	369,145	354,319	105,610	1,806,964	3,404,256
Balance, end of year	$ (5,463,651)	$ (5,212,010)	$ (4,982,279)	$ (4,765,746)	$ (4,664,579)	$ (5,927,425)	$ (5,927,425)

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

COMBINING STATEMENTS OF BUDGETARY RESOURCES

The principal Combined Statements of Budgetary Resources combine the availability, status, and outlay of DOL's budgetary resources during FY 2014 and FY 2013. Presented on the following pages is the disaggregation of this combined information for each of the Department's major budget agencies.

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REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

COMBINING STATEMENTS OF BUDGETARY RESOURCES
For the Year Ended September 30, 2014

	Employment and Training Administration	Office of Workers' Compensation Programs	Office of Job Corps
BUDGETARY RESOURCES			
Unobligated balance brought forward, October 1	$ 2,015,197	$ 1,209,243	$ 1,227,110
Recoveries of prior year unpaid obligations	284,276	10,180	26,995
Other changes in unobligated balance	(261,811)	(2,046)	(13,756)
Unobligated balance from prior year budget authority, net	2,037,662	1,217,377	1,240,349
Appropriations (discretionary and mandatory)	53,075,632	2,106,108	1,700,979
Borrowing authority (discretionary and mandatory)	2,700,000	-	-
Spending authority from offsetting collections (discretionary and mandatory)	3,875,605	3,086,893	1,084
Total budgetary resources	$ 61,688,899	$ 6,410,378	$ 2,942,412
STATUS OF BUDGETARY RESOURCES			
Obligations incurred	$ 59,745,569	$ 4,879,765	$ 2,004,906
Unobligated balance, end of year			
Apportioned	546,168	1,442,385	900,991
Exempt from apportionment	-	46,795	-
Unapportioned	1,397,162	41,433	36,515
Total unobligated balance, end of year	1,943,330	1,530,613	937,506
Total budgetary resources	$ 61,688,899	$ 6,410,378	$ 2,942,412
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid obligations, brought forward, October 1	$ 13,360,987	$ 227,844	$ 582,162
Obligations incurred	59,745,569	4,879,765	2,004,906
Less: Outlays (gross)	(60,860,894)	(4,829,137)	(1,610,291)
Less: recoveries of prior year unpaid obligations	(284,276)	(10,180)	(26,995)
Unpaid obligations, end of year	11,961,386	268,292	949,782
Uncollected Payments:			
Uncollected payments, Federal sources, brought forward, October 1	(1,935,613)	(990)	-
Change in uncollected payments, Federal sources	(48,924)	(20,500)	-
Uncollected payments, Federal sources, end of year	(1,984,537)	(21,490)	-
Obligated balance, start of year	$ 11,425,374	$ 226,854	$ 582,162
Obligated balance, end of year	$ 9,976,849	$ 246,802	$ 949,782
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)	$ 59,651,237	$ 5,193,001	$ 1,702,063
Less: actual offsetting collections (discretionary and mandatory)	(3,826,681)	(3,066,393)	(1,084)
Less: change in uncollected customer payments from Federal sources (discretionary and mandatory)	(48,924)	(20,500)	-
Budgetary authority, net (discretionary and mandatory)	$ 55,775,632	$ 2,106,108	$ 1,700,979
Outlays, gross (discretionary and mandatory)	$ 60,860,894	$ 4,829,137	$ 1,610,291
Actual offsetting collections (discretionary and mandatory)	(3,826,681)	(3,066,393)	(1,084)
Outlays, net (discretionary and mandatory)	57,034,213	1,762,744	1,609,207
Distributed offsetting receipts	(6,459,842)	(1,891)	-
Agency outlays, net (discretionary and mandatory)	$ 50,574,371	$ 1,760,853	$ 1,609,207

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 Program Agencies	TOTAL
$ 20,042	$ 6,778	$ 3,155	$ 5,597	$ 6,957	$ 53,117	$ 107,882	$ 4,655,078
4,685	6,567	2,749	1,011	3,648	8,263	88,442	436,816
(4,712)	(1,696)	(1,143)	(795)	(4,059)	(2,741)	(6,845)	(299,604)
20,015	11,649	4,761	5,813	6,546	58,639	189,479	4,792,290
552,249	527,212	375,887	178,500	38,109	268,067	612,970	59,435,713
-	-	-	-	-	-	-	2,700,000
2,112	84,264	2,315	6,143	231,465	3,059	311,949	7,604,889
$ 574,376	$ 623,125	$ 382,963	$ 190,456	$ 276,120	$ 329,765	$ 1,114,398	$ 74,532,892
$ 555,645	$ 613,477	$ 378,696	$ 185,449	$ 269,994	$ 286,812	$ 1,000,839	$ 69,921,152
79	696	256	79	208	26,734	62,159	2,979,755
-	-	-	-	-	-	-	46,795
18,652	8,952	4,011	4,928	5,918	16,219	51,400	1,585,190
18,731	9,648	4,267	5,007	6,126	42,953	113,559	4,611,740
$ 574,376	$ 623,125	$ 382,963	$ 190,456	$ 276,120	$ 329,765	$ 1,114,398	$ 74,532,892
$ 79,162	$ 99,264	$ 40,184	$ 54,660	$ 90,300	$ 26,878	$ 430,680	$ 14,992,121
555,645	613,477	378,696	185,449	269,994	286,812	1,000,839	69,921,152
(533,577)	(599,047)	(357,833)	(183,375)	(245,651)	(271,370)	(932,065)	(70,423,240)
(4,685)	(6,567)	(2,749)	(1,011)	(3,648)	(8,263)	(88,442)	(436,816)
96,545	107,127	58,298	55,723	110,995	34,057	411,012	14,053,217
(2,979)	(262)	-	-	-	-	(6,213)	(1,946,057)
-	262	-	-	-	-	(2,484)	(71,646)
(2,979)	-	-	-	-	-	(8,697)	(2,017,703)
$ 76,183	$ 99,002	$ 40,184	$ 54,660	$ 90,300	$ 26,878	$ 424,467	$ 13,046,064
$ 93,566	$ 107,127	$ 58,298	$ 55,723	$ 110,995	$ 34,057	$ 402,315	$ 12,035,514
$ 554,361	$ 611,476	$ 378,202	$ 184,643	$ 269,574	$ 271,126	$ 924,919	$ 69,740,602
(2,112)	(84,526)	(2,315)	(6,143)	(231,465)	(3,059)	(309,465)	(7,533,243)
-	262	-	-	-	-	(2,484)	(71,646)
$ 552,249	$ 527,212	$ 375,887	$ 178,500	$ 38,109	$ 268,067	$ 612,970	$ 62,135,713
$ 533,577	$ 599,047	$ 357,833	$ 183,375	$ 245,651	$ 271,370	$ 932,065	$ 70,423,240
(2,112)	(84,526)	(2,315)	(6,143)	(231,465)	(3,059)	(309,465)	(7,533,243)
531,465	514,521	355,518	177,232	14,186	268,311	622,600	62,889,997
-	-	(5,508)	-	-	-	(14,819)	(6,482,060)
$ 531,465	$ 514,521	$ 350,010	$ 177,232	$ 14,186	$ 268,311	$ 607,781	$ 56,407,937

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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

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

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

Other Information

UNITED STATES DEPARTMENT OF LABOR

Inspector General's Top Management Challenges

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

OCT 1 5 2014

MEMORANDUM FOR THE SECRETARY

FROM: SCOTT S. DAHL
Inspector General

SUBJECT: Top DOL Management Challenges

As required by the Reports Consolidation Act of 2000, we have identified the most serious management and performance challenges facing the Department of Labor (DOL). These challenges will be included in DOL's "Agency Financial Report" for FY 2014. The Department plays a vital role in the nation's economy and in the lives of workers and retirees, and, therefore, must remain vigilant in its important stewardship of taxpayer funds, particularly in an era of shrinking resources.

In this report, we summarize the challenges, significant DOL progress to date, and what remains to be done to address them. Changes from last year's Top Management Challenges report include combining the challenges related to miner safety and health and worker safety and health into one challenge. We also combined separate challenges for Workforce Investment Act grants, the Job Corps program, and Veterans Employment and Training Service programs into one challenge describing the difficulties the Department faces in providing unemployed adults, youth and veterans with job training programs and other employment services that help them to obtain suitable employment. Finally, we have included ensuring the safety and health of Job Corps students and staff as a separate challenge.

The challenges we identified are:

- Protecting the safety and health of workers
- Ensuring the safety of students and staff at Job Corps centers
- Helping unemployed adults, youth and veterans obtain skills, training and services that result in training-related job placements
- Protecting the security of retirement, health, and other benefit plans for workers, retirees and their families
- Reducing improper payments
- Securing and managing information systems

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

Attachment

cc: Deputy Secretary Christopher Lu
Acting Chief Financial Officer Karen Teklerberhan

Working for America's Workforce

Top Management Challenges Facing the Department of Labor

November 2014

As of November 2014, the Office of Inspector General (OIG) considers the following as the most serious management challenges facing the Department:

- Protecting the Safety and Health of Workers
- Ensuring the Safety of Students and Staff at Job Corps Centers
- Helping Unemployed Adults, Youth and Veterans Obtain Skills, Training, and Services That Result in Training-Related Job Placements
- Protecting the Security of Retirement, Health, and Other Benefit Plans for Workers, Retirees, and Their Families
- Reducing Improper Payments
- Securing and Managing Information Systems

CHALLENGE: Protecting the Safety and Health of Workers

BACKGROUND

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

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

CHALLENGE FOR THE DEPARTMENT

The Department faces challenges in determining how to best use its limited resources to help ensure the safety and health of workers, particularly in high-risk industries such as construction, forestry, fishing, agriculture, and mining.

Recent OIG audits have found that OSHA did not always effectively target and inspect the highest risk industries and worksites, primarily because it lacks outcome-based data needed to determine the effectiveness of its programs.

OSHA is also challenged to ensure the fairness, efficiency, effectiveness, and transparency of its Whistleblower Protection Program. Workers who "blow the whistle" on unsafe or unhealthy workplace practices are essential to ensuring that employers abide by worker safety and health laws.

MSHA continues to struggle to meet its statutory mine inspection requirements and other enforcement responsibilities, such as protecting the rights of miners who report workplace safety and health concerns. At MSHA, this challenge is made even more difficult by the demands of maintaining a cadre of experienced, diverse and properly trained enforcement staff. Almost 40 percent of MSHA's health and safety personnel are eligible to retire by 2017. This is a particularly pressing issue given the nearly 2 years it takes to train new mine inspectors. MSHA is also challenged by the underreporting of occupational injuries and illnesses by mine operators. This reporting helps MSHA to focus its resources on mines that have elevated accident and injury rates.

DEPARTMENT'S PROGRESS

OSHA and MSHA are looking at ways to change the way they do business as part of their efforts to better use their limited resources. In this regard, the Department initiated a multi-year study of OSHA's Site Specific Targeting program to assess the impact of program interventions on future employer compliance. The study is scheduled to be completed by the end of calendar year 2015. Over the past 2 years, OSHA introduced 10 new performance measures for monitoring State Plans, one of which is intended to help OSHA determine the effectiveness of State Plan inspection targeting. OSHA stated it received funding for 16 new positions in its whistleblower budget for Fiscal Year (FY) 2014 and used the positions to establish whistleblower dedicated Assistant Regional Administrator positions in its regions.

MSHA stated that its efforts included enhancing its outreach and education to the mining community by focusing on the causes of recent fatalities at metal and nonmetal mines; completing corrective actions that address the recommendations from reviews conducted following the Upper Big Branch mine accident; improving its process for reviewing, approving and overseeing coal mine roof control plans; publishing an updated Accountability Program Handbook; continuing the impact inspection program; implementing the final Coal Mine Examination Rule, which requires underground coal mine operators to find and fix unsafe conditions in working areas; and implementing its Pattern of Violations rule. MSHA also stated that it has developed a succession plan for FY 2013-2017 and is implementing key strategies for leadership development such as training, mentoring, and detailing employees to developmental detail assignments. To detect and deter underreporting of accidents and injuries, MSHA reported that it conducts education, training programs, and outreach efforts to educate miners about their rights under the Mine Act. Finally, MSHA stated it is developing a strategy to address mine operator programs and practices that it believes may discourage reporting.

WHAT REMAINS TO BE DONE

OSHA's existing and new performance measures focus on activities; it needs to continue its efforts to develop metrics that reflect impact of its enforcement efforts on workplace safety and health. When its study of the Site Specific Targeting Program is completed, OSHA needs to analyze the study results and use them to improve its targeting efforts. Similarly, OSHA needs to evaluate its 10 new performance measures to identify the measures that are having a positive impact on improving worker safety and health. While OSHA has implemented timeliness measures for its Whistleblower Program, it needs to develop performance measures or indicators that focus on whether the program is working as intended and complaints are thoroughly investigated.

MSHA needs to continue taking action to improve oversight of its Management Accountability Program, strengthen its roof control plan review and monitoring process, and improve its process for investigating mine operators who knowingly fail or refuse to comply with an order issued by MSHA issues or who violate mandatory health or safety standards. MSHA also needs to enhance its knowledge of the underreporting of accidents, injuries and illnesses by mine operators and use this knowledge to finalize its strategy to address mine operator programs and practices that discourage reporting.

CHALLENGE: Ensuring the Safety of Students and Staff at Job Corps Centers

BACKGROUND

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 $1.6 billion program is to offer an intensive intervention to this targeted population as a means to help them turn their lives around and prevent a life-time of unemployment, underemployment, dependence on social programs, or criminal behavior.

CHALLENGE FOR THE DEPARTMENT

Improving the quality of residential life, a critical component of the Job Corps' intensive intervention experience, remains a challenge for the Department. Ensuring the safety of Job Corps' students and staff by addressing serious student misconduct (e.g., assault, illegal drugs, and theft) has been on an ongoing challenge for many years. In 1995, Jobs Corps instituted a "zero tolerance policy" for drugs and violence. However, enforcement of the zero tolerance policy has eroded and recent OIG audits have disclosed that some centers did not take appropriate disciplinary action for serious student misconduct. Contract awards to operate Job Corps centers rely heavily on past performance in areas such as graduation rates and operating centers at or near capacity, and provide a disincentive for centers to comply with the zero tolerance policy.

The Department is also challenged in dealing with Centers' physical maintenance needs and promptly correcting center safety and health hazards. In 2013, we reported that Job Corps did not always ensure the timely repair of critical and funded maintenance deficiencies at its centers, which exposed students, staff, and visitors to potential safety and health hazards. We also identified $32.9 million in unused maintenance funds that were expired or were approaching expiration because Job Corps had not effectively managed these funds.

DEPARTMENT'S PROGRESS

Job Corps indicated that it has recently begun to take steps to address safety issues at its centers. Job Corps stated that it instructed its regional offices to take immediate action to ensure centers are enforcing the program's zero tolerance policy. In addition, Job Corps reported that is developing a comprehensive center safety profile intended to provide management staff with current data on significant incident reports and comments and concerns expressed by students or the public regarding center safety. Job Corps stated that regional office staff has been instructed to conduct unannounced monitoring visits to centers with a focus on high-risk or low performing centers. Job Corps also stated that it is in the process of developing a risk management assessment tool to help program managers identify centers with a higher level of programmatic risk, including factors such as safety and student conduct. In response to concerns about the underreporting of data regarding student conduct infractions and dispositions, Job Corps reported that it has conducted training on entering complete and accurate data in a timely manner into its Center Information System.

The Department is in the process of making changes to Job Corps' Policy and Requirements Handbook to ensure maintenance deficiencies are accurately identified, repaired, and executed in a timely manner, including completion of "Funded-Not-Corrected" projects within one year from issue. The Department is also developing new controls and reporting, as well as reinforcing existing controls, to track contractor expenditures against submitted spending plans.

WHAT REMAINS TO BE DONE

To provide a safe and healthful center environment for Job Corps students and staff, the Department needs to expeditiously implement the various initiatives it has recently begun to protect the safety of its students. After these initiatives have been implemented, the Department must be more vigilant in its monitoring to ensure center operators and Regional Office staff enforce Job Corps' zero tolerance policy. The Department also needs to examine whether its admissions screening process is adequately vetting the youth who apply for admission to the program.

Regarding the physical maintenance needs at Job Corps centers, the Department needs to improve its management processes to ensure maintenance deficiencies are identified, tracked, and repaired appropriately and timely, and better monitor and track the status of funds obligated for center repairs to ensure funds are used for the intended purposes.

CHALLENGE: Helping Unemployed Adults, Youth, and Veterans Obtain the Skills, Training, and Services That Result in Training-Related Job Placements

BACKGROUND

In Fiscal Year 2014, the Department's Employment and Training Administration (ETA) was appropriated $1.8 billion for grants to States for Workforce Investment Act Adult, Dislocated Worker, and Youth programs. ETA also operates the Job Corps program, spending $1.6 billion dollars annually to provide 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 Veterans' Employment and Training Service (VETS) assists veterans in obtaining and maintaining civilian employment through its Jobs for Veterans State Grants Program. Administered by State Workforce Agencies, this program provides intensive services to disabled and other eligible veterans, conducts outreach to employers, and engages in advocacy efforts to increase employment opportunities for veterans.

CHALLENGE FOR THE DEPARTMENT

The Department remains challenged to ensure that its job training programs and other employment services are helping those in need to obtain suitable employment. This challenge is made even more difficult by the lack of reliable outcome data.

Relating primarily to discretionary grants, our audit work over several decades has documented the difficulties encountered by the Department in its job training programs. These problems include difficulties in obtaining quality employment and training providers, not providing active oversight of the grant making and grant execution process; and training provided by grantees that did not lead to marketable skills or industry-recognized credentials. Similarly, our work in Job Corps has found that its graduates are often placed in jobs unrelated to the vocational training they received or in jobs that required little or no training.

The Department also faces challenges in obtaining accurate and reliable data needed to measure the success of grantees, contractors, and states in meeting program goals. A 2014 Government Accountability Office report on Workforce Investment Act (WIA) training outcome data concluded that data on credential attainment and training-related employment can potentially provide more meaningful information on the value of training services. However, collecting data on these outcomes can be resource-intensive, in part because there is no single readily available source of data.

Meeting the employment needs of veterans returning to civilian life after the recent conflicts in Iraq and Afghanistan remains a challenge for the Department. The Department estimates that about 90 percent of future participants served by its Jobs for Veterans State Grants program will require intensive services, such as career planning and assessment and referrals to job training and support services. A lack of reliable data prevents VETS from determining how well States are meeting veterans' needs by providing services that lead to good jobs.

DEPARTMENT'S PROGRESS

On July 22, 2014, the President signed the Workforce Innovation and Opportunity Act (WIOA), which replaced the Workforce Investment Act of 1998. Due to take effect in July 2015, WIOA contains provisions intended to improve accountability by updating the performance measures used by federally funded workforce training programs. For example, the Act creates a single set of common measures for adults across all core programs authorized under the bill, including both occupational training and adult education programs, and a similar set of common measures across all youth serving programs authorized under the bill. Adult measures include unsubsidized employment, median earnings, receipt of a secondary diploma or recognized postsecondary credential, measurable skills gains toward a credential or employment, and employer engagement.

ETA now expects to receive the first evaluation report on implementation from its WIA Gold Standard Evaluation, originally due in summer 2014, by March 2015, the first impact findings in October 2015, and the final impact findings in December 2016. Through this evaluation, ETA intends to measure the net impact of specific interventions, such as the incremental effects of intensive and training services provided to adults and dislocated workers. ETA also created a Performance Reporting Workgroup to identify recommendations for specific steps that ETA can take to clarify grantee data collection and reporting expectations.

As part of its ongoing efforts to improve the oversight and performance tracking of grants, ETA reported that it is working on an Enhanced Desk Monitoring Review process and recently began updating its Core Monitoring Guide. ETA also stated that it has updated all grant agreements to ensure that all performance outcome information is clearly required to be reported.

Job Corps indicated that it is continuing its efforts to improve the quality of program services and achieve better outcomes for the students it serves. These efforts include implementing a standards-based system of teaching and learning, and identifying and replicating the practices of high-performing centers. To improve its reported performance data, Job Corps stated it has updated its Job Training Match Crosswalk to align with the revised DOL O*NET-Standard Occupational Classification database, which characterizes all jobs in the U.S. labor market.

VETS reported that it has directed states to provide more oversight to ensure that veterans with significant barriers to employment are getting the assistance they need, and issued clarifying guidance about providing and documenting intensive services to veterans with significant barriers to employment. ETA is piloting the Enhanced Outreach and Employment Services for Army Unemployment Compensation for Ex-Service Members in four states. The goal of this initiative is to improve outreach, exposure to jobs, and reemployment strategies for unemployed veterans.

WHAT REMAINS TO BE DONE

The Department needs to issue regulations to implement the provisions of the WIOA. It needs to ensure that the WIA Gold Standard Evaluation experiences no additional delays and use the results of the evaluation to identify those services that are having a positive impact on participants' ability to obtain good jobs. After the Performance Reporting Workgroup has completed its efforts, the Department needs to implement the recommended actions for improving data reliability.

In Job Corps, the Department needs to increase its oversight of under-performing training programs by improving its monitoring, and by more effectively using performance improvement plans, center assessments, and other oversight activities.

The Department should continue to pursue statutory access to the National Directory of New Hires. Such access would streamline the process of obtaining earnings data needed to assess the impact of services provided by ETA, VETS and other agencies within the Department. The Department should also consider conducting a longitudinal study, similar to the WIA Gold Standard Evaluation, of the job counseling, training, and placement services for veterans provided by the Department. Such a study could provide a better understanding of the impact of the Department's services on the employment outcomes of veterans.

CHALLENGE: Protecting the Security of Retirement, Health, and Other Benefit Plans for Workers, Retirees, and Their Families

BACKGROUND

The mission of the Department's Employee Benefits Security Administration (EBSA) is to protect the security of retirement, health, and other private-sector employer-sponsored benefit plans for America's workers, retirees, and their families. EBSA is responsible for administering and enforcing the fiduciary, reporting, and disclosure provisions of Title I of the Employee Retirement Income Security Act (ERISA). The agency is charged with protecting about 142 million workers, retirees and their families who are covered by nearly 677,000 private retirement plans, 2.4 million health plans, and similar numbers of other welfare benefit plans which together hold estimated assets of $8.4 trillion.

CHALLENGES FOR THE DEPARTMENT

EBSA's limited authority and resources present challenges in achieving its mission of administering and enforcing ERISA requirements protecting approximately 142 million participants and beneficiaries. An important part of EBSA's mission is to deter and correct violations of ERISA through a strong enforcement program to ensure workers receive promised benefits. Given the number of plans that the agency oversees relative to the number of investigators, EBSA has to devise ways to focus its available resources on investigations, audits and other reviews that it believes will most likely result in the deterrence, detection, and correction of ERISA violations. In order to do so, EBSA must determine which of its enforcement initiatives are the most effective.

For many years, EBSA's oversight efforts have been challenged by the fact that billions in pension assets held in otherwise regulated entities, such as banks, escape audit scrutiny. ERISA authorizes these institutions to obtain so-called "limited scope audits," presumably because they are being audited by other entities for other purposes. As a result, the independent public accountants that conduct their audits express "no opinion" on the financial statements of the assets they hold on behalf of plans. These limited scope audits weaken assurances to stakeholders and may put retirement plan assets at risk because they provide little or no confirmation regarding the existence or value of plan assets. These concerns were renewed and heightened by recent audit findings that as much as $3.3 trillion in pension assets received these types of limited scope audits.

EBSA is further challenged by the large increase in the types and complexity of investment products available to pension plans. In particular, since 2010, the Department has been working on the so-called "conflict of interest -- fiduciary investment advice rule." This conflict of interest rule is intended to ensure workers enrolled in retirement plans can be assured the investment advice they receive is delivered with their best interest in mind by broadening the definition of investment advice fiduciary for ERISA plans and individual retirement accounts, and by reducing the opportunities for financial conflicts of interest to compromise the impartiality of investment advice in the retirement savings marketplace.

DEPARTMENT'S PROGRESS

As an initial step in developing performance metrics to measure the effectiveness of its enforcement program, EBSA implemented a broad Sample Investigation Program (SIP) in FY 2011. Now in its fourth year, the SIP is designed to measure overall compliance with ERISA and the impact of ERISA investigations on compliance rates. In addition, EBSA stated that data collected by the SIP will be used to evaluate the effectiveness of EBSA's enforcement targeting strategies, as well as the impact of investigations on plan compliance. EBSA reported that it processed 376 SIP cases through 2013, and will continue to analyze and expand the compliance data already collected.

WHAT REMAINS TO BE DONE

EBSA needs to analyze violation trends as an additional methodology to help guide its resource allocation strategies. EBSA should concentrate on issuing final regulations on the so-called "conflict of interest rule" and continue its work to obtain legislative changes repealing the limited-scope audit exemption. In the interim, EBSA should continue to expand upon its existing authority to clarify and strengthen limited scope audit regulations and evaluate the ERISA Council's recommendations on the issue.

CHALLENGE: Reducing Improper Payments

BACKGROUND

In its FY 2014 Agency Financial Report, the Department estimated the Unemployment Insurance (UI) benefit program made $5.60 billion in improper payments and identified it as susceptible to significant improper payments. The leading cause of UI overpayments is claimants who have returned to work and continue to claim UI benefits. 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 cluster of Workforce Investment Act (WIA) grant programs (Adult, Youth, and Dislocated Workers) and the Federal Employees' Compensation Act (FECA) benefit program have been classified as at-risk of significant improper payments by OMB former Circular No. A-11, Section 57; however, the Department's annual risk assessments have not supported the at-risk designations.

CHALLENGE FOR THE DEPARTMENT

OMB has designated the Unemployment Insurance (UI) program as being particularly at risk for improper payments, and the Department's ability to identify and reduce UI improper payments continues to be a challenge.

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

DEPARTMENT'S PROGRESS

The Department continues to work with states to implement a number of strategies to improve the prevention, detection and recovery of UI improper payments. Among numerous other initiatives, the Department has launched a website that clearly identifies each state's estimated UI improper payment rate and payments over a 3-year period, as well as each state's progress in implementing the identified improper payment strategies. The Department has also undertaken the "Improper Payment High Priority States" initiative to reduce the UI improper payment rate in those states with unacceptably high levels over a prolonged period. In addition, the Department established a UI Integrity Center of Excellence. Over the next three years, the Center plans to develop, implement, and promote innovative program integrity strategies to reduce improper payments, including the prevention and detection of fraud, in the UI program. In addition, the Center plans to provide products to help states improve their integrity operations and offer states on-site technical assistance to identify operational changes for improving program integrity.

With respect to improper payments in the FECA program, in FY 2014, the Department submitted a new sampling and estimation plan to OMB for the FECA program. In addition, OWCP stated that it is developing a Program Integrity Unit with auditors and data analysts to provide greater oversight and analysis of payment accuracy. OWCP has also contracted with a data analytics firm to build agency capacity in this area.

In the WIA programs, the Department stated that it has attempted to identify the full extent of improper payments by including estimates from other sources.

WHAT REMAINS TO BE DONE

The Department needs to employ cost benefit and return on investment analyses to evaluate the impact of its improper payment reduction strategies for UI. The Department can further improve oversight of the states' detection and prevention of UI overpayments by increasing the frequency of on-site reviews at State Workforce Agencies. In addition, the Department needs to continue pursuing legislation to allow states to use a percentage of recovered UI overpayments to detect and deter benefit overpayments.

The Department also needs to assess the validity of the FECA overpayment estimates resulting from its new estimation methodology and make adjustments as needed for future estimates.

Finally, the Department needs to continue working with OMB to properly classify the individual grant programs authorized under the newly enacted Workforce Innovations and Opportunities Act. Since data are not readily available to allow the Department to develop a statistically valid improper payments estimate by directly sampling grant payments, the Department needs to consider other sampling methods. 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: Securing and Managing Information Systems

BACKGROUND

More than 50 of the Department of Labor's major information 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 the Department's financial activities, enforcement actions, worker safety, health, pension, and welfare benefits, job training services, and other worker benefits.

CHALLENGE FOR THE DEPARTMENT

Safeguarding data and information systems is a continuing challenge for all Federal agencies, including DOL. Recent OIG audits have identified deficiencies in configuration management and account management, as well as security and access controls weaknesses in key departmental financial and non-financial systems. These deficiencies can pose an increased risk to the security of data and information maintained in DOL systems. As the Department continues moving applications to a cloud environment, it must address challenges identified by the Council of Inspectors General on Integrity and Efficiency's (CIGIE) 2014 review of cloud computing. The CIGIE found that Federal agencies have not fully considered Federal guidance and best practices; contracts lacked detailed specifications as suggested in the Federal cloud computing guidelines and best practices documentation; and agencies did not have an accurate and complete inventory of their cloud systems. The Department has not resolved the concern that data downloaded through a remote connection, which may contain personally identifiable information, is not being tracked and managed in accordance with OMB M-07-16, "Safeguarding Against and Responding to the Breach of Personally Identifiable Information. This OMB memorandum requires the Department to log all computer-readable data extracts from databases holding sensitive information and verify each extract, including whether sensitive data has been erased within 90 days or its use is still required.

The Department has also faced challenges in managing its financial system, New Core Financial Management System (NCFMS). The contractor that owned and operated NCFMS and owned the DOL financial data filed for bankruptcy protection on September 4, 2014. In anticipation of the contractor's insolvency, the Department devoted considerable resources during the summer for contingency planning in the event that the Department would not have complete access to critical data. We issued a report recommending certain measures to strengthen the contingency planning efforts. In addition, the Department was forced to make unexpected expenditures totaling $23 million over 25 months to procure software, hardware and the DOL data to continue to maintain the financial system following the contractor closing down.

DEPARTMENT'S PROGRESS

The Department has made progress in establishing risk mitigation as a priority via its Risk Management program. The Office of the Chief Information Officer (OCIO) established Priority Security Performance Metrics and began measuring agency progress on achieving these metrics resulting in the remediation and closure of 93% of prior year findings. The Department stated there were multiple new initiatives completed within the previous fiscal year, such as updating the DOL Computer Security Handbook and implementing its enterprise monitoring tool, Tivoli Endpoint Manager for Security and Compliance (known as BigFix), automating DOL inventory, vulnerability and configuration management processes.

In addition, the Department stated it has acquired an enterprise information technology (IT) system monitoring tool to assist in configuration management, vulnerability assessment, and accounting for the inventory of electronic devices connecting to each IT system. Finally, the Department reported that is has made considerable progress in consolidating its data centers and implementing its personal identity verification (PIV) card logon program.

In response to our audit work, the Department made improvements to the contingency planning for the financial management system. The Department also worked with the General Services Administration to effectuate the procurement of the software, hardware and data from the now-defunct contractor. The bankruptcy court has approved the transaction, and operations have transitioned to a federal shared services provider.

WHAT REMAINS TO BE DONE

DOL needs to continue to reduce its IT footprint by completing its data center consolidation efforts and reducing the number of external connections. The Department must take steps to ensure its processes for managing applications and information in cloud computing environments are updated and institutionalized in the form of department wide policies and procedures. The Department needs to continue its efforts to implement the OMB M-07-16 requirement to log/verify data extracts and the PIV logon program. Most importantly, a greater presence in IT system security is needed at the Executive Level; continuing current Risk Management and Continuous Monitoring Program processes will assist in that effort as Executives become integral to the discussion and understanding of their IT security risks and control weaknesses, including setting mitigation priorities.

The Department will need to accelerate its transition planning and funding to meet the unexpected costs incurred with the NCFMS contractor's insolvency. The Department will need to closely monitor the operation of the financial system for the foreseeable future to ensure that it is operating effectively.

CHANGES FROM LAST YEAR:

Changes to the 2013 Top Management Challenges report include combining of the challenge related to miner safety and health into one challenge on worker safety and health. Similarly, the 2013 report contained separate challenges for Workforce Investment Act grants, the Job Corps program, and Veterans Employment and Training Service programs. The 2014 report contains one challenge describing the difficulties the Department faces in providing unemployed adults, youth and veterans with job training programs and other employment services that help them to obtain suitable employment. In 2014, "Ensuring the Safety and Health of Job Corps Students and Staff" is reported as a separate challenge.

Summary of Financial Statement Audit and Management Assurances

The following tables provide a summary of the Department's FY 2014 financial statement audit and its management assurances.

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

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0					0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	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
Total Non-Conformances	0					0

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

Improper Payments Reporting Details

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payment Elimination and Recovery Improvement Act of 2012 (IPERIA),[1] requires federal agencies to identify and reduce improper payments and report annually on their efforts according to guidance promulgated by the Office of Management and Budget in OMB Circular No. A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*. This section is presented in accordance with Section II.5.8 of OMB Circular A-136, issued September 2014.

Department-wide Risk Assessment

IPERA Section 2(a) requires agency heads to "review all programs to identify risk susceptibility for improper payments every three years." As the last Department-wide risk assessment was performed in FY 2011, DOL performed a full assessment of all DOL programs for FY 2014 based on criteria prescribed in IPERA Section 2(a)(3(b), outlined below:

> Scope. — In conducting the reviews [. . .] the head of each agency shall take into account those risk factors that are likely to contribute to a susceptibility to significant improper payments, such as —
>
> i. whether the program or activity reviewed is new to the agency;
>
> ii. the complexity of the program or activity reviewed;
>
> iii. the volume of payments made through the program or activity reviewed;
>
> iv. whether payments or payment eligibility decisions are made outside of the agency, such as by a State or local government;
>
> v. recent major changes in program funding, authorities, practices, or procedures;
>
> vi. the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; and
>
> vii. significant deficiencies in the audit report of the agency or other relevant management findings that might hinder accurate payment certification.

Based on DOL's Department-wide risk assessment, only the Unemployment Insurance (UI) program meets the susceptibility threshold in statute: either potential estimated improper payments greater than 1.5% of outlays and greater than $10 million (IPERA §2(a)(3)(A)(ii)(I)) or potential estimated improper payments of more than $100 million, regardless of percentage (IPERA §2(a)(3)(A)(ii)(II)). Two DOL Programs are required to provide estimates based on inclusion in Exhibit 57B, Section 57, of OMB Circular A-11 (2002)[2]. These programs are the Federal Employees' Compensation Act (FECA) benefit program and the Workforce Investment Act (WIA) of 1998 Title I programs (WIA Programs). In addition to these programs, DOL is required to report an improper payments estimate for funds provided in response to Hurricane Sandy through the Disaster Relief Appropriations Act (Public Law 113-2), signed on January 29, 2013. Section 904(b) of the Act provides that all programs and activities receiving funds under this Act shall be deemed to be "susceptible to significant improper payments" for the purposes of IPIA, notwithstanding IPIA section 2(a)."

[1] IPIA, Public Law (P.L.) 107-300 (2002); IPERA, P.L. 111-204 (2010); IPERIA, P.L. 112-248 (2013). All three laws are codified at 31 U.S.C. 3321 note.

[2] In July 2001, OMB issued Section 57, *Information on Erroneous Payments*, as part of the 2002 revision to Circular A-11, *Preparation, Submission, and Execution of the Budget*. Exhibit 57B of Section 57 listed programs required ". . . to provide improper payment data, assessments and action plans with initial budget submission beginning in 2003." All "benefit programs" exceeding obligations of $2 billion were included on Exhibit 57B.

DOL Programs Required to Submit Improper Payments Estimates

Program	Requirement Based on…	Estimated Rate	
Unemployment Insurance (UI)[1]	Risk analysis	Improper Payment Rate (Overpayments plus Underpayments):	11.57%
		Overpayment Rate	11.16%
		Underpayment Rate	0.41%
		Net Improper Payment Rate (Improper Payment Rate Minus Amounts Recovered by States)	8.65%
		Improper Payment Rate Minus "Work Search" Errors	7.85%
Federal Employees' Compensation Act (FECA)	Inclusion in Exhibit 57B of OMB Circular A-11 (2002)	Improper Payment Rate (Overpayments plus Underpayments)	2.5%
Workforce Investment Act (WIA) Title I Programs	Inclusion in Exhibit 57B of OMB Circular A-11 (2002)	Rate of Services to Potentially Ineligible Participants (maximum)	< 1.5%
Hurricane Sandy Funding	Disaster Relief Appropriations Act of 2013	Rate of Salary Spent on Potentially Ineligible Participants (maximum)	< 0.5%

[1] Covers the 12-month period from July 1, 2013 through June 30, 2014.

Details for each program are provided in the following sections based on the format prescribed by OMB Circular A-136 Section II.5.8.

Unemployment Insurance (UI) Program

UI Program Integrity Overview

The Federal-state unemployment insurance (UI) program, established by the Social Security Act of 1935 (SSA), offers the first line of defense against the negative effects of unemployment. Through payments made directly to eligible, unemployed workers, it ensures that at least a significant proportion of the necessities of life, most notably food, shelter, and clothing, can be met on a week-to-week basis while the individual searches for a new job. As temporary, partial wage replacement to the unemployed, UI is of vital importance in maintaining purchasing power and in stabilizing the economy.

The UI program is a unique Federal-state partnership, based on Federal law but administered by state employees under state law. The program is designed to provide benefits to most individuals who are out of work, generally through no fault of their own, for periods between jobs. In order to be eligible for benefits, jobless workers must demonstrate workforce attachment, usually measured by amount of wages and/or weeks of work, and must be able and available for work and actively searching for work.

States also administer two federal unemployment compensation programs – Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-service members (UCX). The States also administer an Extended Benefits (EB) program in times of significant unemployment when the unemployment rate triggers for EB are met. In addition, Congress periodically enacts temporary episodic programs in times of recession, such as the Emergency Unemployment Compensation (EUC) program during the most recent recession and its aftermath.

Section 303(a)(1), SSA, requires, as a condition for a state to receive administrative grants for its UI program, that the law of the state provide for "such methods of administration … as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due." The U.S. Supreme Court interpreted the words "when due" in §303(a)(1) to mean "at the earliest stage of unemployment that such payments [are] administratively feasible after giving both the worker and the employer an opportunity to be heard.

Section 303(a)(1) has also been interpreted to mean that states must have "methods of administration" to ensure that eligible claimants are paid UI benefits promptly when determined eligible and to ensure claimants who are not eligible are not paid. In addition, states must have methods of administration to protect against improper payments and fraud. This federal-state partnership structure makes UI unique among the country's social insurance programs, and program integrity depends almost entirely on actions by the states.

The combination of the requirement to pay "when due" and the complexity of managing a large program with eligibility rules and administrative resources that vary by state create a complex environment for states to ensure program integrity. As such, the Department uses targeted strategies to work with states across many fronts including facilitating the development of information technology systems, employer and claimant communication tool-kits, legislation, a platform to share best practices, targeted technical assistance and supplemental funding for state program integrity related information technology improvements to ensure that payments go only to claimants eligible to receive benefits under state law.

The UI program's program integrity efforts pre-date the IPIA. The Department's comprehensive strategic plan focuses on strategies and other technical assistance activities to states addressing specific root causes of improper payments. The plan is continuously evolving as new strategies are identified and the progress with each strategy in this plan is regularly monitored. These strategies target the three largest root causes of UI improper payments:

- Payments to individuals who continue to claim benefits after they have returned to work (Benefit Year Earnings);
- Failure of employers or their third party administrators to provide timely and adequate information on the reason for an individual's separation from employment (Separation); and
- Failure of claimants to comply with the state's work search requirements (Work Search).

Under the Department's guidance, each state's Benefit Payment Control (BPC) unit is responsible for ensuring UI program integrity through prevention, detection, investigation, establishment, and recovery of improper payments. Every state conducts post-award reviews for the prevention and detection of UI improper payments to determine whether error or willful misrepresentation has occurred. An additional tool, the Benefit Accuracy Measurement (BAM), is a statistical survey created in the 1980s as a quality control and improper payment estimation tool. Each state's estimated improper payment rate and the national improper payment rate are based on results of the BAM survey. (For details on the BAM program, please see the UI Statistical Sampling section of this document.)

The UI program uses both the BPC and BAM program results to support the state's efforts to continuously monitor and improve prevention, detection and recovery of improper payments. The results from both BPC and BAM help the Department to assess the progress made by the states and provide targeted technical assistance and support.

Benefit outlays for all UI programs decreased in FY 2014 to $48.41 billion from the $66.8 billion paid in FY 2013. This decrease reflects the decline in the number of new claims, the discontinuance of the Federally-funded Emergency Unemployment Compensation (EUC) program, and the absence of states meeting the trigger thresholds required to pay Extended Benefits (EB).

UI-I. Risk Assessment

The UI program's estimated annual improper payment rate for FY 2014 is 11.57%, with an estimated dollar amount of $5.60 billion, consisting of $5.40 billion in overpayments plus $0.20 billion in underpayments. States reported total overpayment recoveries of $1.42 billion, which includes overpayments recovered from the State UI, UCFE, UCX, EUC, and EB programs.

UI-II. Statistical Sampling

Improper payment estimates are based on results of the BAM survey, described in detail below, which examines a statistically valid sample of payments from the State UI, UCFE, and UCX programs (the three largest permanently authorized unemployment compensation (UC) programs), but does not include EUC and EB payments. For purposes of reporting payment accuracy data, the estimated improper payment rates are assumed be generalizable to the EUC and EB programs, although those programs are not directly measured by the BAM survey.

BAM investigators in each state conduct comprehensive audits for randomly-selected weekly samples of paid and denied claims. Beginning in 2008, all paid claims sampled for BAM investigation are matched with the National Directory of New Hires (NDNH) database to detect overpayments to individuals who claim benefits after returning to work, the largest single cause of UI overpayments. The population includes paid and denied claims under the State UI, UCFE, and UCX programs. Since the claims processes and eligibility requirements are very similar for the EB and EUC programs, the estimated improper payment rates are assumed to generally reflect the accuracy of these benefit payments. Overpayment and underpayment rates for FY 2014 are shown in Table UI-1, Improper Payment Reduction Outlook, and are for the period July 1, 2013 to June 30, 2014. Data are reported for this period rather than the fiscal year because a higher percentage of BAM investigations will have been completed, therefore providing a more accurate estimate. For the period July 1, 2013 to June 30, 2014, state agencies completed audits for 23,666 paid claims cases, a completion rate of 100%.

In FY 2013, the Department used a new metric to measure improper payments that took into account the "net" effect of UI overpayment recoveries. Prior to FY 2013, the Department's reported UI improper payment rate included two components – total overpayments plus total underpayments – as estimated from BAM. The FY 2013 methodology, as approved by OMB, subtracts the amount of overpayment recoveries, which are based on actual amounts reported by the state workforce agencies on the ETA 227 Overpayment Detection and Recovery reports for State UI, UCFE, UCX, EB, and EUC. However, IPERIA now requires agencies to include all identified improper payments in the reported estimate, regardless of whether the improper payment in question has been or is being recovered, and any program that currently excludes recovered amounts from its estimate is required to update its methodology to reflect the new IPERIA requirement. As a result of IPERIA, beginning in FY 2014, the Department cannot use the "net" improper payment rate for its improper payment rate measure.

For FY 2014 reporting, the estimated UI Improper Payment rate consists of all overpayments plus underpayments. However, the rate excludes those payments determined to be "technically proper" under state UI law. The statutory definition of an improper payment is "any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. This definition allows for the exclusion of "technically proper" payments from the UI Improper Payment rate. Payments that are deemed to be "technically proper" by BAM audit investigators are those which meet applicable state statutory requirements. In July 2014, OMB approved the Department's proposed improper payment rate estimation methodology, which included the exclusion of any payments determined to be "technically proper" under state UI law.

Reasons that certain payments are determined to be "technically proper" under state UI law include:

- Finality Reasons – This includes payments with an eligibility issue(s), but the state cannot take official action to establish an overpayment for recovery because the time that has elapsed between the decision to pay the claimant and the detection of the eligibility issue exceeds the period established in state law for establishing an improper payment. In other words, such payments are considered final under the state

UI law. The designation of "technically proper" payments under state law is based on a Supreme Court decision (*California Department of Human Resources Development v. Java*). The link for the Supreme Court decision is available at: http://www.law.cornell.edu/supremecourt/text/402/121

- Other Reasons – This category includes payments with an eligibility issue(s), but the state does not take official action to recover the overpayment because the claimant is without fault for the error creating the improper payment, and recovery would be against the state's standard of "equity and good conscience."

In addition to the Improper Payment rate required by IPERA, the Department has also implemented supplemental measures as required by Executive Order 13520. These supplemental measures, developed in consultation with OMB, are important metrics that provide additional insight into root causes and possible corrective actions. The current supplemental measures are:

- The "net improper payment" rate, which subtracts recoveries from the improper payment rate; and
- The improper payment rate excluding work search, which subtracts improper payments due to work search errors.

Both supplemental measures use the estimated overpayment and underpayment rate from BAM survey data. The supplemental "net improper payment" rate is the rate previously reported by the Department in its FY 2013 Agency Financial Report. Monitoring and reporting on the "net improper payment" rate is a positive incentive for constructive behavior among the states. States making progress on both reducing overpayments and increasing recoveries will realize significant reductions in the "net improper payment" rate and will have achieved considerable improvement in efficient use of unemployment insurance trust fund dollars.

- The "net improper payment" rate is defined as total overpayments plus total underpayments minus the amount of overpayments recovered by state workforce agencies. This supplemental measure includes both the overpayment and underpayment rates for all causes, but excludes payments determined to be technically proper under state UI law. The net improper payment rate includes two components – improper payments, which will continue to be estimated from BAM, and overpayments recoveries, which are based on actual amounts reported by the state workforce agencies on the ETA 227 Overpayment Detection and Recovery report.

The improper payment rate excluding work search as a supplemental measure allows for the review of improper payment rates without the influence of work search errors. During the recent quarters, work search errors are driving much of the increase in the improper payment rate as states have implemented stricter work search requirements. It has become increasingly difficult for agencies, including BAM auditors, to verify claimant work search contacts with potential employers given the more pervasive role of tools such as employment search engines, large employment application databases, and online social networks in the modern job search process. These methods of work search are extremely difficult and expensive to independently validate. In addition, employers do not maintain records on all applicants or individuals submitting resumes, which create an additional challenge of validating work search as part of a BAM audit. As a result, it is not cost-effective for agencies to audit and verify the work search activities for all UI claimants. Very few states have the resources to conduct random audits outside of BAM, and the few that do audit only a small percentage of claimants.

Since there are a multitude of challenges identifying realistic strategies to bring down the work search component of the overall improper payment rate, tracking the improper payment rate excluding the work search rate will help assess progress made on the other root causes.

- The supplemental improper payment rate excluding work search consists of all overpayments minus work search overpayments plus total underpayments. This supplemental measure includes the overpayment and underpayment rates for all causes except work search related errors. Both the overpayment and underpayment rates exclude payments determined to be technically proper under state UI law.

The Department reports these supplemental measures quarterly for publication on the Department of the Treasury Payment Accuracy Web site (http://www.paymentaccuracy.gov/). These supplemental measures are also reported annually as part of the IPIA reporting requirements (see Table UI-4, Improper Payment Reduction Outlook).

Table UI-A: UI Improper Payment Reduction Outlook FY 2014 – FY 2017 ($ in millions)

	FY 2014		FY 2015 (Targets)		FY 2016 (Targets)		FY 2017 (Targets)	
	Est. IP%	Est. IP$	Est. IP%	Est. IP$	Est. IP%	Est. IP$	Est. IP%	Est. IP$
Net Improper Payment Rate	8.65%	$4,188	7.8%	$2,947	7.6%	$2,883	7.5%	$2,907
Improper Payment rate excluding Work Search	7.85%	$3,798	7.5%	$2,833	7.4%	$2,807	7.3%	$2,829

UI-III. Corrective Actions

All corrective actions are based on root causes ascertained through years of analysis. OMB established the following categories to classify root causes of improper payments in Federal programs:

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

These categories do not align precisely with the way the UI program classifies root causes. **Table UI-A1** displays the crosswalk between the OMB classification for Documentation and Administrative Errors and Verification Errors and BAM data. Since UI does not provide medical benefits of any type, no UI overpayments fit the definition of the Authentication and Medical Necessity Errors category.

Table UI-A1: OMB-Specified Causes of Errors and BAM Data Crosswalk

Overpayment Causes (OMB Classification)	**Percent of Overpayments** (2014 IPIA Rate)
Documentation and Administrative Errors Total (breakdown listed below)	**9.13%**
State Agency Took Incorrect Action	4.14%
Procedures Not Followed by State Agency	4.07%
Other State Agency Errors	0.30%
State Agency Provided Incorrect Information	0.62%
Verification Errors Total (breakdown listed below)	**90.87%**
Issue Not Detectable by State Agency Procedures	82.62%
State Agency Had Documentation/Did Not Resolve Properly	5.76%
State Agency in Process of Resolving	2.75%
New Hire Cross-Match	0.45%
Wage Record Cross-Match	0.29%
Authentication and Medical Necessity Errors Total	**0.00%**

Table UI-A2 reflects the root causes of UI overpayments. The Department classifies the root causes of UI overpayments according to the following categories:

Table UI-A2: Root Causes of UI Overpayments	**Percent of Overpayments** (2014 IPIA Rate)
Work Search (*failure to actively seek employment*)	35.86%
Benefit Year Earnings (*continuing to claim benefits after returning to work*)	31.03%
Separation (*ineligible because of voluntary quit or discharge for cause*)	14.09%
Base Period Wages (*error in calculating claimant's benefit based on wages earned prior to period of unemployment*)	5.03%
Able and Available (*ineligible due to not being able to work or available for work*)	4.52%
Employer Service Registration (*failing to register with the state Employment Service when required to do so*)	1.61%
Other Eligibility Issues (*refusal of work, self-employment, failure to report for agency review or report requested information, citizenship status, and claiming benefits using a false identity*)	2.61%
All Other Issues (*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*)	5.26%

Reducing Improper Payments in Unemployment Insurance

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

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

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

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

Several factors contribute to the risk of improper UI payments. Efforts to reduce costs of taking claims and improve customer service prompted the states to move 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 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, states are required to meet benefit payment timeliness performance standards, which may result in some eligibility decisions based on incomplete or untimely information. The Department is actively working with 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 states, particularly those with high overpayment rates.

DOL has provided states with supplemental funding to implement strategies and technology-based infrastructure investments that will help the states prevent, detect, and recover UI overpayments. These grants demonstrate DOL's commitment to the development of integrity-related systems focused on the proper payment of UI benefits. These improvements 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 2013, DOL provided approximately $264.7 million to states in supplemental funding for integrity related projects. Additionally, between FY 2009 and FY 2013, $344.6 million in supplemental funding was provided to five consortia to address outdated IT system infrastructure, which is necessary to improve UI integrity.

In September 2014 DOL ETA awarded $87.1 million in supplemental funding to 49 state workforce agencies for the prevention, detection, and recovery of improper UI benefit payments; to improve state performance; to address outdated IT system infrastructures necessary to improve UI program integrity; and to enable states to expand or implement Reemployment and Eligibility Assessment (REA) programs. These supplemental funds will support state implementation of high-priority activities, including:

- Implementation of other integrity-related projects, including technology-based prevention, detection, and collection activities;
- Implementation and/or expansion of the State Information Data Exchange System (SIDES) for state communications with employers regarding for claimant separation information;
- Subscription fees for maintenance and operation of SIDES;
- Merit or contract staff support for BPC activities;
- UI IT security and IT contingency planning projects; and
- Automation efforts that result in improvements in performance and program integrity.

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. Every state audits all benefits payments by means of a cross-match against National and State new hire directories and state wage files. However, under certain circumstances, states may exclude payments from these matches if the wages are being reported by the claimant, or if the payment was made to a claimant with a return-to-work date.

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

State agencies also maintain the integrity of UI and reduce improper payments by ensuring that employers contribute their fair share of taxes and facilitate the return to work of UI claimants.

Some of the most useful tools and practices include:

1. Benefit Year Earnings Issues (claimants continuing to claim UI benefits after returning to work)

   a. The National Directory of New Hires (NDNH) – This database is managed by the Department of Health and Human Services, Office of Child Support Enforcement. The NDNH has claims information as well as wage and new hire information from employers including the Federal government and military. States use this database to cross-match between the wage record data to detect unreported earnings and new hire data to identify individuals who continue to claim benefits after returning to work.

   b. State Directories of New Hires – This tool provides information similar to the NDNH, but only contains data reports from employers within the state.

   c. State Quarterly Wage Cross-Match – Paid claims are matched against the quarterly wage records reported by employers to state tax units. The lag in reporting requirements for UI taxes can prevent identification of overpayments in a timely manner.

2. Separation Issues (claimants ineligible to receive benefits due to voluntary quit or discharge for cause)

   a. SIDES – This automated data exchange promotes the receipt of timely information from employers regarding the claimants’ separation from employment and verification of earnings upon returning to work. Timely and adequate information from employers provides the state agency with the necessary information to make a determination on the claimants’ eligibility and thus prevent improper payments.

3. Verification of Claimant Identity and Other Fraud Prevention Activities

   a. State Departments of Motor Vehicles – Helps verify the identity of the claimant.

   b. U.S. Social Security Administration – Helps confirm identity and Social Security benefits.

   c. Systematic Alien Verification for Entitlement (SAVE) – Maintained by the U.S. Department of Homeland Security, SAVE confirms the legal status of non-citizens. The wages used to establish a claim must be earned legally, and after filing a UI claim, non-citizens must be legally authorized to seek and accept employment.

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

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

4. Tax Fraud Detection

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

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

5. Reemployment and Continuing Eligibility

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

   b. Reemployment and Eligibility Assessments – In-person claimant interviews conducted at American Job 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.

UI-IV. UI Improper Payment Reporting

Table UI-1 shows the Improper Payment Reduction Outlook for the UI program for FY 2013 – FY 2017. The FY 2013 improper payment rates shown in the table uses the prior estimation methodology, which nets out improper payment recoveries. In accordance with IPERIA, which requires agencies to include all identified improper payments in reported estimates regardless of whether the improper payment in question has been or is being recovered, DOL updated the methodology for FY 2014. This change in methodology resulted in an increase in improper payment rate targets beginning in FY 2014.

Table UI-1A: UI Improper Payment Reduction Outlook FY 2013 – FY 2017 ($ in millions)

	FY 2013[1]		FY 2014		FY 2015 (Targets)		FY 2016 (Targets)		FY 2017 (Targets)	
UI Program Outlays	$66,788		$48,412		$37,776 (estimated)		$37,938 (estimated)		$38,759 (estimated)	
	Est. IP%	Est. IP$	Est. IP%	Est. IP$	Est. IP%	Est. IP$	Est. IP%	Est. IP$	Est. IP%	Est. IP$
Improper Payment Rate	9.32%	$6.225	11.57%	$5,604	11.34%	$4,284	11.14%	$4,226	10.94%	$4,240
Over-payment Rate	8.82%	$5,891	11.16%	$5,404	10.91%	$4,121	10.72%	$4,067	10.52%	$4,077
Under-payment Rate	0.50%	$334	0.41%	$200	0.43%	$162	0.42%	$159	0.42%	$163

[1] FY 2013 improper payment rate results shown in the table uses the estimation methodology which nets out improper payment recoveries made.

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

An estimated 3.19% of UI benefits were overpaid due to fraud in FY 2014, compared with a 2.89% fraud rate in FY 2013. Overpayments due to fraud are included as part of both the IPIA Rate and supplemental overpayment rates.

UI-V. 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 areas that offer the greatest opportunity for improvement.

The Department coordinates with states to recover UI overpayments. Each state's BPC unit is responsible for promoting and maintaining UI program integrity through prevention, detection, investigation, establishment, and recovery of improper payments. BPC operations identify UI overpayments for recovery through such methods as cross-matching claimant Social Security Numbers with State and National Directories of New Hires, wage record files submitted each quarter by employers, matches with other databases, such as Workers Compensation and State Corrections, and other sources such as appeals, reversals and tips and leads. States collect overpaid claims through offsets of UI benefits, Federal income tax refunds under the Treasury Offset Program (TOP), state income tax offsets, and direct cash reimbursement from the claimant. From FY 2008 through FY 2013, approximately $6.85 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 2014, 42 states have implemented TOP and 5 other states are in various stages of implementation. An estimated $377.1 million in UI overpayments were recovered through TOP in FY 2014. Additionally, on December 26, 2013, the President signed into law the Bipartisan Budget Act. This Act amended section 303 of the SSA to require states, as a condition for receipt of grants to administer their UI programs, to use the TOP to recover covered UI debt that remains uncollected as of the date that is one year after the debt was finally determined to be due and collected.

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 OIG 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 UI-2 provides a summary of UI overpayments established and recovered as a result of the activities described above.

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

Table UI-2: UI Overpayments Established and Recovered by Fiscal Year (Excluding Waivers) ($ in millions)

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 %
2008	$1,002	$571	56.99%	$1,010	$573	56.72%
2009	$1,456	$851	58.43%	$1,736	$915	52.68%
2010	$1,906	$966	50.67%	$2,834	$1,180	41.63%
2011	$1,887	$998	52.88%	$2,996	$1,299	43.36%
2012	$1,740	$1,015	58.34%	$3,021	$1,400	46.34%
2013	$1,576	$1,077	68.36%	$2,452	$1,513	61.69%

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

The information reported on the ETA 227 Report is based on actual counts of UI overpayments identified and recovered by the state agencies. This is in contrast to the estimates of UI overpayment rates and amounts that are reported for the IPIA, which are based on the results of BAM. BAM is a statistical survey of paid and denied UI claims. The results of the BAM audits are projected to the population of benefit payments for all unemployment compensation programs: State UI, UCFE, UCX, EB, and EUC. These BAM estimates may be significantly higher than actual overpayments identified for recovery because:

1. BAM audits detect eligibility issues that usual BPC detection methods will not identify, because it is very workload intensive and/or not cost effective to detect (for example, verification of all claimant work search activity or that all claimants were able and available for work); or
2. The overpayment is not recoverable because the responsibility for the improper payment is the agency's and/or the employer's, rather than the claimant's, or due to state finality rules.

"Overpayment Establishments" have been adjusted to subtract waivers, which are overpayments that the state agency has determined are not recoverable. The Unemployment Insurance Report Handbook (ET Handbook 401, 4th edition, Section IV, Chapter 3, p. 10) defines a waiver as "a non-fraud overpayment for which the state agency, in accordance with state law, officially relinquishes the obligation of the claimant to repay."

Usually, this is authorized when the overpayment was not the fault of the claimant and requiring repayment would be against equity and good conscience or would otherwise defeat the purpose of the UI law. DOL believes that this definition is consistent with the criteria established by OMB for evaluating the cost effectiveness of a payment recapture program in the revised Appendix C, Part I.B, Section 5 of Circular A-123.

Table UI-2.1 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 UI-2.1: Comparison of UI/UCFE/UCX/EB and EUC Overpayments Established and Recovered ($ in billions)

Fiscal Year	UI/UCFE/UCX/EB Outlays	Overpayments Established UI/UCFE/UCX/EB (excluding waivers)	Established As a Percent of Outlays	Overpayments Recovered	Recovered as a Percent of Established
2008	$38.88	$1.002	2.58%	$0.571	56.99%
2009	$80.42	$1.456	1.68%	$0.851	58.43%
2010	$72.36	$1.906	2.63%	$0.966	50.67%
2011	$62.02	$1.887	3.04%	$0.998	52.88%
2012	$50.61	$1.740	3.44%	$1.015	58.33%
2013	$41.57	$1.58	3.79%	$1.077	68.36%
Fiscal Year	**EUC Outlays**	**Overpayments Established**	**Established As a Percent of Outlays**	**Overpayments Recovered**	**Recovered as a Percent of Established**
2008	$3.55	$0.008	0.23%	$0.002	22.54%
2009	$32.66	$0.280	0.86%	$0.064	22.74%
2010	$72.09	$0.928	1.29%	$0.214	23.04%
2011	$52.66	$1.109	2.11%	$0.301	27.15%
2012	$39.58	$1.281	3.24%	$0.385	30.04%
2013	$25.75	$0.877	3.40%	$0.436	49.71%

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; therefore, states are unable to offset overpayments against unemployment compensation payments.
- The legislation establishing the EUC program limits offsets to 50% of the amount payable to the claimant for the compensated week. The Middle Class Tax Relief and Job Creation Act of 2012 (Public Law 112-96) removed this restriction, which contributed to the increase in recoveries of EUC overpayments in FY 2012.
- Claimants who have been unemployed for long durations have few resources available for the repayment of overpayments.
- The severe decline in the housing market removed the option that states have used to recover overpayments by attaching liens to an individual's property and recovering the overpayments when the property is sold.

- Many states reassigned BPC staff to process claims when workloads increased sharply during the recession, thereby leaving fewer staff to identify and recover overpayments.

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

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

With respect to overpayment recoveries, the model suggests that recoveries are largely a function of the pool of overpayments and the amount of those overpayments that the agency establishes. The model also indicates that recoveries are unresponsive to changes in BPC resource levels, although these resources are important to support additional overpayment detections, which are in turn significant with respect to recoveries. **Table UI-3** shows the payment recapture audit reporting for the UI program. Amounts include State UI, UCFE, UCX, EB, and EUC programs. Data for FY 2014 are estimated based on ETA 227 reports from July 1, 2013, through June 30, 2014, the most recent period for which data are available.

Table UI-3: Payment Recapture Audit Reporting ($ in millions)

Status	Amount
Amount Subject to Review for Current Year (CY) 2014 Reporting	$48,412
Actual 2013 Amount Reviewed and Reported *(see note 1 below)*	N/A[1]
Amount Identified for Recovery in 2014 *(see note 2 below)*	$2,140[2]
Amount Recovered in 2014 *(see note 2 below)*	$1,416[2]
% of Amount Recovered Out of Amount Identified in 2014	66.15%
Amount Outstanding in 2014 *(see note 2 below)*	$1,571[2]
% of Amount Outstanding Out of Amount Identified in 2014 *(see note 2 below)*	73.34%[2]
Amount Determined Not to be Collectable in 2014 *(see note 3 below)*	$1,496[3]
% of Amount Not Collectable out of Amount Identified in 2014 *(see note 3 below)*	69.90%[3]
Amounts Identified for Recovery in Prior Years (PYs) 2008-2013	$13,509
Amounts Recovered in PYs 2008-2013	$6,851
Cumulative Amounts Identified for Recovery (CY + PYs)	$15,649
Cumulative Amounts Recovered (CY + PYs)	$8,042
Cumulative Amounts Outstanding (CY + PYs) *(see note 4 below)*	$3,704[4]
Cumulative Amounts Determined Not to be Collectable (CY & PYs) *(see note 3 below)*	$3,903[3]

Notes for Table UI-3

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

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

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

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

Table UI-4 shows the UI program's established annual targets which drive performance. The targets are based on the rate of recovery. Amounts include UI, UCFE, UCX, EB, and EUC programs.

Table UI-4: Payment Recapture Audit Targets ($ in millions)

Type of Payment	Current Year 2014 Amount Identified	Current Year 2014 Amount Recovered	Current Year Recovery Rate (Amount Recovered / Amount Identified)	2014 Recovery Rate Target	2015 Recovery Rate Target	2016 Recovery Rate Target
UI Benefits	$2,140[1,2]	$1,416[2]	66.15%[2]	58%	65%	68%

Notes for Table UI-4
[1] Excludes amounts waived for recovery.
[2] 2014 amounts based on data for the period July 1, 2013 through June 30, 2014, the most recent period for which data are available.

Table UI-5 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). Amounts include State UI, UCFE, UCX, and EB programs. Aging data are not available for EUC overpayments. Aging status is as of June 30, 2014.

Table UI-5: 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	$875.3	$695.7	$2,133.4

Table UI-6 describes the purpose for which recaptured funds were used.

Table UI-6: 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	Note	Note	Note	$1,416	Note	Note

Note: Federal law prohibits the use of UI funds recaptured for any purpose other than the original purpose.

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

UI-VI. Accountability

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

In response to the level of improper payments in the UI program, ETA developed a Strategic Plan to address several root causes of improper payments which were described in detail earlier in this document at Section III – UI Corrective Actions. 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 BAM survey to measure and report the percentage, dollar amount, and reasons for improper payments. Data are derived from investigations of a statistically valid sample of payments using federally prescribed procedures. ETA reviews this data for validity, analyzes the data for each state, and makes the data available publicly on ETA's Office of Unemployment Insurance (OUI) Website:

  http://www.oui.doleta.gov/unemploy/bam/2013/IPIA_2013_Benefit_Accuracy_Measurement_Annual_Report.pdf

  Data review, analysis and publication are included in the performance plan of the Administrator of ETA's OUI and in the elements and standards of numerous staff in that office.
- ETA has implemented a core performance measure for detection of overpayments by state UI programs, available at http://oui.doleta.gov/unemploy/3yr_ranking.asp. States that fail to meet the performance criterion submit corrective action plans. Analysis of state performance and monitoring of states' corrective actions continue to be evaluation factors in OUI managers' performance plans.
- ETA has developed additional performance measures that require states to:
  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 were described in detail earlier in this document at Section UI-III. UI Corrective Actions.
- **UI Integrity Center of Excellence**: In September 2012, the Department funded a cooperative agreement with the New York State Department of Labor (NYSDOL) to establish a national UI Integrity Center of Excellence. The Center was created to develop, implement, and promote innovative program integrity strategies to reduce improper payments, including the prevention and detection of fraud, in the UI program. The Department worked collaboratively with five other states, and the National Association of State Workforce Agencies (NASWA), to establish a Steering Committee to guide the Center's work and

ensure its strategies support all states' integrity activities, creating greater efficiency, improving operations, and saving millions of taxpayer dollars. The Center's focus is on the following key activities and strategies:

- Developing data analytics and predictive modeling methodologies and tools that are transferable and expandable for all states to improve UI fraud prevention and detection;
- Developing a secure method to rapidly alert states to new fraud schemes as they are identified;
- Serving as a laboratory for innovation by supporting the development and piloting of new strategies and tools to combat improper payments and fraud, building on the work of states, other Federal government agencies and the private sector;
- Supporting knowledge sharing among states by identifying and disseminating promising practices for state fraud prevention across the UI program; and
- Increasing staff capacity by developing and delivering training on fraud solutions and integrity strategies to all states.

In FY 2015, new activities to be implemented by the Center include development of a model BPC operation and development of integrity business requirements for use by states when modernizing their IT infrastructure. In addition, states will receive funding for innovative solutions that reduce improper payments. The Department is also working with the Center to identify improved data cross-matching opportunities for prevention of improper payments.

- **National Integrity Summit:** To provide a forum for disseminating successful practices for preventing, detecting, and recovering UI overpayments, ETA, working with NASWA sponsors a biennial National Unemployment Insurance Integrity Professional Development Conference. The 2014 UI Integrity Summit was held in May 2014 at DOL headquarters in Washington, D.C. The summit featured the UI Integrity Center of Excellence and included plenary sessions and training workshops on program integrity strategies to help target and prevent improper payments. The event was well attended by state representatives, other Federal agencies and staff from OIG. Over 164 individuals representing 52 state workforce agencies attended the event.

As part of its monitoring and oversight responsibilities of each 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.

UI-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 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 available integrity tools. 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 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 performance capacities, capabilities, and adaptability to new UI programs and integrity strategies. In response, between FY 2005 and FY 2012 the Department provided approximately $264.7 million to states in supplemental funding for integrity-related projects, between FY 2009 and FY 2013, awarded an additional $344.6 million to five state consortia. (A description of these consortia is provided earlier in this document at **Section UI-III. UI Corrective Actions**.) These resources will fund activities to support the prevention, detection, and recovery of improper UI benefit payments, improve performance, and address outdated IT system infrastructures, all of which are necessary to improve UI integrity.

The Department solicited state Supplemental Budget Request grant proposals in Unemployment Insurance Program Letter (UIPL) No. 13-14, issued in June 2014. (UI integrity activities eligible for Supplemental Budget Request grants are discussed earlier in this document at **Section UI-III. UI Corrective Actions**.) Based on positive outcomes from previous investments in integrity efforts, UIPL No. 13-14 also invited states that commit to implementation of all core activities, or have already implemented the core activities, to submit Supplemental Budget Request grant proposals for consortium projects.

In September 2014, ETA awarded $82 million in supplemental funding to 48 state workforce agencies for the prevention, detection, and recovery of improper UI benefit payments; improve state performance; and address outdated IT system infrastructures necessary to improve UI program integrity. Included in these awards are grants for five existing consortia totaling $15.8 million for projects designed to improve their UI IT systems for overall program quality, performance, and integrity.

UIPL Nos. 10-14 and 13-14, Change 1, issued in April, 2014 and June, 2014, respectively, solicited Supplemental Budget Request grant proposals to enable states to expand or implement REA programs., ETA awarded a total $73.7 million to 42 state workforce agencies to implement or continue re-employment and eligibility assessments for UI beneficiaries. These UIPLs are available at:

http://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=6924; and

http://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=8615

Additionally, the Department solicited state Supplemental Budget Request grant proposals to implement worker misclassification detection and enforcement initiatives in the state UI programs in UIPL 18-14 issued in July, 2014 and available at http://wdr.doleta.gov/directives/attach/UIPL/UIPL_18-14.pdf. Funding for the $10.2 million in grants awarded to 19 states was authorized in the Consolidated Appropriations Act of 2014 for “activities to address the misclassification of workers.” Under an innovative “high performance bonus” program, four states shared proportionately $2.0 million in grant funds, due to their high performance, or most improved performance, in detecting incidents of worker misclassification.

UI-VIII. Barriers.

The UI program has several statutory provisions establishing requirements that impose challenges to reducing improper payments.

Federal-State Partnership: Each state administers the UI program according to its own laws and policies, which must conform to broad federal requirements. Improper payment rates often reflect differences in state law. For example, states with strict active work search requirements will have perennially higher overpayment rates than those states with minimal active work search requirements. It is extremely resource intensive for states to verify and enforce claimant work search contacts with employers given the more pervasive role employment search engines, large employment application databases, and online social networks play in the modern job search process.

Additionally, States have bottom-line authority to set operational priorities. The Department has limited authority to ensure states use their funding to pursue improper payment reduction activities.

Delays in receiving separation information: Section 303(a)(1) of the SSA requires **payment "when due"**, prohibiting states from suspending UI benefit payments until an official determination has been made that payments are no longer due. As discussed in the UI Program Integrity Overview, above, there are strong policy reasons for ensuring prompt payment of benefits when due; UI is a critical safety net program providing individuals funds to pay for necessities while searching for the next job, and UI funds circulating in the economy during times of increased unemployment acts has a stabilizing impact on the economy. In compliance with the "when due" provisions of the law, states will make the determination of whether or not to pay benefits based on the best available information. A major challenge to addressing improper payments is created when claimants, employers, and third party administrators working for employers fail to report information timely and/or accurately.

State Resource Priorities: In recent years state staffing resources have been negatively impacted in two ways. First, during the recent recession, many state agencies diverted integrity staff to claims taking functions to process overwhelming workloads. In addition, Federal funding for state UI operations has been adjusted for inflation only once since at least 2004. Also, state furloughs and hiring freezes have reduced the UI administrative staff overall. Due to these personnel dislocations and staffing mismatches, UI claims adjudication was often conducted by less experienced or inadequately trained staff, resulting in an increased number of claims processing errors.

Second, state agencies' employees who leave through normal attrition or early retirements are often replaced by less experienced staff. Pressures on state budgets have reduced training, further contributing to the decrease in skilled staff who can accurately administer the relatively complex UI program.

Work Search as a Root Cause: Developing strategies to address work search errors, which is the highest root cause of UI improper payments nationally, is very challenging. State eligibility requirements with respect to active work search vary significantly among states and in some cases use vague language making it difficult to interpret consistently. More states are implementing stricter work search requirements resulting in significantly increased work search errors. It is very difficult for state UI agencies to verify claimant work search contacts with employers, given the methods of employment application vary widely in the current labor market, such as the posting of resumes on employment search engines and large databases. In addition, employers do not maintain records on all applicants or individuals submitting resumes, also adding to the challenge of validating work search. Strategies to address these challenges are few. The most effective strategy is random work search audits, which is workload and resource intensive and states have not been specifically required or funded to do random work search audits. As a result of all these factors, work search improper payments are increasing and driving up the overall UI improper payment rate.

Information Technology (IT) Capacity: State IT capacity has been strained by the need to reprogram for the several extensions of temporary unemployment compensation programs. IT resources are not available for integrity functions, such as cross-matching claimant information with the new hire and other databases. Many state systems are several decades old and cannot be easily adapted to new improper payment detection methods, such as generating follow-up communications with claimants and employers to verify new hire matches.

UI-IX. Additional Comments

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 developing Integrity legislation. The package is completing the departmental approval process, and ETA is drafting legislative specifications and language for clearance by OMB. Legislative language is expected to be transmitted to Congress, pending OMB approval.

The Federal Employees' Compensation Act (FECA) Program

FECA Program Integrity Overview

The Federal Employees' Compensation Act provides workers' compensation coverage to approximately three million federal and postal workers around the world for employment-related injuries and occupational diseases. The Office of Workers' Compensation Programs and its Division of Federal Employees' Compensation (DFEC) have responsibility for administering the Act through twelve district offices and national office staff. DFEC adjudicates new claims for benefits and manages ongoing cases; pays medical expenses and compensation benefits to injured workers and survivors; and helps injured employees return to work when they are medically able to do so.

The FECA program operates on a Chargeback year that runs from July through June. Approximately 8.5 million FECA payments totaling $2,894,367,589 were attributable to Chargeback Year 2014 (CBY 2014). These totals reflect two basic types of FECA benefit payments: "compensation" and "medical" payments.

- Compensation payments are those made to replace lost wages for a work related injury, benefits for a permanent physical impairment due to those injuries, as well as benefits to beneficiaries of federal employees that die as a result of a work-related injury.
- Medical payments are made to cover the expenses of medical services, equipment and supplies incurred from treatment for illness and/or injury sustained while an employee was engaged in job-related activities.

In CBY 2014, medical payments accounted for 90% of all FECA payments; the remaining 10% were compensation payments. By contrast, the total amount of compensation payments was about $1.94 billion (about 67.1%), whereas the total amount of medical payments was $0.95 billion (about 32.9%).

FECA-I. Risk Assessment

While previous risk assessments had considered the improper payment rate in the FECA program to be below 1.5%, OWCP chose to begin estimating the improper payment rate on an annual basis through a sampling methodology. The FY 2014 improper payment estimate is the first estimate prepared by OWCP using this methodology. For FY 2014, the estimated improper payment rate for the FECA program is 2.5%, with an estimated dollar amount of $72.36 million, consisting of $59.92 million in overpayments plus $9.26 million in underpayments plus $3.18 million in estimated fraud. The amount recovered is $33.13 million.

FECA-II. Statistical Sampling

OWCP consulted with Office of the Chief Financial Officer (OCFO) to develop a sampling methodology and approach to improper payment calculation. OWCP also consulted with the DOL Inspector General's Office to determine a methodology for estimating fraud that could be added to the improper payment rate estimate. Ultimately this two part approach was approved by OMB for utilization by OWCP in FY 2014.

The improper payment rate component for non-fraudulent FECA payments was derived by random sampling with replacement. The sample sizes used (504 compensation payments and 504 medical payments, for a total of 1,008 payments) were selected and validated by the OWCP statistician to assure a 90% confidence interval with a precision of 2.5%. Each sampled payment was closely examined in accordance with the law and program standards to determine whether or not it was proper. The absolute value of any improper payments found in the sample were totaled and projected to a dollar amount that represents the improper payment rate for the entire population.

FECA-III. Corrective Actions

All corrective actions are based on root causes ascertained through years of analysis. OMB established the following categories to classify root causes of improper payments in Federal programs:

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

Table FECA-1 displays the breakdown of root causes.

Table FECA-1: OMB-Specified Causes of Errors

Overpayment Causes (OMB Classification)	Percent of Overpayments
Documentation and Administrative Errors	76.8%
Verification Errors	0.0%
Authentication and Medical Necessity Errors	23.2%

Reducing Improper Payments in the FECA Program

A number of improper payments in the FECA program were "technically proper" when they were initiated, but due to current payment cycles, the payments could not be adjusted when additional information was received. These payments are considered authentication errors in the FECA-1 table above. In order to reduce this aspect of the FECA improper payment rate, OWCP has already begun discussions with the Treasury to shorten the current payment cycles in order to significantly reduce the number of technically proper payments. The program is also planning to engage in greater outreach efforts to the employing agencies, stressing the importance of timely and accurate reporting of payment information to FECA. The Documentation and Administrative Error Category above reflects pay rate errors and other errors that result from the lack of timely and accurate documentation from employing agencies. In addition, OWCP is developing a Program Integrity Unit with auditors and data analysts to provide greater oversight and analysis of payment accuracy. OWCP has also contracted with a data analytics firm to build agency capacity in this area.

FECA-IV. Improper Payment Reporting

Table FECA-2 shows the Improper Payment Reduction Outlook, for the FECA program, for FY 2014 – FY 2017.

Table FECA-2: FECA Improper Payment Reduction Outlook FY 2014 – FY 2017 ($ in millions)

	FY 2014		FY 2015 (Targets)		FY 2016 (Targets)		FY 2017 (Targets)	
FECA Program Outlays	$2,894		N/A		N/A		N/A	
	Estimated Improper Payment Rate (%)	Estimated Dollar Amount of Improper Payments	Estimated Improper Payment Rate (%)	Estimated Dollar Amount of Improper Payments	Estimated Improper Payment Rate (%)	Estimated Dollar Amount of Improper Payments	Estimated Improper Payment Rate (%)	Estimated Dollar Amount of Improper Payments
Gross Improper Payment Rate	2.5%	$72.36	N/A	N/A	N/A	N/A	N/A	N/A

FY 2014 was intended as a baseline year, so Improper Payment reduction targets for FY 2015 to FY 2017 will be set in FY 2015 pending additional guidance and consultation regarding OWCP's estimation methodology and the selection of payment accuracy enhancement strategies.

V. FECA Reporting on the Recapture of Improper Payments

Prior analysis of the FECA program showed that recovery audits would not be cost effective.

Table FECA-3 provides a summary of FECA overpayments established and recovered through normal business processes used by the FECA Program.

Table FECA-3: FECA Overpayments Established and Recovered by Fiscal Year ($ in millions)

Fiscal Year	Overpayments Established	Overpayments Recovered	Recovered %
2014	$39.48	$32.93	83.42%

Table FECA-4: Payment Recapture Audit Reporting ($ in millions) NOT APPLICABLE

Table FECA-5: Payment Recapture Audit Targets ($ in millions) NOT APPLICABLE

Table FECA-6 is an aging schedule of the amount of overpayments identified that are outstanding (i.e., overpayments that have been identified but not recovered).

Table FECA-6: 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)
FECA Benefits	$43.61	$5.49	$6.48

Table FECA-7: Disposition of Recaptured Funds ($ in millions) NOT APPLICABLE

VI. FECA Accountability

The FECA improper payment rate includes a fraud component. For the purposes of rate calculation, OWCP considers fraudulent payments to be those payments for which fraud has been admitted or proven in the judicial system. A fraudulent payment rate was determined by averaging the court-ordered restitution awarded to FECA as the result of fraud across a three year period. Using this process, the average for the CBY2014 fraud estimation was $3,213,635 per year, which translated to 0.0011 or 0.11%. The overall improper payment rate, less fraud, was 2.39%. While this is above the IPERA threshold for risk susceptibility, issues identified during OWCP's improper payments review should lead to substantial improvements in the FECA rate in the coming years.

VII. FECA Agency Information Systems and Other Infrastructure

OWCP utilizes the Integrated Federal Employees Compensation System (iFECS) to administer the FECA program. iFECS is a major application that provides a case management system to support DFEC core business functions in administering FECA. iFECS includes the iFECS system and three sub-components, the Agency Query System (AQS), the Claimant Query System (CQS) and the Employees' Compensation Operations and Management Portal (ECOMP). iFECS is a three-tier application that was established to provide FECA with an automated case management system. iFECS provides data processing, program management, financial management, and decision support functionalities to authorized users in OWCP's Division of Federal Employees' Compensation (DFEC). DFEC is a claims processing organization adjudicating workers' compensation claims for all Federal employees and certain non-Federal employees specifically covered under FECA. iFECS maintains an automated record of all claims filed, the adjudicatory status of those claims and benefits paid and denied. Data on entitlement, benefits payment status and attorney fees maintained on iFECS is available in accordance with the Privacy Act to authorized claimants, authorized representatives and authorized user organizations verbally via telephone and in paper/electronic formats.

VIII. FECA Barriers and Agency Response

The largest category of discrepancies identified is payments that were technically proper but were issued improperly due to payment cycle limitations with the Treasury. Specifically, the improper payment was due to the fact that FECA was notified of a claimant's ineligibility *AFTER* the payment cycle had closed, but before the payment was issued, yet was still unable to stop the payment. Had these technically proper payments been stopped before issuance, the FECA improper payment rate would have dropped to 1.69%.

The other major category highlighted an ongoing difficulty that FECA has with its payment process, namely reliance on reporting by other Federal agencies. The FECA program has to rely on the information supplied by the injured worker's employing agency in order to determine their benefit payments and has no mechanism to determine if the agency reporting is accurate. Untimely or inaccurate pay rate information provided by the employing agency leads to improper payments attributed to the FECA program, even if a DFEC employee keyed the payment accurately according to the information available. In essence, this increases FECA's improper payment rate through no fault of the program.

Lastly, the urgency of FECA payments must be considered when reviewing payment performance. FECA wage-loss payments are issued to injured federal employees who are likely without any other source of income, so it is imperative that the program issues the payments in a very timely manner. This restricts the program's ability to put additional controls in place to ensure payment accuracy, such as a more detailed post-payment review process, in the interest of avoiding hardship to the claimants it serves.

Workforce Investment Act Title I Programs

The stated intent of the Workforce Investment Act (WIA) of 1998 (and the objective of its multiple programs) is "to consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs in the United States" through grants to state agencies. It is important to note that WIA programs are **not** entitlement programs – government programs that "provide individuals with personal financial benefits to which an indefinite number of potential beneficiaries have a legal right...whenever they meet eligibility conditions specified by the standing law that authorizes the program."[1] (Examples of entitlement programs include Social Security, Medicare and Medicaid, most Veterans' Administration programs, federal employee and military retirement plans, unemployment compensation, food stamps, and agricultural price support programs.) WIA funds are awarded to states based on a complex statutory formula, driven by unemployment rates and other economic factors—not by the number of "participants." Governors then allocate those limited funds through the nation's workforce development system, which was established by WIA.

The "core" of WIA is Title I – Workforce Investment Systems, which authorized funding to be provided through three separate programs: Adult, Dislocated Worker and Youth Programs. These programs primarily provide grant funds to states, which, in turn, award the majority of funds to state and local Workforce Investment Boards (WIBs), which award sub-grants or contracts to American Job Centers (previously known as One-Stop Centers) and eligible non-profit service providers, such as Community Colleges, local school districts, or charities.

WIA-I. Risk Assessment

It is important to understand the complex funding stream and governance structure for WIA grant dollars when assessing the risk of improper payments. While WIA is often referred to as one program, in actuality, the law authorizes nearly a dozen different programs. The "core" WIA programs correspond to three distinct funding streams: Adult, Dislocated Workers, and Youth, each of which has different objectives and eligibility requirements.

The original legislation provided that eighty-five percent of adult and youth funds be allocated to local area with the remainder (15%) reserved for statewide activities. In recent years, the amount reserved for statewide activities was reduced. For Program Year 2014, that percentage was 8.75%. For dislocated workers, 20% is reserved by the Secretary of Labor for National Emergency Grants, dislocated worker demonstration efforts, and technical assistance. Of the remaining 80%, the original law allocated 60 percent to local areas, with 15 percent reserved for statewide activities and 25% reserved for state rapid response efforts. The percentage for Program Year 2014 for statewide activities was reduced to 8.75%.

States may merge the set-asides for statewide activities from the three separate funding streams (dislocated workers, adults, and youth) if they choose to do so (for example, state set-aside funds from the adult stream may be used for statewide youth activities, etc.). Also, localities (with the permission of the Governor) may transfer amounts among the Adult and Dislocated Worker programs up to a certain percentage.

In FY 2014, the estimated rate of improper payments of WIA programs is about 0.37%. Applied to FY 2014 outlays of $2.5 billion, the estimated dollar amount is approximately $9.2 million.

[1] "A Glossary of Political Economic Terms," Paul M. Johnson, Ph.D., Auburn University 1994-2005.

The following sections provide a description of each of the three core WIA programs:

WIA Adult Program: (Formula Grants)[1]

The Adult Program provides employment and workforce development services to adults, including low-income adults, to increase their incomes through occupational and related skills acquisition. The WIA Adult program prepares workers — particularly disadvantaged, low-skilled, and underemployed adults — for employment by helping them obtain employment in industries and occupations that offer good wages and opportunities for advancement; match their current skills to better jobs or helping them improve their skills through training so they can compete for better jobs; and develop the skills they need to succeed on the job and stay employed.

Funding for these services is allotted through grants to states based on a statutory formula. States, in turn, distribute resources by formula to local workforce investment areas. States and localities use the funds to provide a statutorily prescribed set of employment and training services at the state and local level. Grant funds pay organizations for services to individuals and do not provide direct cash payments to individuals. (*Source: 2011 and 2013 Catalog of Federal Domestic Assistance and DOL Congressional Budget Justification for FY 2014*)

WIA Dislocated Worker Assistance Program (Formula Grants)[2]

The objective of the Dislocated Worker Program is "to support the coordination, development, and provision of appropriate training, technical assistance, staff development and other activities, including assistance in replicating programs of demonstrated effectiveness to States, local areas, and other entities involved in providing assistance to dislocated workers, as well as promoting the continuous improvement of assistance provided to dislocated workers."

The program offers employment and training services to individuals who have lost their jobs, including those dislocated as a result of plant closings or mass layoffs, and who are unlikely to return to employment in their previous industries; formerly self-employed individuals; and displaced homemakers who have been dependent on the income of another family member but are no longer supported by that income. Funding for this program is allotted to States based on statutory formula. States, in turn, distribute resources by formula to local workforce investment areas.

WIA offers a variety of service options to dislocated workers, ranging from basic core services, such as job search and placement assistance and real-time labor market information, to more intensive services, such as comprehensive skills assessments, career counseling and career planning. For dislocated workers needing new or upgraded skills, training services are available. These services include, but are not limited to, occupational skills training, On-the-Job-Training, programs that combine workplace training and related instruction, including Registered Apprenticeship, skill upgrading and retraining, adult education and literacy training, and customized training. In addition, dislocated workers may receive supportive services, such as transportation, child care, and needs-related payments to assist them in entering into and remaining in training. Grant funds pay organizations for services to individuals and do not provide direct cash payments to individuals. (*Source: 2011 and 2013 Catalog of Federal Domestic Assistance and DOL Congressional Budget Justification for FY 2014*)

[1] Statutory Authorization: Public Law 105-220, 20 U.S.C. 9201, Regulation: 20 CFR Part 652
[2] Public Law 105-220; 29 USC 2915

WIA Youth Activities: (Formula Grants)

The objective of the Youth Program is to help low income youth, between the ages of 14 and 21, acquire the educational and occupational skills, training, and support needed to achieve academic and employment success and successfully transition into careers and productive adulthood. (*Source 2013* Catalog of Federal Domestic Assistance *CFDA*)

Program funds are allocated by formula to state and local areas to deliver a comprehensive array of youth workforce investment activities designed to help youth obtain skills and knowledge to succeed in a knowledge-based economy, including in growing and emerging industry sectors such as health care. The WIA Youth program targets low-income youth (ages 14 through 21) with barriers to employment. Eligible youth are deficient in basic skills or are homeless, runaways, pregnant or parenting, ex-offenders, school dropouts, or foster children. The program serves both in- and out-of-school youth, including youth with disabilities and other youth who may require additional assistance to complete an educational program or to secure and hold employment. Service providers prepare youth for employment and post-secondary education by stressing linkages between academic and occupational learning. They also assist youth by providing tutoring, alternative secondary school services, summer and year-round work experiences, occupational training, supportive services, leadership development opportunities, mentoring, counseling, and follow-up services. Grant funds pay organizations for services to individuals and do not provide direct cash payments to individuals. (*Source: DOL FY 2014 Congressional Budget Justification*)

WIA is Intentionally Flexible

The law itself is designed for flexibility, primarily so that state and local officials can respond as needed to regional labor market conditions. To ensure that training programs continued to meet the immediate needs of local businesses, as intended, WIA gave significant authority to local entities and state governments. Section 133(b)(4) authorizes workforce investment areas, with the approval of the Governor, to transfer up to 20 percent (subsequently increased to 30 percent in 2003[1]) of Adult Activities funds to Dislocated Workers Activities, and vice versa. In 1998, when WIA was enacted, the economy was strong and the paramount concern was that employers needed workers with certain skills. The focus shifted with the Great Recession, changing the needs of stakeholders. Funds are used as an investment in the local labor force, at the discretion of local officials working to achieve the goals established by Governors of each state.

WIA and its recently-passed successor, the Workforce Investment and Opportunity Act (WIOA) emphasize outcomes and results (e.g., wage levels post-employment, number of participants earning an industry-recognized credential). For this reason, both WIA and WIOA are intentionally flexible, giving Governors significant discretion and the ability to request waivers from certain requirements. For example, WIA Adult services are available for anyone over the age of 18, with “priority for intensive and training services for public assistance recipients and low income populations when funds are limited.”

Factors Contributing to a Low Risk Environment

Several conditions inherent to the structure of the WIA Programs create a scenario where improper payments are highly unlikely.

- Individuals do not receive cash payments – they receive services delivered through government employees or eligible training providers
- Training providers are screened and approved and subject to strict performance measures
- ETA has a well-established control environment to communicate requirements and monitor grantees (described further in the section on “Barriers”)

[1] Public Law No. 108-7

WIA-II. Statistical Sampling

The WIA grant program's funding stream and structure make it extremely difficult to directly sample grant payments and develop an all-encompassing statistically valid estimate of improper payments for several reasons:

- The majority of funding is disbursed to states through formula grants (amounts set by statutory formulae based on economic conditions), which are then passed through to thousands of recipients, including local Workforce Investment Boards, non-profit entities, local governments or educational institutions located across the country.
- With the multitude of different types of service providers, the differences in state and local administration and the many different eligibility requirements for each program authorized by WIA, developing a statistically valid, generalizable measurement is next to impossible.
- Financial records and other documentation supporting WIA outlays at the state level and lower tiers are located at the grantee and sub-grantee locations rather than at the DOL National Office.
- Since no direct cash payments go to individuals, and participants are not legally entitled to a specific amount of financial "benefit," it is unclear what scenario or scenarios would constitute an "improper payment."

The most effective means to gathering integrity data for grant programs is the use of reports required by the Single Audit Act of 1984, as amended in 1996. The Act and its implementing guidance, OMB Circular A-133, established uniform audit requirements for states, local governments, Indian Tribes and non-profit organizations. 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 FAC 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. While the use of Single Audits has limitations due to the nature of Single Audits, it is still a good representation of a statistical analytically prepared estimate for these programs.

DOL determined that it would not be cost effective to evaluate a completely 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.

Section 3 of IPERA and OMB Circular No. A-123 Appendix C specify that each agency's OIG review agency improper payment reporting in the Agency Financial Report (AFR), and accompanying materials, to determine whether the agency complied with IPERA. DOL OIG issued its report, *The Department of Labor's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the FY 2013 Agency Financial Report* (Report No. 03-14-004-13-001) on April 15, 2014, with the following repeat recommendation for WIA Title I programs:

> "Consider methods for improving the WIA sampling methodology to provide a more complete estimate of improper payments, and include information on the limitations of the data used in the estimation of WIA overpayments in the AFR." (p. 15)

In response to OIG's recommendation, DOL determined that a quantitative assessment of Eligibility Findings in A-133 reports would provide the most effective means to estimating an improper payment rate. While keeping the same statistical methodology, DOL selected an alternative Single Audit data point and calculated numbers for the prior year (FY 2013) for comparison.

A-133 audits are conducted by independent auditors based on uniform criteria laid out in the A-133 Compliance Supplement, which lists requirements and categorizes them into 14 types, not all of which, in the event of noncompliance, would cause improper payments. Among the 14 types is "Eligibility."

As described in the A-133 Compliance Supplement, the main objective of the eligibility compliance requirement is to ensure that only eligible individuals or organizations participate in Federal assistance programs. While criteria for determining eligibility varies from program to program, the objective that only eligible individuals or organizations participate is consistent across all Federal programs. To demonstrate compliance, recipients must first assure that proper eligibility determinations are made and then must provide assurance of such determination through documentation.[1] WIA Title I eligibility requirements for each program are based in statute and regulation and are very specific nature.

For each major program the auditor must test each compliance requirement. All audit findings are reported in the Federal Audit Clearinghouse (FAC) as part of a grantee's full audit report. Findings are associated to program costs according to the CFDA number listed in the database.

The vast majority of DOL's grantees undergo a Single Audit. For WIA grantees, DOL analyzed more than 5,000 reports from FY 2012 and FY 2011, representing all levels – from states to non-profits. Using findings data, DOL is able to isolate the specific areas of concern with regard to program participant eligibility – the scenario most likely to result in an "improper payment" – in this case, providing services to an ineligible recipient.

DOL focused on the core programs included in the A-133 "WIA Cluster," which consists of the WIA Adult Program (CFDA No. 17.258), WIA Youth Activities (CFDA No. 17.259) and WIA Dislocated Worker Formula Grants. These programs are authorized by Title I of WIA.

To isolate grant dollars associated with an eligibility finding, DOL downloaded all entries for DOL programs based on CFDA number from the FAC database. Since grantees enter data, some programs may be categorized incorrectly (e.g., using the wrong CFDA number or using a discontinued number). To ensure that all WIA Title I funds were captured for analysis, DOL systematically associated CFDA numbers to program clusters, based on the A-133 Compliance Supplement, where possible, as not all programs have a Compliance Supplement.

For WIA Title I analysis, DOL uses finalized data (i.e., results of audits that have gone through the resolution process) by analyzing prior year data. For FY 2014, DOL analyzed data collected for FY 2011 and FY 2012 reports for the reasons described below.

WIA Funding Cycle

The WIA funding cycle and the timing of A-133 reports necessitates a rolling review over several years. Funds allotted to a State are available for expenditure during that program year and the two succeeding program years. Funds allocated by a state to a local area for any program year available for expenditure only during that program year and the succeeding program year. Funds that are not expended by a local area in this two year period must be returned to the state, which can use the fund for statewide projects during the third year of program availability, or distribute the fund to local areas that have fully expended their allocation of funds for the same program year within the 2-year period.

Timing of Single Audit Act Reports

Grantees must submit reports to the FAC within nine months of the end of their fiscal year, which, in many cases, does not correspond with the Federal fiscal year. Since the purpose of the Single Audit Act was to combine audit activities for awardees, audits cover multiple Federal programs managed by the auditee (e.g., auditors test for compliance not only with WIA programs but those of the Department of Education, the Department of Housing and Urban Development and others). Findings are linked to the appropriate program and its outlays using the CFDA Number. The programs tested may change every year based on the level of program outlays relative to the auditee's total outlays, with proportionally larger programs defined as "Major Programs" for that particular auditee. Major programs must be tested once every three years or more often if a significant deficiency is identified. With WIA's three-year funding cycle, auditees have time both to contest audit findings and to make adjustments in response to audit findings – thus the delay.

[1] A-133 Supplement Part 3 (2013); Section E -- Eligibility, pg. 3-E-1.

Estimated Improper Payment Rate Calculation

The FY 2014 estimated improper payment rate for WIA Title I programs was calculated based on the probability of eligibility findings in Single Audit Reports (quantitative, as results are reported and associated to programs dollars) and OIG and GAO reports (qualitative, as these reports are primarily anecdotal and presented in a narrative format). DOL took the following steps:

1. Downloaded the entire Single Audit database for Fiscal years 2011 and 2012 from the FAC.
2. Isolated all DOL programs by selecting those with CFDA numbers beginning with 17.
3. Assigned A-133 Clusters based on CFDA numbers.
4. To ensure that no WIA findings are missed because of an incorrect classification, analyzed the text in the Program Name field to find “Workforce Investment Act” or “WIA.” Assigned any of those entries to the WIA Cluster.
5. To enable analysis for different WIA Title I programs, DOL further classified WIA Cluster entries into Program where possible (Adult, Youth, Dislocated Worker, National Emergency Grants, which is a subset of DW, etc.) Those listing all three CFDAs were categorized as “General.” This provided the universe of WIA program dollars audited, with each line of program expenditures associated with audit findings (if any) based on the grantee’s Schedule of Expenditures of Federal Awards.
6. Isolated Eligibility Findings, indicated by “E” in the COMPLIANCE TYPE column, providing the entire population of WIA grant dollars associated to an eligibility finding.
7. Developed the baseline rate analysis using the methodology described below.

DOL analyzed each report with findings. Based on this very extensive analysis, DOL derived the error range and developed the estimated improper payment rate.

WIA-III. Corrective Actions

Although the rate of estimated improper payments is very low, DOL has a robust control environment focused on preventative actions, effective communications, and monitoring.

Grant operations are monitored on a continuing basis to ensure that grant activities conform to requirements. Monitoring activities are carried out primarily at the regional level by Federal Project Officers (FPOs), and include annual risk assessments, on-site monitoring visits, as well as annual and quarterly desk reviews, all tracked electronically in the Grants Electronic Management System (GEMS). Once each year for formula funded grants, and upon award for discretionary grants, FPOs assess the risk of each grant assigned using reported information and knowledge of the grantees and the grant activities. This assessment is also used to determine the level of monitoring to be used in the future (i.e., site visits or technical assistance). For all grants that are considered high risk according to the annual risk assessments, on-site visits are conducted to give the FPO an idea of what activities are being carried out by the grantee, and whether or not the grantee is working within the legal limits of the grant. Quarterly reviews of financial and performance reports submitted by grantees are performed to ensure timeliness, accuracy, and satisfactory progress of completion toward program outcomes.

At the end of each quarter, each grantee is required to submit a performance based progress report to the regional FPOs. Performance progress reports indicate participant service activity and accomplishments against project goals. The grant agreement outlines when the progress report is due (i.e., within 15 or 45 days), depending on the fund source. The FPO reviews this report to determine if the grantee is meeting projected goals and operating within the terms of the grant agreement. The review consists of the FPO comparing the report to the grant agreement to determine if the grantee has been performing according to its plan and will meet all goals for the grant as documented in the work plan. If there is a deviation, the ETA will work with the grantee to offer technical assistance and assist in getting the grant back on track.

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

WIA-IV. Improper Payment Reduction Outlook

Table WIA-4 shows the Improper Payment Reduction outlook, for the WIA program, for FY 2013 – FY 2017.

Table WIA-4: Improper Payment Reduction Outlook FY 2013– FY 2017 ($ in millions)

Program	FY 2013			FY 2014			FY 2015			FY 2016			FY 2017		
	Outlays	IP %	IP $	Outlays	IP%	IP$	Est. Outlays	Est. IP % target	Est. IP $ target	Est. Outlays	Est. IP % target	Est. IP $ target	Est. Outlays	Est. IP % target	Est. IP $ target
Workforce Investment Act	$2,638[1]	0.194%	$5.1	$2,478	Target 0.44% **Actual 0.37%[2]**	Target $10.9 **Actual $9.2**	$3,384	0.44%	$14.9	$3,365	0.44%	$14.8	$3,365	0.44%	$14.8

[1] The preliminary FY2013 amount shown in the FY 2013 AFR has been replaced by the closing FY 2013 amount.
[2] The WIA IP rate is comprised of overpayments of 0.37%.

WIA-V. Recapture of Improper Payments Reporting

Because of the WIA delivery structure, recapture audits are neither feasible nor cost effective. Participants do not receive cash payments but training and other services. This section is not applicable to the WIA program.

WIA-VI. Accountability

DOL's Employment and Training Administration (ETA) performs grant monitoring activities on direct grants on a regular 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

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

and that all funds were expended as authorized. In addition to these monitoring activities, DOL grant programs and their grantees and sub-grantees are subjected to numerous Government Accountability Office (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. 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. In FY 2013, DOL developed a Grants Closeout handbook and tracked compliance through quarterly certifications to DOL by ETA management.

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

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 finding 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.

WIA-VII. 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 with a step-by-step reference guide.

WIA-VIII. Barriers and Departmental Response

The very elements of the WIA structure that were intended to create a flexible tool to respond to regional workforce demands also make it difficult to measure improper payments. For example, states and localities are afforded significant latitude in administering programs, including the use of waivers for certain eligibility requirements. In addition, the complex funding stream creates a situation where the point of service is many levels down from the DOL national office. To overcome these barriers, the Office of Workforce Investment relies on creating a strong control environment through effective communication and monitoring of grantees.

The following are general controls applicable to all WIA programs:

- Grants are subject to Governor/Secretary Agreement and State Plan. The Governor submits a single Strategic State Plan in accordance with Planning Guidance (either Stand Alone or Unified) through the Federal Register
- The Planning Guidance provides detailed instruction on what must be included in the State Plan and a framework for collaboration across programs and integration of services beyond WIA Title I programs and Wagner-Peyser Activities, including non-DOL programs
- The Plan is submitted to the Federal Coordinator for Plan Review and Approval at the Office of Workforce Investment of ETA
- Those portions of the State Plan over which the Assistant Secretary for Employment and Training exercises authority are reviewed and approved by ETA in accordance with 20 CFR 661.220(e), which provides that the Secretary must approve all state plans within 90 days of their submission unless the Secretary determines in writing that:
    - The State Plan is inconsistent with the provisions of Title I of WIA or the WIA Regulations, including 29 CFR Part 37; or
    - The portion of the State Plan impacting the Wagner-Peyser Act plan does not satisfy the criteria for approval in Section 8(d) of the Wagner-Peyser Act regulations at 20 CFR Part 652
- Funds are awarded/allotted by Letter of Credit based on a statutory formula provided in WIA every year in two portions during a program year and are available for that program year and the two succeeding years
- States sign a grant document agreeing to comply with the Act and regulations
- Grantees are subject to OMB Circulars on allowable cost reporting
- Grantees are subject to the following Performance Reporting requirements:
    - WIA Annual Report and Narrative
    - Required to submit information for participants and exiters quarterly
    - Quarterly Financial Reports
- Monitoring Activities:
    - Monitoring is conducted by Regional Federal Project Officers based on risk assessment
    - Grantees receiving more than $500,000 in Federal awards are subject to A-133 audits
    - States are also subject to audits by DOL or other authorized Government agencies
    - States are required to maintain adequate records in accordance with 29 CFR 95 and 97.

WIA-IX. Additional Comments

It is important to note that Section 511 of the Workforce Innovation and Opportunity Act (WIOA) repealed WIA in its entirety. The majority of WIOA provisions will become effective on July 1, 2015, the first full program year after enactment. However, the Act includes several provisions that become effective on other dates. For example, the WIA State and local plans remain in effect for PY 2015 and the new State Unified Strategic Plan is to be submitted for PY 2016, which begins July 1, 2016. In addition, the WIA performance accountability section remains in effect for PY 2015, with the new WIOA performance accountability provisions taking effect at the beginning PY 2016.

Hurricane Sandy Funds Provided by the Disaster Relief Appropriations Act of 2013

On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act, Public Law 113-2 (127 Stat. 4), which provided $50.5 billion in aid for Hurricane Sandy disaster victims and their communities. The Act requires Federal agencies supporting Sandy recovery and other disaster-related activities to implement additional internal controls to prevent waste, fraud, and abuse of these funds. DOL submitted its internal control plan on March 31, 2013, to OMB, GAO and OIG in accordance with OMB Memorandum M-13-07 "Accountability for Funds Provided by the Disaster Relief Appropriations Act," issued March 12, 2013.

Sandy-I. Risk Assessment

DOL awards Disaster National Emergency Grants (NEGs) to states to provide disaster relief employment for workers in areas declared eligible for public assistance, as defined by the Stafford Act administered by the Federal Emergency Management Agency (FEMA). States may contract out work to contractors or vendors who, in turn, employ eligible participants to perform clean up and humanitarian activities.

For the Hurricane Sandy Disaster NEGs, ETA instituted seven levels of review for all grant applications, beginning with the Regional Federal Project Officer (FPO) through the Department's top leadership. Throughout the review and approval process, ETA implemented the use of checklists and other internal review processes to ensure compliance of applications with the grant application requirements prior to approval.

To ensure proper oversight of all Hurricane Sandy supplemental funds, DOL established a Hurricane Sandy Recovery Team made up of senior agency representatives. The team met regularly to coordinate the full range of DOL Hurricane Sandy recovery deliverables, from tracking obligations to reporting. By focusing consistent, high-level attention on DOL's financial performance under the statute, the Department was able to mitigate potential risks and successfully implement its recovery responsibilities.

In addition to the DOL Hurricane Sandy Recovery Team at the departmental level, ETA also implemented robust grant monitoring and oversight of all grant recipients. At the beginning of the grant award, the Regional FPO conducted an initial risk assessment of the grantee, which included an initial onsite visit. A formal compliance monitoring visit was then conducted by ETA to review any issues identified to ensure timely resolution. All grant recipients were required to submit a bi-weekly report to the Regional FPO for the first three months of the award, and monthly thereafter.

Similar to The Recovery Act, the Department collaborated with OIG to minimize risk of waste, fraud and abuse of Hurricane Sandy recovery funds.

Certain factors contribute to a low-risk environment:

- "Recipients" are actually providing clean-up and recovery services. They do not receive "payments," they receive a salary (typically minimum wage) for their services.
- Municipalities oversee grants and contracts and must comply with additional compliance mandates for Hurricane Sandy accountability.

For FY 2014, the estimated improper payment rate for Hurricane Sandy program is 0.11%. Applied to FY 2014 outlays of $21.0 million, the estimated dollar amount is approximately $23,100.

ETA National Emergency Grants

ETA provided $70.3 million in National Emergency Grants (NEGs) to New York, New Jersey, Connecticut, West Virginia, and Rhode Island for continuing cleanup and recovery efforts. This included $20.5 million provided by the Disaster Relief Appropriation Act of 2013 and $49.8 million provided by ETA's WIA Dislocated Worker National Reserve (DWNR), which funds NEGs.

Based on the following language in the OMB Guidance, "Whenever possible, agencies should leverage resources already devoted to improper payment related activities," (Page 3), DOL will extend its IPIA analysis to focus on Sandy funds awarded through NEGs (both those funded by the Disaster Relief Appropriation Act and those funded under DWNR grants).

OSHA

Most of OSHA's funding went to inspections, but the agency did provide $1.2 million in Susan Harwood training grants (CFDA 17.502) to five grantees for training in mitigating workplace hazards in a disaster area. The complete list of grantees with amounts and grant requirements can be found at this link:
https://www.osha.gov/dte/sharwood/2013_Disaster_Relief_Grant_Abstracts.html

DOL used the same methodology to analyze Single Audit findings for CFDA 17.502 for those two grantees. No eligibility findings were associated with this program.

WHD

WHD initiated 157 investigations of contractors and employers for compliance with the requirements of the Fair Labor Standards Act, Service Contract Act, and/or Davis-Bacon Act. No grant money was awarded – Disaster Relief Appropriation Act money simply paid for an increase in Full Time Employees (FTEs).

Sandy-II. Statistical Sampling

- Analyze Single Audit findings for impacted states for CFDA Numbers 17.284 (Sandy grants), 17.277 (National Emergency Grants), 17.260 (Dislocated Workers) – though this CFDA was split into two in FY 2010, many grantees continue to report NEGs under 17.260.
- Analyze sub-recipients website for any Single Audit Findings in the above CFDAs. NEGs can only be awarded to states – the money then goes to sub-recipients (typically municipalities), which then hire dislocated or long-term unemployed workers to perform clean-up activities.
- Calculate the estimated rate based on extrapolation of the probability of eligibility findings

The Department uses an alternative sampling methodology for Hurricane Sandy that is a methodology that was previously approved for another DOL program. The Sandy methodology will be submitted to OMB for approval.

Sandy-III. Corrective Actions

Although the rate of estimated improper payments is very low, DOL has a robust control environment focused on preventative actions, effective communications, and monitoring.

Grant operations are monitored on a continuing basis to ensure that grant activities conform to requirements. Monitoring activities are carried out primarily at the regional level by Federal Project Officers (FPOs), and include annual risk assessments, on-site monitoring visits, as well as annual and quarterly desk reviews, all tracked electronically in the Grants Electronic Management System (GEMS). Once each year for formula funded grants, and upon award for discretionary grants, FPOs assess the risk of each grant assigned using reported information and knowledge of the grantees and the grant activities. This assessment is also used to determine the level of monitoring to be used in the future (i.e., site visits or technical assistance). For all grants that are considered high risk according to the annual risk assessments, on-site visits are conducted to give the FPO an idea of what activities are being carried out by the grantee, and whether or not the grantee is working within the legal limits of the grant. Quarterly reviews of financial and performance reports submitted by grantees are performed to ensure timeliness, accuracy, and satisfactory progress of completion toward program outcomes.

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

Sandy-IV. Improper Payment Reduction Outlook

Table Sandy-IV shows the Improper Payment Reduction outlook, for Hurricane Sandy, for FY 2013 – FY 2017.

Table Sandy-IV: Improper Payment Reduction Outlook FY 2013– FY 2017[1] ($ in thousands)

Program	FY 2013			FY 2014			FY 2015			FY 2016			FY 2017		
	Outlays	IP %	IP $	Outlays	IP%	IP$	Est. Outlays	Est. IP % target	Est. IP $ target	Est. Outlays	Est. IP % target	Est. IP $ target	Est. Outlays	Est. IP % target	Est. IP $ target
Hurricane Sandy	N/A	N/A	N/A	$21,042	Target N/A **Actual 0.11%[2]**	Target N/A **Actual $23.1**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

[1] FY 2014 was baseline year, Improper Payment reduction targets for FY 2015 to FY 2017 will be set in FY 2015 pending additional guidance and consultation regarding Hurricane Sandy rate reporting.
[2] The Hurricane Sandy IP rate is comprised of overpayments of 0.11%.

Sandy-V. Recapture of Improper Payments Reporting

Because of the Hurricane Sandy delivery structure, recapture audits are neither feasible nor cost effective. This section is not applicable to the Hurricane Sandy program.

Sandy-VI. Accountability

DOL's Employment and Training Administration (ETA) performs grant monitoring activities on direct grants on a regular 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.

In addition to these monitoring activities, DOL grant programs and their grantees and sub-grantees are subjected to numerous Government Accountability Office (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. 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. In FY 2013, DOL developed a Grants Closeout handbook and tracked compliance through quarterly certifications to DOL by ETA management.

[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

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 findings 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.

Sandy-VII. Agency Information Systems and Other Infrastructure

DOL 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 with a step-by-step reference guide.

Sandy-VIII. Barriers and Departmental Response

In addition to a complex funding stream, the point of service is many levels down from the DOL national office. To overcome these barriers, the Office of Workforce Investment relies on creating a strong control environment through effective communication and monitoring of grantees.

The “Do Not Pay” Initiative

This section describes an important part of DOL’s program integrity efforts designed to prevent, identify, and recapture improper payments. Specifically, the Do Not Pay (DNP) solution is a government-wide initiative mandated by the *Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012* (Pub. L. 112-248) to screen payment recipients before a grant, contract award or payment is made. Participation in the initiative is required under IPERIA and OMB guidance. DOL is implementing the screening of payments through the Treasury Do Not Pay System.

Overview of Do Not Pay

IPERIA and OMB directives require agencies to integrate the use of existing Federal databases (collectively known as the "Do Not Pay List") to verify eligibility for Federal payments in order to reduce and eliminate payment errors before they occur. DNP provides Federal agencies with a web-based single-entry access portal (Portal) to these existing databases and additional data analytics.

At DOL, the DNP Solution is being implemented in three phases over a three-year period and will be designed to address the Department's three major business areas affected: Benefit Programs, Grant Programs, and Contracts. In addition, DOL has participated in post-payment reviews for all contract and benefit payments since May 2013.

Approach for Implementing DNP

Incorporating the DNP Solution fully into DOL's business processes is a major undertaking involving the active cooperation of not only OMB, Treasury, and DOL component agencies, but also the states. The OCFO facilitated development of a Plan for enrollment and implementation with affected component agencies. DOL's 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 work with OCFO to implement the DNP Solution in their business processes, provide status reports when requested, and clear any variations from the DNP Solution Plan with OCFO. Component agencies are responsible for implementation of DNP within their business processes and interfacing with state stakeholders where appropriate.

Phase 1 involved choosing the following pilot programs from each of three major business areas:

Benefits Programs – UI and Office of Workers' Compensation Programs (OWCP) benefit programs

Grant Programs – ETA grant programs

Contracts – Department-wide procurement and contract payment activities

Lessons learned from Phase 1 and best practices gained from the experience of other Agencies have been incorporated into DOL planning for Phases 2 and 3. Phase 1 was completed in December 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 was expected to be completed in September 2014.

During Phase 3, DOL plans to implement DNP across all program areas that can gain value from its use, including expanding implementation to all remaining interested states and DOL Benefit and Grant Programs. DOL currently plans to complete the majority of this phase by September 2015.

DNP for UI

Pilot of "The Work Number"

Several states are working with Treasury to begin cross-matching UI claims with "The Work Number," a real-time database compiled by Equifax directly from payroll feeds of employers across the country. "The Work Number" includes current employment and income data on about one third of the U.S. workforce and is the largest database of its kind. It is currently used by some government agencies for employment and earnings verification.

Arizona has completed a new cross-matching agreement to access "The Work Number", and several other states are in various stages of discussion and implementation including Colorado, Nebraska, New York, Tennessee, and Utah.

DNP for the Black Lung Program

The Black Lung Program was capable of using the DNP Portal to perform single online searches of the Social Security Administration's (SSA) Death Master File (DMF) to verify potential improper payments during FY 2014. During FY 2014 the Black Lung Program also completed development of Payment Automation Manager (PAM) format for its payment files and is submitting payments to Treasury in that mode. Also the program is poised to adjudicate data matches thorough the upgraded DNP Portal v.3.0. The Black Lung Program will be utilizing the Portal for continuous monitoring of payments against the DMF in early FY 2015, pending technical adjustments with the DNP project staff that are currently in process.

DNP for ETA Grants Programs

ETA was selected as the pilot grantor agency to implement the Do Not Pay initiative for DOL, as its grant programs are representative of the various other DOL grants. ETA's experience with the DNP Portal is being used to shape planning as other DOL grantor agencies implement DNP Initiative pre-award vetting processes.

Once grants are awarded, the recipients are accountable for monitoring the use of grant funds. The recipients are responsible for: pre-award reviews of awards to contractors and sub-recipients; pre-payment reviews of payments to recipient employees, program participants, sub-recipients and contractors; and post-payment reviews of all payees.

DNP Post Payment Reviews

Beginning in May 2013, the DNP Working System has been comparing names on DOL's Payments, Claims and Enhanced Reconciliation (PACER) file against the public System for Award Management (SAM) and DMF databases on a monthly post-payment basis as required by IPERIA. The PACER file includes automated payments made by the Department. When a name matches, the payment information is returned to the Department for adjudication in a monthly "Hitlist". The HitList is then adjudicated by the Department to determine which are false-positives and to retrieve any true-positive improper payments.

At DOL, the adjudication is completed in a two-step process. OCFO reviews the matches to cull false-positives per the business rules agreed to by the component agencies making the payments, the OCFO, and the DNP Initiative. The remaining matches are then provided to the component agency for final adjudication. Following these reviews, detailed Adjudication Reports are returned to the DNP Working System indicating the number of false-positives and reasons why the payment was proper and number of true-positives and what was done to recover any improper payments.

Since its inception, the Department has reviewed HitLists on a monthly basis. Because the DNP Working System provides the Hitlist on a two-month lag (i.e. March 2013 payments were reviewed in May 2013), the last payment month reviewed at the time of this report was August 2014.

DNP has completed post-payment reviews of over 3.3 million payments from the Department and returned over 220,000 matches in monthly HitLists. DOL has adjudicated 100% of those matches on a monthly basis and found none to be verified improper payments.

Table DNP – 1: DNP Post Payment Reviews and Adjudication shows the number and dollar value of matches received from DNP against both DMF and SAM, and number of true positive improper payments DOL found in those matches since the inception on the DNP Working Solution. (See Table DNP – 1 on next page.)

Table DNP – 1: DNP Post Payment Reviews and Adjudication (October 2013 – June 2014)

	Number (#) of Payments Reviewed for Improper Payments [1]	Dollars ($) of Payments Reviewed for Improper Payments ($ in millions)	Number (#) of Payments Stopped	Dollars ($) of Payments Stopped [2]	Number (#) of Improper Payments Reviewed and Not Stopped	Dollars ($) of Improper Payments Reviewed and Not Stopped [3]
Reviews with DMF Public	1,643,574	$4,589	N/A	N/A	0	$0
Reviews with SAM Exclusions Public	1,718,602	$4,805	N/A	N/A	0	$0

[1] Payments Reviewed for Improper Payments includes the total number of payments disbursed by the agency through the PACER payment system minus any payments that were excluded from matching due to A) a missing or unmatchable TIN (DMF only) or B) a missing name.
[2] Payments Stopped is currently not applicable since the Do Not Pay matching and adjudication process is based on post payment results.
[3] Improper Payments Reviewed and Not Stopped includes the total number of matches identified by the Do Not Pay Initiative that were adjudicated as improper by the agency.

Freeze the Footprint

Consistent with Section 3 of the OMB Memorandum-12-12, Promoting Efficient Spending to Support Agency Operations and OMB Management Procedures Memorandum 2013-02, the "Freeze the Footprint" (FTF) policy implementing guidance, all Chief Financial Officer Act departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2012 baseline. There are significant opportunities for reductions in square footage and cost savings through agency co-locations, consolidations, and disposals of unneeded space within the Federal Government's vast portfolio of real property assets. As a result, OMB is working in partnership with GSA and other Federal agencies to better align the size of the Federal real property inventory.

Agencies are required to report cost data along with the most recent square footage information submitted to the Federal Real Property Profile (FRPP) in their annual Performance and Accountability Report or AFR. This section is presented in accordance with Section 11.5.10 of OMB Circular A-136, issued September 2014.

Actions to Freeze the Footprint

Overall, the space utilization for DOL personnel in GSA provided office space is 258.6 square feet per person (SF/per), and represents an opportunity for DOL to achieve both rent savings and a reduction of the total office footprint nation-wide. As GSA leases commercial space on a competitive basis and sets the rent for federal buildings, DOL has little control of the rent and maintenance cost per square foot for each office location.

Using the initial President's Management Agenda Real Property Benchmarking Metrics, DOL has identified potential space consolidations and co-locations that can result in significant reductions to the DOL office footprint and achieve rent savings for the agencies.

Table FTF 1 reflects the total square footage associated with DOL's assets subject to "Freeze the Footprint" policy, as identified by Data Element #3 from Federal Real Property Council's "Guidance for Real Property Inventory Reporting from the latest available reporting year[1], and compares it to the FY 2012 "Freeze the Footprint" baseline (as assigned by GSA). The square footage totals reported align with agency totals confirmed by GSA.

Table FTF 1: Freeze the Footprint Baseline Comparison

	FY 2012 Baseline	2013 (CY)	Change (2013 CY - FY 2012 Baseline)
Square Footage (SF in millions)	6,942,509	6,979,804	37,297

Table FTF 2 reflects the annual operating costs as reported in the most recent Federal Real Property Profile submittal for owned and direct lease facilities (direct lease facilities does not include GSA occupancy agreements) that are subject to the "Freeze the Footprint" policy, as identified by Data Element #3 from Federal Real Property Council's "Guidance for Real Property Inventory Reporting" as reported in the most recent Federal Real Property Profile submittal[1]. The cost data reported by DOL is based directly on data reported into the latest available Federal Real Property Profile database.

Table FTF 2: Operation and Maintenance Costs ($ in millions) – Owned and Direct Lease Buildings

	FY 2012 Reported Cost	2013 (CY)	Change (2013 CY - FY 2012 Baseline)
Operation and Maintenance Costs ($ in millions)	$6.9	$7.5	$0.6

[1] See GSA, Office of Government-wide Policy, Federal Real Property Council, 2014 Guidance for Real Property Inventory Reporting (May 27, 2014) page 6.

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

To improve public transparency and the quality of data reported on USASpending.gov, DOL has begun reconciliation efforts between obligations reported on the financial statements and spending reported on USASpending.gov. Obligations included on the financial statements that are not included on USASpending.gov generally include: financial assistance direct payments, personnel compensation and benefits, leases, interagency agreements, travel, and training. Differences may also exist due to timing differences between obligations reported in DOL's financial reporting system and data transmitted to USASpending.gov through the Federal Procurement Data System.

(Dollars in millions)	2014	2013
Section I - What money is available to spend?		
This section presents resources that were available to spend by the Department.		
Total resources	$ 74,533	$ 122,766
Less amount available but not agreed to be spent	(3,027)	(3,125)
Less amount not available to be spent	(1,585)	(1,530)
Total amounts agreed to be spent	$ 69,921	$ 118,111
Section II - How was the money spent/issued?		
This section presents services or items purchased and grouped for the Department's major programs based on obligations incurred.		
Income maintenance		
Financial assistance direct payments	$ 44,661	$ 71,168
Net internal transfers between DOL funds	9,064	31,186
Personnel compensation and benefits	308	292
Contractual services and supplies	466	335
Grants, subsidies, and contributions	4,394	4,298
Interest	774	920
Other	480	448
Employment and training		
Personnel compensation and benefits	256	151
Contractual services and supplies	2,002	1,577
Grants, subsidies, and contributions	4,655	4,665
Other	24	273
Labor, employment and pension standards; worker safety and health; statistics; other		
Personnel compensation and benefits	1,451	1,473
Contractual services and supplies	1,009	989
Grants, subsidies, and contributions	330	303
Other	47	33
Total amounts agreed to be spent	$ 69,921	$ 118,111
Section III - Who did the money go to?		
This section identifies with whom the Department is spending money based on obligations incurred.		
Individuals	$ 44,746	$ 71,222
Net internal transfers between DOL funds	9,143	31,186
State and local governments	7,367	7,270
Other federal agencies	2,063	1,744
Vendors and other	2,826	2,877
Employees	1,787	1,771
Higher education	1,121	1,270
Not-for-profit organizations	868	771
Total amounts agreed to be spent	$ 69,921	$ 118,111

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Thomas E. Perez - Secretary of Labor

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Office of Workers' Compensation Programs http://www.dol.gov/owcp/
Veterans' Employment and Training Service http://www.dol.gov/vets/
Wage and Hour Division http://www.dol.gov/whd/
Women's Bureau http://www.dol.gov/wb/

DOL Regulations and Enforcement

DOL Regulations Search
http://www.regulations.gov

DOL Enforcement Data
http://ogesdw.dol.gov/

Acronyms

ACSI	American Customer Satisfaction Index
AFR	Agency Financial Report
ARRA	American Reinvestment and Recovery Act
BAM	Benefit Accuracy Measurement
BLDTF	Black Lung Disability Trust Fund
BLS	Bureau of Labor Statistics
BPC	Benefit Payment Control
CFDA	Catalog of Federal Domestic Assistance
COLA	Cost of Living Allowance/Adjustment
CPIM	Consumer Price Index-Medical
CPI-U	Consumer Price Index-Urban
CSEOA	Community Service Employment for Older Americans
CSRS	Civil Service Retirement System
CY	Current Year
DNP	Do Not Pay
DOE	Department of Energy
DOL	U.S. Department of Labor
EB	Extended Benefits
EBSA	Employee Benefits Security Administration
EBSS	Enterprise Business Support System
EEOICPA	Energy Employees Occupational Illness Compensation Program Act
ERISA	Employee Retirement Income Security Act
ES	Employment Service
ESAA	Employment Security Administration Account
ETA	Employment and Training Administration
EUC	Emergency Unemployment Compensation
EUCA	Extended Unemployment Compensation Account
FAC	Federal Additional Compensation
FAUC	Federal Additional Unemployment Compensation
FASAB	Federal Accounting Standards Advisory Board
FCI	Facilities Condition Index
FEC	Federal Employees Compensation
FECA	Federal Employees' Compensation Act
FERS	Federal Employee Retirement System

FFMIA	Federal Financial Management Improvement Act
FLSA	Fair Labor Standards Act
FMFIA	Federal Managers' Financial Integrity Act
FPO	Federal Project Officer
FUA	Federal Unemployment Account
FUTA	Federal Unemployment Tax Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	General Accountability Office
GEMS	Grants e-Management System
GSA	General Services Administration
HVRP	Homeless Veterans' Reintegration Program
ILAB	Bureau of International Labor Affairs
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
IT	Information Technology
JVA	Jobs for Veterans Act
JVSG	Jobs for Veterans State Grants
LPD	Lost Production Day
MSHA	Mine Safety and Health Administration
NASWA	National Association of State Workforce Agencies
NCFMS	New Core Financial Management System
NDNH	National Directory of New Hires
NIOSH	National Institute for Occupational Safety and Health
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
OMB	Office of Management and Budget
OPM	Office of Personnel Management

OSHA	Occupational Safety and Health Administration
OUI	Office of Unemployment Insurance
OWCP	Office of Workers' Compensation Programs
PFEI	Principal Federal Economic Indicator
PIV	Personal Identification Verification
PY	Prior Year/Program Year
REA	Re-employment and Eligibility Assessment
RECA	Radiation Exposure Compensation Act
RTW	Return To Work
SAM	System for Award Management
SBR	Statement of Budgetary Resources
SCSEP	Senior Community Service Employment Program
SCSIA	Statement of Changes in Social Insurance Amounts
SIDES	State Information Data Exchange System
SOSI	Statement of Social Insurance
SSA	Social Security Administration
SUIESO	State Unemployment Insurance and Employment Service Operations
TAA	Trade Adjustment Assistance
TAACCCT	Trade Adjustment Assistance Community College and Career Training
TOP	Treasury Offset Program
UC	Unemployment Compensation
UCFE	Unemployment Compensation for Federal Employees
UCX	Unemployment Compensation for Ex-Service Members
UI	Unemployment Insurance
UIPL	UI Program Letter
USC	United States Code
USERRA	Uniformed Services Employment and Reemployment Rights Act
UTF	Unemployment Trust Fund
VETS	Veterans' Employment and Training Service
WB	Women's Bureau
WHD	Wage and Hour Division
WIA	Workforce Investment Act

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