

U.S. Department of Labor

Office of Inspector General—Office of Audit

OFFICE OF WORKERS' COMPENSATION PROGRAMS



DISTRICT OF COLUMBIA WORKERS' COMPENSATION ACT SPECIAL FUND FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

September 30, 2011 and 2010

This report was prepared by KPMG, LLP, under contract to the U.S. Department of Labor, Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

A handwritten signature in blue ink that reads "Elliott P. Lewis".

Assistant Inspector General for Audit

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**DISTRICT OF COLUMBIA WORKERS'
COMPENSATION ACT SPECIAL FUND**

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**DISTRICT OF COLUMBIA WORKERS'
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Acronyms

AUP	Agreed Upon Procedures
DCCA	District of Columbia Workers' Compensation Act
DLHWC	Division of Longshore and Harbor Workers' Compensation
DOL	Department of Labor
Fund	District of Columbia Workers' Compensation Act Special Fund
FY	Fiscal Year
LHWCA	Longshore Harbor Workers' Compensation Act
OMB	Office of Management and Budget
OWCP	Office of Workers' Compensation Programs
Program	District of Columbia Workers' Compensation Act Program
U.S.C.	United States Code

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Management's Discussion and Analysis

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Mission and Organizational Structure

Two Special Funds are administered by the Office of Workers' Compensation Program (OWCP) under Section 44 of the Longshore and Harbor Workers' Compensation Act (LHWCA); the Longshore and Harbor Workers' Compensation Act Special Fund created under the original Act in 1927 and the Special Fund under the District of Columbia Workers' Compensation Act of 1928 (DCCA). These funds were established for the primary purpose of equitably distributing among all employers the liabilities associated with second injury claims (a "second injury" is an injury to a worker which, in combination with an existing permanent partial impairment, results in the worker's increased permanent disability or death).

The reporting entity is the District of Columbia Workers' Compensation Act Special Fund (the Fund). Organizationally the Fund is administered by the Department of Labor (DOL), OWCP, Division of Longshore and Harbor Workers' Compensation program (DLHWC). The DLHWC has direct responsibility for administration of the Fund. The mission of the Fund is to effectively administer a program of compensation and medical benefits to cover workers who are injured on the job or suffer from occupational disease. The DLHWC has direct responsibility for all aspects of the administration of the Fund.

The Fund supports the program mission by providing compensation, and in certain cases, medical care payments to District of Columbia employees for work related injuries or death. Effective July 26, 1982, the District of Columbia became responsible for administration and operation of a separate special fund to cover post July 26, 1982, injury cases.

The DCCA provides medical benefits, compensation for lost wages and rehabilitation services for job-related injuries, diseases or death of certain private-sector workers in the District of Columbia. Generally, benefits are paid directly from private funds by an authorized self-insured employer or through an authorized insurance carrier. Cases meeting the requirements of the LHWCA as extended to DCCA are paid from the Fund comprised primarily of employer contributions (assessments) and administered by the DLHWC. In fiscal years (FY) 2011 and 2010, 498 and 529 respectively injured workers and their dependants received compensation benefits from the Fund.

Additionally, the DCCA incorporates Section 10(h) of the LHWCA, which provides annual wage increase compensation (cost of living adjustments). Fifty percent of this annual wage increase for pre-1972 compensation cases is paid by Federal appropriated funds,

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and fifty percent is paid by the Fund through the annual assessment.

Appropriated funding for Section 10(h) is not reflected in the accompanying financial statements. Appropriated funding is reflected in the Federal Employees Compensation Act Special Benefit Fund.

Although the Fund is administered by the Secretary of Labor, the U.S. Treasury is the Custodian, holding the funds in trust. The Fund is not property of the United States, but can only be disbursed as specified in Section 44(i) of the LHWCA. Administrative services for operating the Fund are provided by the OWCP through direct Federal Appropriations. Appropriated funding for administrative services is not reflected in the accompanying financial statements.

Financial Highlights

The majority of the revenue of the Fund is generated through annual recurring assessments paid by self-insured employers and insurance carriers and totaled \$7,877,262 in FY 2011. This compares with assessment revenue of \$8,431,773 for FY 2010.

In addition, investment income for the Fund was \$2,326 for FY 2011 compared to \$4,773 for FY 2010. The average interest rate earned during FY 2011 was 0.07% compared to 0.10% for FY 2010.

The Fund's costs remained relatively stable compared to FY 2010; \$9,073,261 for FY 2011 compared to \$9,358,393 for FY 2010. Proceeds of the Fund are used for payments under: Section 8(f) for second injury claims; Section 10(h) for initial and subsequent annual adjustments in compensation for permanent total disability or related death from injuries which occurred prior to the effective date of the 1972 LHWCA amendments; and Section 18(b) for compensation to injured workers in cases of employer default.

Performance Goals and Results

The DLHWC's administration of the Fund supports DOL's Strategic Goal 4 – *Secure health benefits and, for those not working, provide income security*. This goal broadly promotes the economic security of workers and families. In particular, the DLHWC's administration of the Fund supports Performance Goal 4.2 – *Reduce the Consequences of Work-Related Injuries*. DOL plays a large role in ensuring that worker benefits are

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protected and that employers administer benefit programs in an appropriate way. The DLHWC assists in meeting this outcome goal by establishing the long term performance goal of ensuring sufficient funds are assessed to fund the annual payments, and by prompt payment to the beneficiaries. In FY 2011, assessments were sufficient to cover the costs, and no beneficiaries suffered a delayed payment.

Internal Controls

The Longshore and Harbor Workers' Compensation Division's Branch of Financial Management, Insurance and Assessment is comprised of four employees and one supervisor. It guards against unethical behavior by segregating duties and assigning roles to each function. Much of the oversight, evaluation, monitoring, control and supervisory activity is informal and face-to-face.

Management communicates all procedural, policy, and operating goals to staff with regular staff meetings, a written procedures manual, e-mails, and frequent individual communications regarding changes, problems and issues.

All codes, statutes, and regulations governing the conduct of Federal employees apply to Longshore Division employees. Examples include privacy statutes, cash handling procedures, and conflict of interest regulations.

For cases paid by the Fund, a District Director or Administrative Law Judge issues a formal Compensation Order to identify the payee and set the amount. Five employees review each new case before making the payment to ensure accuracy.

With the exception of certain internal control deficiencies noted in the Independent Auditors' Report, monthly cash basis statements, monthly case management reports, quarterly review processes, biweekly payment summaries, the *Statement of Transactions* (SF-224), and the *Statement of Differences* (FMS-6652) all provide current, reliable, and accurate information.

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Known Risks and Uncertainties

The Fund makes assessments on authorized insurers and self-insurers one year at a time for current expenses; there is no reserve for future Fund obligations. In keeping with the requirement of Section 44 of the LHWCA, obligations are paid as they are incurred. Assessments are based on compensation and medical benefits paid in the prior calendar year. The District of Columbia Workers' Compensation Act of 1928 has been repealed and the Fund only assesses based on payments in cases that arose prior to July 26, 1982. The annual Fund assessment is assessed against a shrinking base of industry payments. These payments are concentrated among a relatively few insurance carriers and self-insured employers (56 in total). For example, the largest ten payers of assessments (including four self-insured employers) fund 68.7% of the Fund's assessments. If one or more of the largest payers became insolvent and was unable to pay their assessment obligations, temporary collection issues would result, necessitating special, unscheduled assessments or other actions to ensure the Fund has sufficient liquid resources to fund claims liabilities as they come due.

Limitations of the Financial Statements

The following are limitations of the financial statements:

- The financial statements have been prepared to report the financial position and results of operations of the Fund, pursuant to the requirements of the Longshore and Harbor Workers' Compensation Act (33 U.S.C. 944(j)).
- While the statements have been prepared from the books and records of the Fund in accordance with the formats prescribed by the Office of Management and Budget, (OMB), the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity, that liabilities cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.



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Independent Auditors' Report

Mr. Gary A. Steinberg, Acting Director
Office of Workers' Compensation Programs, U.S. Department of Labor

We have audited the accompanying balance sheets of the U.S. Department of Labor's (DOL) District of Columbia Workmen's Compensation Act Special Fund (the Fund) as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2011 audit, we also considered the Fund's internal control over financial reporting and tested the Fund's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the Fund's financial statements as of and for the years ended September 30, 2011 and 2010, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

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

- Controls Over the Financial Reporting Process Need Improvement

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

The following sections discuss our opinion on the Fund's financial statements; our consideration of the Fund's internal control over financial reporting; our tests of the Fund's compliance with certain provisions of applicable laws and regulations; and management's and our responsibilities.



Opinion on the Financial Statements

We have audited the accompanying balance sheets of the U.S. Department of Labor's District of Columbia Workmen's Compensation Act Special Fund as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor's District of Columbia Workmen's Compensation Act Special Fund as of September 30, 2011 and 2010, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2011 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiencies described in Exhibit I to be a material weakness.

Exhibit I presents the status of the prior year material weakness.

Compliance and Other Matters

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

* * * * *



Responsibilities

Management's Responsibilities. Management is responsible for the financial statements; establishing and maintaining effective internal control; and complying with laws and regulations applicable to the Fund.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2011 and 2010 financial statements of the Fund based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2011 audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the Fund's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the Fund's fiscal year 2011 financial statements are free of material misstatement, we performed tests of the Fund's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding



sentence, and we did not test compliance with all laws and regulations applicable to the Fund. However, providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The Fund's response to the finding identified in our audit is presented in Exhibit I. We did not audit the Fund's response and, accordingly, we express no opinion on it.

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

KPMG LLP

February 17, 2012

Exhibit I

Controls Over the Financial Reporting Process Need Improvement

During our fiscal year (FY) 2010 audit, we noted that the internal controls over the preparation and review of the Fund financial statements performed by the Office of Workers' Compensation Programs (OWCP) Division of Longshore and Harbor Workers' Compensation program (DLHWC) and Office of the Chief Financial Officer (OCFO) were not operating effectively. We recommended that management improve its internal controls over financial reporting to ensure that (1) reconciliations between the Fund's general ledger account balances and balances reflected in subsidiary ledgers are being prepared and reviewed consistently throughout the year; (2) supervisory review controls, including those over journal entries are being effectively performed; (3) SF-224s are being thoroughly reviewed prior to submission to Treasury; and (4) differences identified by Treasury are resolved on a timely basis.

Although OWCP has made some improvement in its financial reporting processes, we continued to identify certain control deficiencies in FY 2011 related to controls over financial reporting. Specifically, during our review of the draft FY 2011 Fund financial statements and notes, we noted the following errors:

1. When comparing beginning balances reported in the draft Statement of Changes in Net Position (SCNP) to the related ending balances reported in the FY 2010 audited financial statements, we noted that Cumulative Results of Operations (CRO) – Beginning balance, October 1, 2010, was overstated by \$2.6 million. This error was related to a topside adjustment presented in the audited FY 2010 financial statements.

Additionally, the affect of the FY 2010 topside adjustments were incorrectly reported in the line item "FY 2010 Audit Adjustments" on the Statement of Net Cost (SNC) and SCNP.

2. The balance reported for Appropriations Received was understated by \$2.4 million.
3. Numerous FY 2010 balances shown for comparative purposes in the draft FY 2011 financial statements and notes did not agree to the amounts reflected in the FY 2010 audited financial statements and notes.
4. The description of the reporting entity and key performance goals included in the Management's Discussion and Analysis section of the draft FY 2011 report were not accurate.
5. Reconciling items identified in Note 6(b), *Explanation of differences between the Statement of Budgetary Resources and the Budget of the United States Government*, were not explained.

These items were corrected by management in the final financial statements.

The issues above were primarily caused by certain adjustments (i.e., topside adjustments) made by OWCP to the FY 2010 audited financial statements that were initially recorded

outside of the general ledger. OWCP management was aware that the October 1, 2010 beginning balances and certain ending balances reported in the general ledger were incorrect. However, management failed to implement an alternative process to ensure that the FY 2011 financial statements were fairly stated, in all material respects, as of and for the year ended September 30, 2011.

The remaining errors occurred because OWCP management does not have policies and procedures that require a comprehensive and detailed review of all financial information in the draft financial statements, including budgetary to proprietary account relationships. The lack of sufficient review increases the risk that material errors or fraud would not be detected and corrected timely.

We also noted that supervisory review controls over journal entries were not effectively performed in FY 2011. This was caused by insufficient review by DOL supervisors of journal entries to ensure they were properly prepared and supported before posting to the general ledger. Furthermore, the Office of the Chief Financial Officer had not enhanced its policies and procedures to address the minimum documentation requirements needed to adequately support journal entries during the first two quarters of FY 2011; the policies and procedures were subsequently updated in June 2011. Without proper review of transactions, management is unable to determine the appropriateness of transactions posted to the general ledger.

We used the following criteria during our FY 2011 testing over OWCP's financial processes:

The Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* states, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

The Standards also state, "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."

Further, the Standards state that, "Internal control should provide reasonable assurance that the objectives of the agency are being achieved relative to reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use and compliance with applicable laws and regulations."

Office of Management and Budget (OMB) A-136, *Financial Reporting Requirements*

(Circular No. A-136), requires agencies to, "Identify and explain material differences between amounts reported in the SBR and the actual amounts reported in the Budget of the United States Government as required by SFFAS No.7." Circular No. A-136 further states that, "At a minimum, agencies should display the material differences for comparable line items related to budgetary resources, obligations, distributed offsetting receipts and outlays. The schedule should be accompanied by a narrative explaining to the reader why the differences exist."

To address the issues noted above, we recommend that OWCP management:

1. Design and implement policies and procedures that require a comprehensive and detailed review of all financial information in the draft financial statements. The policies and procedures should include:
 1. Specific procedures for agreeing comparative prior year financial data to the prior year audited statements;
 2. Comparing financial data reported on the different statements to ensure accuracy and consistency;
 3. Reconciling the financial data between the general ledger and subsidiary ledgers to ensure existence, completeness, and accuracy of financial data reported;
 4. Performing a budgetary to proprietary account relationship analysis and resolving identified variances; and
 5. Analyzing significant variances between current period and prior period financial information.
2. Develop monitoring controls to ensure that sufficient supervisory review controls over journal entries and the related documentation are being performed before the journal entries are posted to the general ledger.

Management's Response:

Management concurs with the recommendations. By March 31, 2012, a checklist will be developed and implemented for agreeing comparative prior year financial data to the prior year audited statements; comparing financial data reported on the different statements to ensure accuracy and consistency; reconciling the financial data between the general ledger and subsidiary ledgers to ensure existence, completeness, and accuracy of financial data reported; performing a budgetary to proprietary account relationship analysis and resolving identified variances as appropriate; and analyzing significant variances between current period and prior period financial information.

OWCP will implement another level of review to ensure that sufficient supervisory review controls are being performed. Effective March 31, 2012, all journal entries will be submitted to the Financial Manager for review and approval prior to their posting into the general ledger.

Auditors' Response:

FY 2012 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

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Balance Sheets

September 30, 2011 and 2010

Assets	2011	2010
Intra-governmental assets:		
Funds with U.S. Treasury (Note 2)	\$ 353	\$ 353,404
Investments, net (Note 3)	4,042,000	5,143,000
Total intra-governmental assets	4,042,353	5,496,404
Accounts receivable, net (Note 4)	129,142	147,508
Total assets	\$ <u>4,171,495</u>	\$ <u>5,643,912</u>
Liabilities and Net Position		
Liabilities:		
Accrued benefits payable (Note 1f)	\$ 47,943	\$ 26,076
Deferred revenue (Note 1h)	1,999,941	1,875,886
Other liabilities (Note 5)	154,247	623,913
Total liabilities	2,202,131	2,525,875
Net position:		
Cumulative results of operations	1,969,364	3,118,037
Total liabilities and net position	\$ <u>4,171,495</u>	\$ <u>5,643,912</u>

See accompanying notes to financial statements.

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Statements of Net Cost

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Special fund net cost of operations:		
Second injury compensation, Section 8(f)	\$ 8,318,300	\$ 8,568,690
Wage increase compensation, Section 10(h)	504,351	548,257
Compensation payment for self-insurer in default, Section 18(b)	246,820	241,446
Rehabilitation Services, Section 39(c)	3,790	—
Net cost of operations	<u>\$ 9,073,261</u>	<u>\$ 9,358,393</u>

See accompanying notes to financial statements.

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Statements of Changes in Net Position

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cumulative results of operations, beginning	\$ 3,118,037	\$ 3,979,884
Budgetary financing sources:		
Non-exchange revenues (Note 1i):		
Investment interest	2,326	4,773
Fines & Penalties	45,000	60,000
Assessments	<u>7,877,262</u>	<u>8,431,773</u>
Total non-exchange revenues	7,924,588	8,496,546
Net cost of operations	<u>(9,073,261)</u>	<u>(9,358,393)</u>
Net position, end of period	<u>\$ 1,969,364</u>	<u>\$ 3,118,037</u>

See accompanying notes to financial statements.

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Statements of Budgetary Resources
Years ended September 30, 2011 and 2010

	2011	2010
Budgetary resources:		
Unobligated balance, brought forward	\$ 5,493,754	\$ 6,224,904
Budget authority		
Appropriations received (assessments)	8,073,759	8,555,411
Total budgetary resources	\$ 13,567,513	\$ 14,780,315
Status of budgetary resources:		
Obligations incurred (Note 6)		
Direct	\$ 9,549,674	\$ 9,286,561
Unobligated balances - available:		
Other available - exempt from apportionment	4,017,839	5,493,754
Total status of budgetary resources	\$ 13,567,513	\$ 14,780,315
Change in obligated balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 26,076	\$ —
Obligations incurred, net	9,549,674	9,286,561
Less: Gross Outlays	(9,530,190)	(9,260,485)
Obligated balance, net, end of period		
Unpaid obligations	\$ 45,560	\$ 26,076
Outlays:		
Gross Outlays	\$ 9,530,190	\$ 9,260,485
Net outlays	\$ 9,530,190	\$ 9,260,485

See accompanying notes to financial statements.

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Notes to the Financial Statements

Years ended September 30, 2011 and 2010

(1) Summary of Significant Accounting Policies

The principal accounting policies which have been followed in preparing the accompanying financial statements for the Fund are set forth below.

(a) Reporting Entity

These financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of the District of Columbia Workers' Compensation Act Special Fund (the Fund). The fund is administered by the Department of Labor (DOL), Office of Workers' Compensation Programs (OWCP), Division of Longshore and Harbor Workers' Compensation program (DLHWC). The DLHWC has direct responsibility for administration of the Fund. The Fund offers compensation, and in certain cases, medical care payments to District of Columbia employees for work related injuries or death incurred on or before July 26, 1982. Effective July 26, 1982, the District of Columbia Workers' Compensation Act was amended whereby the Mayor of the District of Columbia became responsible for administration and operation of a separate special fund to cover post July 26, 1982, injury cases.

Additionally, the District of Columbia Workers' Compensation Act Section 10(h) provides annual wage increase compensation (cost of living adjustments). Fifty percent of this annual wage increase for pre-1972 compensation cases is paid by Federal appropriated funds and fifty percent is paid by the Fund through the annual assessment. Appropriated funding for 10(h) is not reflected in the accompanying financial statements. Appropriated funding is reflected in the Federal Employees Compensation Act Special Benefit Fund. Also, these financial statements do not include the special fund administered by the Mayor of the District of Columbia for injury cases occurring after July 26, 1982.

(b) Basis of Accounting and Presentation

These financial statements present the financial position, net cost of operations, changes in net position and budgetary resources, in accordance with U.S. generally accepted accounting principles and the form and content requirements of Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. These financial statements have been prepared from the books and records of the Fund. These financial statements are not intended to present, and do not present, the full cost of the District of Columbia Workers' Compensation Act Program (the Program). In addition to the Fund costs presented in these statements, the full cost

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Notes to the Financial Statements

Years ended September 30, 2011 and 2010

of the Program would include certain direct costs of OWCP in the form of salaries and expenses for administration of the Fund and allocated costs of OWCP and other DOL agencies incurred in support of the Program. The full cost of the Program is included in the DOL consolidated financial statements and related notes. The Fund is considered a fiduciary activity of DOL, and is properly disclosed and reported in the consolidated financial statements of DOL as a fiduciary fund.

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

(c) Funds with U.S. Treasury

The Fund does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The Funds with U.S. Treasury are trust funds that are available to pay current liabilities and finance authorized purchase commitments.

(d) Investments, Net

Investments in U.S. Government securities are reported at cost, net of unamortized premiums or discounts, which approximate market value. Premiums or discounts are amortized on a straight-line basis, which approximates the effective interest method. The Fund's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain the operations of the Fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

(e) Accounts Receivable, Net

The amounts due as receivables are stated net of an allowance for uncollectible accounts. The allowance is estimated based on past experience in the collection of the receivables and an analysis of the outstanding balances. Accounts receivable are comprised of assessments receivable and the Fund's benefit overpayments to individuals primarily from amended compensation orders and corrections of payment computations.

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Notes to the Financial Statements

Years ended September 30, 2011 and 2010

(f) *Accrued Benefits Payable*

The Fund provides compensation and medical benefits for work related injuries to employees of the District of Columbia that were incurred on or before July 26, 1982. The Fund recognizes a liability for disability benefits payable to the extent of unpaid benefits applicable to the current period. It does not include a liability for those estimated claims to be presented and paid by the Fund related to covered workers in future years. Ultimate responsibility for the payment of such claims rests with the employer organizations. Accrued disability benefits payable as of September 30, 2011 amounted to \$47,943, and as of September 30, 2010 they amounted to \$26,076.

(g) *Other Liabilities*

Other liabilities are comprised primarily of assessment overpayments by insurance carriers or self-insured employers which are to be refunded at the insurance carrier or self-insured employer's request or applied to reduce future assessments. Also included in other liabilities are amounts received by the Fund from defaulted employers which are being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation Act (LHWCA). These funds and investments are available for compensation and medical benefits to covered employees of the defaulted companies. Management estimates that these funds and investments held will be sufficient to cover the future benefits associated with the covered employees.

(h) *Deferred Revenue*

Deferred revenue represents the unearned assessment revenue as of September 30, the Fund's accounting year end. The annual assessments cover a calendar year and, accordingly, the portion extending beyond September 30 has been deferred. Deferred revenue reported on the balance sheets is considered "Other Liabilities" under OMB Circular A-136.

(i) *Financing Sources Other Than Exchange Revenue*

Non-exchange revenues arise from the Federal government's power to demand payments from and receive donations from the public. Non-exchange revenues are recognized by the Fund for assessments and penalties levied against the public and interest income from investments.

**DISTRICT OF COLUMBIA WORKERS'
COMPENSATION ACT SPECIAL FUND**

Notes to the Financial Statements

Years ended September 30, 2011 and 2010

The Fund's primary source of revenue is annual assessments levied on insurance carriers and self-insured employers. Assessments are recognized as non-exchange revenue when due. The Fund receives interest on Fund investments and on Federal funds in the possession of non-Federal entities. The Fund also receives revenue from penalties assessed in accordance with various sections of the LHWCA.

(j) Adjustments to FY 2010 Statement of Budgetary Resources

During FY 2011, management determined that Appropriations Received and Unobligated balances – available were overstated by approximately \$2.4 million in the previously issued FY 2010 Fund Statement of Budgetary Resources. These overstatements, which had no impact on the other Fund 2010 basic financial statements, were corrected in the accompanying FY 2010 Statement of Budgetary Resources.

(2) Funds with U.S. Treasury

Funds with U.S. Treasury at September 30, 2011 and 2010 consisted of cash deposits of \$353 and \$353,404 respectively. There was \$1 in cash deposits at September 30, 2011 and \$60 in cash deposits at September 30, 2010 being held as security by authority of Section 32 of the LHWCA. These funds relate to the default of self-insured employers and are available for payment of compensation and medical benefits to covered employees of the defaulted companies.

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

(In Dollars)	Entity Assets			Total Entity Assets	Non-entity Assets	Total
	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed			
Trust Fund	\$ —	—	353	353	—	353

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

(In Dollars)	Entity Assets			Total Entity Assets	Non-entity Assets	Total
	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed			
Trust Fund	\$ —	—	353,404	353,404	—	353,404

**DISTRICT OF COLUMBIA WORKERS'
COMPENSATION ACT SPECIAL FUND**

Notes to the Financial Statements

Years ended September 30, 2011 and 2010

(3) Investments, Net

Investments at September 30, 2011 and 2010 consisted of the following:

	September 30, 2011			
<u>(In Dollars)</u>	Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental securities:				
Non-Marketable:				
Par value	\$ 4,042,000	—	4,042,000	4,042,000

	September 30, 2010			
<u>(In Dollars)</u>	Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental securities:				
Non-Marketable:				
Par value	\$ 5,143,000	—	5,143,000	5,143,000

Investments of \$58,800 and \$58,700 at September 30, 2011 and 2010, respectively, are restricted assets that are being held as security by authority of Section 32 of the LHWCA. These investments are available for payment of compensation and medical benefits to covered employees of the defaulted companies. Investments at September 30, 2011 and 2010 consist of overnight securities. Investments at September 30, 2011 bear an interest rate of 0.00% compared to an interest rate of 0.13% at September 30, 2010. Interest rates on securities bought and sold during fiscal year (FY) 2011 ranged from 0.00% to 0.18% compared to 0.01% to 0.17% for FY 2010.

**DISTRICT OF COLUMBIA WORKERS'
COMPENSATION ACT SPECIAL FUND**

Notes to the Financial Statements
Years ended September 30, 2011 and 2010

(4) Accounts Receivable, Net

Accounts receivable at September 30, 2011 and 2010 consisted of the following:

<u>(In Dollars)</u>	2011	2010
Benefit overpayments	\$ 106,243	\$ 136,234
Assessments receivable	23,079	12,647
Less: allowance for doubtful accounts	(180)	(1,373)
Total accounts receivable from the public, net	\$ 129,142	\$ 147,508

Assessments receivable represent the unpaid annual assessments from the current year. Accounts receivable from benefit overpayments to claimants arise primarily from amended compensation orders and corrections of payment computations. These receivables are being primarily recovered by partial and total withholding of benefit payments.

Changes in the allowance for doubtful accounts during FY 2011 and FY 2010 consisted of the following:

<u>(In Dollars)</u>	2011			Allowance September 30, 2011
	Allowance October 1, 2010	Write Offs	Bad Debt	
Entity assets:				
Benefit overpayments	\$ (1,057)	—	935	(122)
Assessment receivable	(316)	—	258	(58)
	\$ (1,373)	—	1,193	(180)

<u>(In Dollars)</u>	2010			Allowance September 30, 2010
	Allowance October 1, 2009	Write Offs	Bad Debt	
Entity assets:				
Benefit overpayments	\$ (1,910)	—	853	(1,057)
Assessment receivable	(26,950)	—	26,634	(316)
	\$ (28,860)	—	27,487	(1,373)

**DISTRICT OF COLUMBIA WORKERS'
COMPENSATION ACT SPECIAL FUND**

Notes to the Financial Statements
Years ended September 30, 2011 and 2010

(5) Other Liabilities

Other liabilities at September 30, 2011 and 2010 consisted of the following current liabilities:

<u>(In Dollars)</u>	<u>2011</u>	<u>2010</u>
Other liabilities:		
Assessment overpayments by carriers	\$ 95,446	\$ 565,153
Defaulted employer liability:		
Held in investments	58,800	58,700
Held in cash	1	60
	<u>58,801</u>	<u>58,760</u>
Total other liabilities	<u>\$ 154,247</u>	<u>\$ 623,913</u>

Assessment overpayments are to be refunded upon request or applied to reduce future assessments.

Defaulted employer liability relates to the funds and investments held by the District of Columbia Special Fund which are being held as security by authority of Section 32 of the LHWCA. These funds and investments are available for compensation and medical benefits to covered employees of the defaulted companies. Management estimates that these funds and investments held will be sufficient to cover the future benefits associated with the covered employees.

**DISTRICT OF COLUMBIA WORKERS'
COMPENSATION ACT SPECIAL FUND**

Notes to the Financial Statements
Years ended September 30, 2011 and 2010

(6) Status of Budgetary Resources

(a) Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources in FY 2011 and FY 2010 consisted of the following:

<u>(In Dollars)</u>	2011	2010
Direct Obligations:		
Exempt from apportionment	\$ 9,549,674	\$ 9,286,561

(b) Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The budgetary resources, obligations incurred and outlays of the Fund are combined with the Longshore and Harbor Workers' Compensation Act Special Fund in the Program and Financing schedule of the Budget of the United States Government. A reconciliation of budgetary resources, obligations incurred and outlays, as presented in the Fund's Statement of Budgetary Resources to amounts included in the Budget of the United States Government for the year ended September 30, 2010 is shown below:

<u>(Dollars in Millions)</u>	Budgetary Resources	Obligations Incurred	Outlays
Statement of Budgetary Resources - DCCA	\$ 15	9	9
Amounts included in the Statement of Budgetary Resources - LHWCA	188	128	126
Amounts included in the Statement of Budgetary Resources subsequent to submission of budget	10	2	4
Total Statement of Budgetary Resources	213	139	139
Budget of the United States Government	\$ 213	139	139

**DISTRICT OF COLUMBIA WORKERS'
COMPENSATION ACT SPECIAL FUND**

Notes to the Financial Statements

Years ended September 30, 2011 and 2010

(7) Reconciliation of Budgetary Resources Obligated to Net Cost of Operations

	2011	2010
Obligations incurred	\$ 9,549,674	\$ 9,286,561
Total resources used to finance activities	9,549,674	9,286,561
Resources used to finance items not part of the net cost of operations		
Resources that finance expenses recognized in prior periods	(507,862)	—
Total resources used to finance items not part of the net cost of operations	(507,862)	—
Total Resources used to finance the net cost of operations	9,041,812	9,286,561
Components not requiring or generating resources:		
Revaluation of assets and liabilities	(935)	(853)
Other	32,384	72,685
Total components of net cost of operations that will not require or generate resources in the current period	31,449	71,832
Net cost of operations	\$ 9,073,261	\$ 9,358,393

(8) Concentration of Risk

The Fund makes assessments to authorized insurers and self-insurers one year at a time for current expenses; there is no reserve for future Fund obligations. In keeping with the requirement of Section 44 of the LHWCA, obligations are paid as they are incurred. Assessments are based on compensation and medical benefits paid in the prior calendar year. As previously discussed, the District of Columbia Workers' Compensation Act of 1928 has been repealed and the Fund only assesses based on payments in cases that arose on or before July 26, 1982. Therefore, the annual assessment is assessed for a shrinking population of claims.

TO REPORT FRAUD, WASTE OR ABUSE, PLEASE CONTACT:

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