

U.S. Department of Labor

Office of Inspector General—Office of Audit

REPORT TO THE OFFICE OF WORKERS' COMPENSATION PROGRAMS



LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT SPECIAL FUND FINANCIAL STATEMENTS AND INSPECTOR GENERAL'S REPORT

SEPTEMBER 30, 2013 AND 2012

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**LONGSHORE AND HARBOR WORKERS'
COMPENSATION ACT SPECIAL FUND**

Management's Discussion and Analysis (unaudited)

Years ended September 30, 2013 and 2012

Mission and Organizational Structure

The Longshore and Harbor Workers' Compensation Act (LHWCA) provides medical benefits, compensation for lost-wages, and rehabilitation services for job-related injuries, diseases, or death of private-sector workers in certain maritime and related employment. 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 Longshore and Harbor Workers' Compensation statute are paid from the LHWCA Special Fund (Fund) which comprises primarily employer contributions (assessments). In Fiscal Years (FY) 2013 and 2012 respectively, 3,842 and 3,943 injured workers and dependents received compensation benefits from the Fund.

The reporting entity is the Fund. Organizationally the Fund is administered by the Department of Labor (DOL), Office of Workers' Compensation Programs (OWCP), Division of Longshore and Harbor Workers' Compensation (DLHWC). DLHWC has direct responsibility for administration of the Fund. The Fund supports the program mission by providing compensation, and in certain cases, medical care payments to employees disabled from injuries which occurred under LHWCA or its extensions. The Fund also extends benefits to dependents if any injury resulted in the employee's death.

Additionally, Section 10(h) of LHWCA provides annual wage increase compensation (cost of living adjustments) for pre-1972 compensation cases entitled due to total permanent disability or death. Fifty percent of this annual wage increase compensation is paid by federal appropriated funds, 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.

Administrative services for operating the Fund are provided by OWCP on behalf of the Fund. Funding for these costs is primarily provided by federal appropriations to OWCP's Salaries and Expense account, which is not part of the Fund. The Fund reimburses OWCP for certain direct expenses associated with administrative support of the Fund and for rehabilitation services provided to eligible claimants.

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 \$125,526,692 in FY 2013 and \$124,486,637 in FY 2012. Other sources of payments into the Fund include fines and penalties levied under LHWCA (Section 44c), payments

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by employers of \$5,000 for each death case where there is no survivor entitled to the benefits, and interest payments on Fund investments.

Investment income for the Fund was \$19,976 for FY 2013, as compared to \$18,628 for FY 2012. The average interest rate earned during FYs 2013 and 2012 was 0.05 percent.

The Fund's costs remained relatively stable compared to FY 2012 — \$121,421,801 for FY 2013, as compared to \$124,313,279 for FY 2012. 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, Sections 39(c) and 8(g) for the procurement of medical and vocational rehabilitation services for permanently disabled employees and to provide a maintenance allowance to workers undergoing rehabilitation, Section 18(b) for compensation to injured workers in cases of employer default, and Section 7(e) for the cost of certain medical examinations.

Performance Goals and Results

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, DLHWC's administration of the Fund supports Outcome Goals 4.1 – Facilitate return to work for workers experiencing workplace injuries or illnesses who are able to work and income and medical care for those who are unable to work, and 4.2 – Ensure income support when work is impossible or unavailable. DOL plays a large role in ensuring that worker benefits are protected and that employers administer benefit programs in an appropriate way. DLHWC assists in meeting these outcome goals by ensuring sufficient funds are assessed to fund the benefit payments, and payments to the beneficiaries are made promptly. In FY 2013, assessments were sufficient to cover the costs, and performance goals targeting the timeliness of initial claims processing and benefit delivery outcomes were achieved.

Internal Controls

The Longshore and Harbor Workers' Compensation Division's Branch of Financial Management, Insurance and Assessment comprises 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

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supervisory activity is face-to-face. Each of the district offices operates like the Branch of Financial Management, Insurance and Assessment.

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

Statutes provide the formal standards where these are applicable, such as privacy statutes, cash handling procedures, and conflict of interest regulations. All codes, statutes, and regulations governing the conduct of federal employees apply to all DLHWC employees.

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.

Known Risks and Uncertainties

The Fund is the single largest payer of indemnity payments under LHWCA. Although there are approximately 537 authorized insurance carriers and self-insured employers, benefit payments are concentrated among relatively few. For example, the top 10 carriers and self-insurers alone pay 70 percent of the total industry payments, excluding Fund payments. If a major carrier or self-insurer fails, the remainder would face substantially increased assessments.

The Fund is reviewed one year at a time for current expenses. There are no reserve funds for future Fund obligations. A series of high-value single payment claims, for example a large number of hearing loss claims resolved in the private sector, could exceed the predictions used to quantify the assessment. A single, very large claim from an uninsured, bankrupt employer could have the same effect. Temporary collection issues could result, necessitating special, unscheduled assessments or other actions to ensure the Fund has sufficient liquid resources to fund claims liabilities as they come due.

There are currently no known examples of these risks and uncertainties.

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Years ended September 30, 2013 and 2012

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 LHWCA (Title 33, United States Code, Section 944(j)).
- While the statements have been prepared from the books and records of the Fund in accordance with U.S. Generally Accepted Accounting Principles for U.S. Government Entities and 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.

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



March 26, 2015

Inspector General's Report

Leonard J. Howie III
Director
Office of Workers' Compensation Programs
200 Constitution Avenue, NW
Washington, DC 20210

We have audited the accompanying balance sheets of the U.S. Department of Labor's (DOL) Longshore and Harbor Workers' Compensation Act (LHWCA) Special Fund (Fund) as of September 30, 2013, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements" or "basic financial statements") for the year then ended. The financial statements of the Fund as of September 30, 2012, were audited by other auditors whose report, dated March 29, 2013, expressed an unmodified opinion on those statements. The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our FY 2013 audit, we also considered the Fund's internal control over financial reporting and tested the Fund's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the financial statements, we concluded the Fund's financial statements as of and for the year ended September 30, 2013, are presented fairly in all material respects, in conformity with U.S. generally accepted accounting principles.

We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses as defined in the Internal Control over Financial Reporting section of this report. However, we identified a deficiency in internal controls over the assessment process that is described in a separate management letter.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts 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 OMB Bulletin No. 14-02, *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, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of the Fund as of September 30, 2013, and the related statement of net cost, changes in net position, and budgetary resources for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2013, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with U.S. generally accepted accounting principles.

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

Internal Control over Financial Reporting

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our FY 2013 audit, we did not

identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies, as defined above. However, we identified a deficiency in internal controls over the assessment process that is described in a separate management letter.

Exhibit I presents the status of prior-year recommendations.

Compliance and Other Matters

The results of our tests of compliance, as 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. 14-02.

Responsibilities

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

Auditors’ Responsibilities. Our responsibility is to express an opinion on the FY 2013 financial statements of the Fund based on our audit. We conducted our audit 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. 14-02. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit 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.

Our audit also included:

- 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 our audit provides a reasonable basis for our opinion.

In planning and performing our FY 2013 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 FY 2013 financial statements are free of material misstatement, we performed tests of the Fund's compliance with certain provisions of laws, regulations, and contracts, 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. 14-02, as amended. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the Fund. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

OWCP concurred with the Office of Inspector General's (OIG) opinion on the financial statements. Management's written response to our audit, presented in Appendix A, was not subject to the auditing procedures applied in the audit of the Fund's financial statements, and accordingly, we express no opinion on it.

We appreciate the cooperation and courtesies that OWCP personnel extended to OIG during this audit. OIG personnel who made major contributions to this report are listed in Appendix B.



Elliot P. Lewis
Assistant Inspector General
for Audit

The following table provides the FY 2013 status of all recommendations included in the Independent Auditors’ Report on the Fund’s FY 2012 Financial Statements, Report No. 22-13-004-04-432 (March 29, 2013).

FY 2013 Status of Prior-Year Recommendations		
FY 2012 Finding	FY 2012 Recommendations	FY 2013 Status
Controls Over the Financial Reporting Process Need Improvement	(1) Update the Reconciliation Checklist to include procedures for ensuring new financial reporting requirements are properly incorporated into the financial statements and notes.	Closed
	(2) Establish appropriate due dates to ensure key financial reporting controls, such as budgetary to proprietary account relationships analysis, and the preparation of draft financial statements are completed in a timely manner.	Closed
	(3) Re-configure the benefit payment summary report so that the payment data is properly presented in the appropriate expense category, and implement procedures to correct any subsequent misclassification errors resulting from the incorrect configuration of the benefit payment summary report until the report is re-configured.	Closed
	(4) Develop and implement a formal process for promptly researching and resolving significant financial reporting issues that are identified. In addition, resolution of each issue should be formally documented and retained to support the financial statements’ compliance with U.S. generally accepted accounting principles.	Closed
	(5) Provide training to applicable supervisors to ensure they are performing sufficient reviews of journal entries and related documentation before the entries are posted.	Closed
	(6) Develop and implement procedures to properly record transactions related to the change in overpayments from claimants in the future.	Closed
Controls over the Assessments Subsidiary Ledger Need Improvement	(7) Develop and implement policies and procedures that require someone other than the preparer to periodically review the subsidiary ledger to ensure all required amounts, including the final assessment, are accurately recorded for the carriers.	Closed

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Balance Sheets

September 30, 2013 and 2012

Assets	2013	2012
Intra-governmental assets:		
Funds with U.S. Treasury (Note 2)	\$ 343,077	\$ 8,617
Investments, net (Note 3)	<u>57,161,000</u>	<u>55,656,000</u>
Total intra-governmental assets	57,504,077	55,664,617
Accounts receivable, net (Note 4)	<u>4,087,911</u>	<u>2,847,573</u>
Total assets	<u>\$ 61,591,988</u>	<u>\$ 58,512,190</u>
Liabilities and Net Position		
Liabilities:		
Accrued benefits payable (Note 1f)	\$ 1,729,958	\$ 1,314,535
Deferred revenue (Note 1h)	31,286,006	30,778,861
Other liabilities (Note 1g and Note 5)	<u>5,887,404</u>	<u>6,376,579</u>
Total liabilities	<u>38,903,368</u>	<u>38,469,975</u>
Net position:		
Cumulative results of operations	<u>22,688,620</u>	<u>20,042,215</u>
Total liabilities and net position	<u>\$ 61,591,988</u>	<u>\$ 58,512,190</u>

The accompanying notes are an integral part of these statements.

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Statements of Net Cost

Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Special fund net cost of operations:		
Second injury compensation, Section 8(f)	\$ 110,160,265	\$ 112,788,457
Wage increase compensation, Section 10(h)	1,245,089	1,340,972
Compensation payment for self-insurer in default, Section 18(b)	7,684,151	7,056,558
Bankrupt self-insured employers, Section 32(a)	265,200	800,829
Rehabilitation services, Section 39(c)	2,066,346	2,322,488
Medical services, Section 7(e)	750	3,975
Net cost of operations	<u>\$ 121,421,801</u>	<u>\$ 124,313,279</u>

The accompanying notes are an integral part of these statements.

**LONGSHORE AND HARBOR WORKERS'
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Statements of Changes in Net Position

Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cumulative results of operations, beginning	\$ 20,042,215	\$ 21,513,235
Budgetary financing sources:		
Transfers in/out without reimbursement (Note 6)	(2,115,746)	(2,119,986)
Non-exchange revenues (Note 1i):		
Interest	19,976	18,628
Fines and penalties	637,284	456,980
Assessments	<u>125,526,692</u>	<u>124,486,637</u>
Total non-exchange revenues	<u>126,183,952</u>	<u>124,962,245</u>
Total financing sources	124,068,206	122,842,259
Net cost of operations	<u>(121,421,801)</u>	<u>(124,313,279)</u>
Net position, end of period	<u>\$ 22,688,620</u>	<u>\$ 20,042,215</u>

The accompanying notes are an integral part of these statements.

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Statements of Budgetary Resources

Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Budgetary Resources:		
Unobligated balance, brought forward, October 1	\$ 54,898,739	\$ 58,068,382
Appropriations (assessments)	124,552,452	123,860,636
Spending authority from offsetting collections	-	21,751
Total budgetary resources	<u>\$ 179,451,191</u>	<u>\$ 181,950,769</u>
Status of Budgetary Resources:		
Obligations incurred (Note 7)	123,527,932	127,052,030
Unobligated balances, end of year:		
Exempt from apportionment	<u>55,923,259</u>	<u>54,898,739</u>
Total budgetary resources	<u>\$ 179,451,191</u>	<u>\$ 181,950,769</u>
Change in Obligated Balance:		
Unpaid obligations, brought forward, October 1	\$ 1,314,536	\$ 655,439
Obligations incurred	123,527,931	127,052,030
Less: Outlays (gross)	<u>(123,112,509)</u>	<u>(126,392,933)</u>
Unpaid obligations, end of year	<u>\$ 1,729,958</u>	<u>\$ 1,314,536</u>
Obligated balance, start of year	<u>\$ 1,314,536</u>	<u>\$ 655,439</u>
Obligated balance, end of year	<u>\$ 1,729,958</u>	<u>\$ 1,314,536</u>
Budget Authority and Outlays, Net:		
Budget authority	\$ 124,552,452	\$ 123,882,387
Actual offsetting collections	-	(21,751)
Budget authority, net	<u>\$ 124,552,452</u>	<u>\$ 123,860,636</u>
Outlays, gross	123,112,509	126,392,933
Actual offsetting collections	-	(21,751)
Outlays, net	<u>\$ 123,112,509</u>	<u>\$ 126,371,182</u>

The accompanying notes are an integral part of these statements.

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Notes to the Financial Statements

Years ended September 30, 2013 and 2012

(1) Summary Of Significant Accounting Policies

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

(a) Reporting Entity

The LHWCA Fund is administered by the DOL, OWCP, and DLHWC. DLHWC has direct responsibility for administration of the Fund. The Fund offers compensation, and in certain cases, medical care payments to employees disabled from injuries which occurred on the navigable waters of the United States, or in adjoining areas used for loading, unloading, repairing, or building a vessel. The Fund also extends benefits to dependents if any injury resulted in the employee's death.

Additionally, LHWCA (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 the annual assessment. The remaining fifty percent is paid by the Federal Employees' Compensation Act's Special Benefit Fund through federal appropriations.

(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 the Fund, in accordance with U.S. generally accepted accounting principles and the form and content requirements of 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 LHWCA Program (Program). In addition to the Fund costs presented in these statements, the full cost of the Program would include certain direct costs of OWCP in the form of salaries and expenses for administration of the Program 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.

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Notes to the Financial Statements

Years ended September 30, 2013 and 2012

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 management pursuant to OMB directives, used to monitor the Fund's use of budgetary resources.

(c) Funds with the U.S. Department of the Treasury (Treasury)

The Fund's cash receipts and disbursements are processed by Treasury. Funds with Treasury represent obligated balances 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 they are held to maturity. A portion of these investments is available for payment of compensation and medical benefits to covered employees of the defaulted companies.

(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 comprise assessments receivable and Fund benefit overpayments made to individuals primarily from amended compensation orders and corrections of payment computations.

(f) Accrued Benefits Payable

The Fund provides compensation and medical benefits for work-related injuries to workers in certain maritime employment. The Fund recognizes a liability for disability benefits payable to the extent of unpaid benefits applicable to the current period. Ultimate responsibility for payment of such claims rests with the employer organizations.

(g) Other Liabilities

Other liabilities comprise primarily amounts received by the Fund from defaulted employers which are being held as security by authority of Section

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Notes to the Financial Statements

Years ended September 30, 2013 and 2012

32 of 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. Also included in other liabilities are assessment overpayments by insurance carriers or self-insured employers which are to be refunded at the insurance carrier or self-insured employers' request or applied to reduce future assessments.

(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) Non-exchange Revenue

Non-exchange revenues arise from the federal government's power to demand payments from and receive donations from the public.

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. Additional assessments may result from the application of audit procedures on reported carrier data. These assessments are recognized as revenues when final agreement is reached with the carriers. The Fund receives interest on Fund investments and on federal funds in the possession of non-federal entities. The Fund also receives revenue from fines and penalties assessed in accordance with various sections of LHWCA.

(2) Funds with Treasury

Funds with Treasury at September 30, 2013, and 2012, consisted of cash deposits of \$343,077 and \$8,617, respectively. These cash deposits at September 30, 2013, and 2012, included \$349 and \$419, respectively, which are being held as security by authority of Section 32 of 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.

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Notes to the Financial Statements

Years ended September 30, 2013 and 2012

Funds with Treasury at September 30, 2013, consisted of the following:

	Entity Assets			Total Entity Assets	Non-entity Assets	Total
	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed			
Trust Fund	\$ —	—	\$ 343,077	343,077	—	\$ 343,077

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

	Entity Assets			Total Entity Assets	Non-entity Assets	Total
	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed			
Trust Fund	\$ —	—	\$ 8,617	8,617	—	\$ 8,617

(3) Investments, Net

Investments at September 30, 2013 and 2012, consisted of the following:

	September 30, 2013			
	Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental securities:				
Non-marketable:				
Par value	\$ 57,161,000	—	57,161,000	\$ 57,161,000

	September 30, 2012			
	Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental securities:				
Non-marketable:				
Par value	\$ 55,656,000	—	55,656,000	\$ 55,656,000

Investments of \$5,701,600 and \$6,180,100 at September 30, 2013 and 2012, respectively, are restricted assets that are being held as security by authority of Section 32 of LHWCA. Investments at September 30, 2013 and 2012, consist of overnight securities. Investments at September 30, 2013, bear an interest rate of 0.03 percent compared to an interest rate of 0.05 percent for September 30, 2012.

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Notes to the Financial Statements

Years ended September 30, 2013 and 2012

Interest rates on securities bought and sold during FY 2013 ranged from 0.00 percent to 0.17 percent compared to 0.00 percent to 0.12 percent for FY 2012.

(4) Accounts Receivable, Net

Accounts receivable at September 30, 2013 and 2012, consisted of the following:

	<u>2013</u>	<u>2012</u>
Benefit overpayments	\$ 1,471,658	\$ 1,688,118
Assessments receivable	3,083,488	1,637,123
Less: allowance for doubtful accounts	<u>(467,235)</u>	<u>(477,668)</u>
Total accounts receivable from the public, net	<u>\$ 4,087,911</u>	<u>\$ 2,847,573</u>

Assessments receivable represent the unpaid annual assessments. 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 FYs 2013 and 2012, consisted of the following:

	<u>2013</u>			
	<u>Allowance October 1, 2012</u>	<u>Write Offs</u>	<u>Bad Debt</u>	<u>Allowance September 30, 2013</u>
Entity assets:				
Benefit overpayments	\$ (470,926)	–	26,817	\$ (444,109)
Assessment receivable	<u>(6,742)</u>	<u>–</u>	<u>(16,384)</u>	<u>(23,126)</u>
	<u>\$ (477,668)</u>	<u>–</u>	<u>10,433</u>	<u>\$ (467,235)</u>
	<u>2012</u>			
	<u>Allowance October 1, 2011</u>	<u>Write Offs</u>	<u>Bad Debt</u>	<u>Allowance September 30, 2012</u>
Entity assets:				
Benefit overpayments	\$ (429,402)	–	(41,524)	\$ (470,926)
Assessment receivable	<u>(2,495)</u>	<u>–</u>	<u>(4,247)</u>	<u>(6,742)</u>
	<u>\$ (431,897)</u>	<u>–</u>	<u>(45,771)</u>	<u>\$ (477,668)</u>

**LONGSHORE AND HARBOR WORKERS'
COMPENSATION ACT SPECIAL FUND**

Notes to the Financial Statements

Years ended September 30, 2013 and 2012

(5) Other Liabilities

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

	<u>2013</u>	<u>2012</u>
Other liabilities:		
Assessment overpayments by carriers	\$ 185,454	\$ 196,060
Defaulted employer liability:		
Held in investments	5,701,600	6,180,100
Held in cash	350	419
	<u>5,701,950</u>	<u>6,180,519</u>
Total other liabilities	<u>\$ 5,887,404</u>	<u>\$ 6,376,579</u>

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

Defaulted employer liability relates to cash and investments held by the Fund which are being held as security by authority of Section 32 of LHWCA. These funds are available for compensation and medical benefits to covered employees of the defaulted companies.

(6) Transfers to OWCP

The Fund reimburses OWCP for rehabilitation services provided to eligible claimants, and certain direct expenses associated with administrative support of the Fund. Approved transfers out to OWCP were \$2,115,746 in FY 2013 and \$2,119,986 in FY 2012. Transfers are made from the Fund in accordance with Sections 39(c), 44(d), and 44(j) of LHWCA.

**LONGSHORE AND HARBOR WORKERS'
COMPENSATION ACT SPECIAL FUND**

Notes to the Financial Statements

Years ended September 30, 2013 and 2012

(7) Status of Budgetary Resources

(a) Apportionment Categories of Obligations Incurred

	<u>2013</u>	<u>2012</u>
Direct obligations:		
Exempt from apportionment	\$ <u>123,527,932</u>	\$ <u>127,052,030</u>

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

A reconciliation of budgetary resources, obligations incurred and outlays, as presented in the Statement of Budgetary Resources to amounts included in the Budget of the United States government for the year ended September 30, 2012, is shown below:

<u>(Dollars in Millions)</u>	<u>2012</u>		
	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Gross Outlays</u>
Statement of Budgetary Resources - LHWCA	\$ 182	\$ 127	\$ 126
Statement of Budgetary Resources - DCCA	12	9	9
Total Statement of Budgetary Resources	<u>194</u>	<u>136</u>	<u>135</u>
Budget of the United States Government	\$ <u>194</u>	\$ <u>136</u>	\$ <u>135</u>

**LONGSHORE AND HARBOR WORKERS'
COMPENSATION ACT SPECIAL FUND**

Notes to the Financial Statements

Years ended September 30, 2013 and 2012

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

	<u>2013</u>	<u>2012</u>
Obligations incurred	\$123,527,932	\$127,052,030
Total resources used to finance activities	<u>123,527,932</u>	<u>127,052,030</u>
Resources used to finance items not part of the net cost of operations		
Resources that funded expenditure transfers	(2,115,746)	(2,119,986)
Total resources used to finance items not part of the net cost of operations	<u>(2,115,746)</u>	<u>(2,119,986)</u>
Total Resources used to finance the net cost of operations	<u>121,412,186</u>	<u>124,932,044</u>
Components not requiring or generating resources:		
Revaluation of assets and liabilities	(26,817)	41,524
Other	<u>36,432</u>	<u>(660,289)</u>
Total components of net cost of operations that will not require or generate resources in the current period	<u>9,615</u>	<u>(618,765)</u>
Net cost of operations	<u><u>\$121,421,801</u></u>	<u><u>\$124,313,279</u></u>

(9) 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 LWHCA, obligations are paid as they are incurred. Assessments are based on compensation and medical benefits paid in the prior calendar year.

Appendices

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OWCP's Response to the Draft Report

U.S. Department of Labor

Office of Workers' Compensation Programs
Washington, DC 20210



MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

FROM: LEONARD J. HOWIE III 
Director
Office of Workers' Compensation Programs

SUBJECT: Longshore and Harbor Workers' Compensation
Act Special Fund Audit
Draft Report No. 22-15-004-04-432

This memorandum responds to the above referenced draft report. We concur with the Office of Inspector General's opinion on the financial statements. The results of this audit demonstrate that the Office of Workers' Compensation Programs produced accurate financial statements; established and maintained effective internal controls over financial reporting; and complied with laws, regulations applicable to the Fund. As always, we appreciate the opportunity to provide input and look forward to continued collaboration with your office.

cc: Gary Steinberg, Deputy Director, OWCP
Antonio Rios, Director, Longshore Harbor Workers' Compensation, OWCP
Sam Shellenberger, Director, Financial Administration, OWCP
Jatin Wahi, Accounting Officer, Financial Administration, OWCP
Richard Stanton, Branch Chief of Financial Management, OWCP
Kenneth Ossman, Accountant, Financial Administration, OWCP

Working for America's Workforce

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Appendix B

Acknowledgements

Key contributors to this report were Joseph Donovan (Audit Director), Mark Lemke, Andrew Loomis, Lawrence Alli Jr., Deborah Jarmon, Tia Salmon, and Christine Allen.

TO REPORT FRAUD, WASTE, OR ABUSE, PLEASE CONTACT:

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Email: hotline@oig.dol.gov

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