

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
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2016 AND 2015

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 the Inspector General.

Ernest P. Lewis

Assistant Inspector General for Audit

Date Issued: October 30, 2017
Report Number: 22-18-001-04-432

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

TABLE OF CONTENTS

	Page
Management's Discussion and Analysis	
Mission and Organizational Structure	1
Financial Highlights.....	1
Performance Goals and Results	2
Internal Controls.....	2
Known Risks and Uncertainties	3
Limitations of the Financial Statements	3
Independent Auditors' Report.....	4
FINANCIAL STATEMENTS	
Balance Sheets.....	10
Statements of Net Cost.....	11
Statements of Changes in Net Position	12
Statements of Budgetary Resources	13
NOTES TO THE FINANCIAL STATEMENTS	
Note 1 – Summary of Significant Accounting Policies.....	14
Note 2 – Funds with U.S. Treasury	17
Note 3 – Investments, Net	18
Note 4 – Accounts Receivable, Net	19
Note 5 – Other Liabilities.....	20
Note 6 – Transfers to OWCP	20
Note 7 – Status of Budgetary Resources.....	21
Note 8 – Reconciliation of Budgetary Resources Obligated to Net Cost of Operations.....	22

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

Management's Discussion and Analysis

Years ended September 30, 2016 and 2015

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 and diseases sustained by private-sector workers in certain maritime and related employment. The LHWCA also extends benefits to dependents if any injury results in the worker's death. Generally, benefits are paid directly by private entities, either authorized self-insured employers or authorized insurance carriers (herein collectively referred to as carriers). The LHWCA also established a Special Fund which, in some cases, under specified circumstances, pays some or all of the compensation due to a worker or survivor. The LHWCA Special Fund (fund) is financed primarily through carrier contributions (assessments). In fiscal years (FY) 2016 and 2015, respectively, 3,556 and 3,460 injured workers and dependents received compensation benefits from the fund.

The reporting entity is the fund. The fund is administered by the Secretary of Labor who has delegated responsibility to the Department of Labor (DOL), Office of Workers' Compensation Programs (OWCP), Division of Longshore and Harbor Workers' Compensation (DLHWC). Thus, 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 the Longshore and Harbor Workers' Compensation Act or its extensions. The fund also extends benefits to dependents if any injury resulted in the employee's death.

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 fund's revenue is generated through annual recurring assessments paid by carriers and in FY 2016 and FY 2015 totaled \$111,479,816 and \$112,141,427, respectively. Other sources of payments into the fund include fines and penalties levied under LHWCA, Sections 30(e) and 14(g), as well as payments of compensation by employers of \$5,000 under Section 44(c) (1) for each death case where there is no survivor entitled to the benefits, and interest payments on fund investments. Recoveries from audits conducted to determine proper assessment calculations decreased to \$265,887 in FY 2016 from \$380,017 in FY 2015. This decrease was attributed to an audit

conducted for a single company in FY 2015 that resulted in a \$235,214 collection and there was not a comparable collection of that size received in FY 2016.

The fund's costs of \$110,739,617 in FY 2016 remained relatively stable compared to FY 2015 cost of \$114,858,326. 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.

The fund's budgetary appropriations of \$110,117,634 in FY 2016 remained relatively stable compared to \$110,384,863 in FY 2015. Similarly, the fund's budgetary outlays of \$111,999,204 in FY 2016 remained relatively stable compared to \$116,548,372 in FY 2015.

Performance Goals and Results

DLHWC's administration of the fund supports DOL's Strategic Goal 4 – *Secure retirement, health, and other employee 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 Strategic Goal 4 – *Secure retirement, health, and other employee benefits and, for those not working, provide income security*; and Outcome Goals 4.1, Facilitate return to work for workers experiencing workplace injuries or illnesses who are able to work and 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 2016 and FY 2015, 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 DLHWC's Branch of Financial Management, Insurance and Assessment is composed 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 are 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 a

written procedure manual, e-mails, and frequent individual communications regarding changes, problems, and issues.

Statutes provide the formal standards where 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 one of the largest payers of indemnity payments under LWHCA. Although there are approximately 570 authorized insurance carriers and self-insured employers, benefit payments are concentrated among relatively few. For example, the top ten carriers alone pay 73 percent of the total industry payments for indemnity, excluding fund payments. If a major carrier or self-insurer fails, the remainder would face substantially increased assessments.

There is no provision for reserving extra funds for future fund obligations as the fund is not liable for payments authorized by the LHWCA that exceed the money or property deposited in or belonging to the fund. Thus, the fund's cash requirements are reviewed twice a year through the assessment process in order to meet current expenses. 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 pay 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 (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, 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.



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

Independent Auditors' Report

Director
Office of Workers' Compensation Programs
U.S. Department of Labor

Inspector General
U.S. Department of Labor

Report on the Financial Statements

We have audited the accompanying financial statements of the Longshore and Harbor Workers' Compensation Act (LHWCA) Special Fund (Fund), a fiduciary fund of the U.S. Department of Labor (DOL), which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor's Longshore and Harbor Workers' Compensation Act Special Fund as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2016, we considered the Fund'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in Exhibit 1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 17-03.

The Fund's Response to Finding

The Fund's response to the finding identified in our audit is described in Exhibit 1. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 the Fund's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 26, 2017

1. Lack of Sufficient Controls Over Defaulted Carriers' Security Deposits

During our fiscal year (FY) 2016 audit, we determined that the Longshore and Harbor Workers' Compensation Act (LHWCA) Special Fund (LHWCA Fund) lacked written policies and procedures and sufficient controls over its defaulted carrier's security deposit liability in the current and prior fiscal years, which resulted in errors in the accounting for a \$2.6 million defaulted carrier's security deposit that was seized in FY 2014. This security deposit was to be used to pay claimants covered by both the LHWCA Fund and the District of Columbia Workmen's Compensation Act (DCCA) Special Fund (DCCA Fund).

Although approximately \$2 million of the seized funds were for the DCCA Fund, the entire \$2.6 million was incorrectly recorded in the LHWCA Fund as of September 30, 2014. As a result of these errors, certain financial line items were misstated in the FY 2016 financial statements. Specifically, we noted that other liabilities with the public and unobligated balances exempt from apportionment were both overstated by \$1.7 million, unobligated balance, brought forward, was overstated by \$2 million, transfers in/out without reimbursement and new obligations and upward adjustments were both overstated by \$302 thousand, and intragovernmental – other liabilities was understated by \$1.7 million. Management determined these errors were immaterial to the prior year's financial statements; however, the errors were corrected in the LHWCA Fund's FY 2016 financial statements.

Based on our observations, we determined these errors occurred because management did not have a sufficient risk assessment process in place to properly identify and assess the accounting and reporting risks related to carriers' security deposits.

The Government Accountability Office's *Standards for Internal Control in the Federal Government, Principle 12*, states:

Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness....

Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational

process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.

To address the deficiency noted above, we recommend that the Director of the Office of Workers' Compensation Program:

- a) Develop and implement policies and procedures to address the accounting related to funds seized from carriers, including the accounting when the funds are related to more than one fund.
- b) Design and implement a control to ensure that funds seized from defaulted carriers are properly reported in the general ledger.

Management's Response:

OWCP's Division of Longshore and Harbor Workers' Compensation (DLHWC) administers the Longshore and Harbor Workers' Compensation Act, 33 U.S.C. §§ 901-950 (LHWCA) and its extensions (the Outer Continental Shelf Lands Act, the Defense Base Act, the Nonappropriated Fund Instrumentalities Act, and the District of Columbia Workers' Compensation Act) and specifically administers the Longshore Special Fund established by 33 U.S.C. § 944. One of those extensions, the District of Columbia Workers' Compensation Act of 1928, D.C. Code §§ 36-501 et seq. (1973) (DCCA), was repealed effective July 26, 1982, but continues to cover a worker's injury or disease if the injury occurred before the repeal took effect. *Railco Multi-Construction Co. v. Gardner*, 902 F.2d 71 (1990). Further, the courts have held that the 1984 Amendments to the LHWCA, Pub. L. No. 98-426, 98 Stat. ~639, do not apply to District of Columbia Compensation Act cases. *Keener v. Washington Metropolitan Area Transit Authority*, 800 F.2d 1173 (D.C. Cir. 1986). Because the 1984 Amendments substantially revised the statutory annual assessment formula for the Special Fund, compare Section 24(a) of Pub. Law No. 98-426 with Section 8(b) of Pub. Law No. 92-576, adding subsection (cX2) to 33 U.S.C. § 944, DLHWC decided to account for the DCCA Special Fund separately from the general Longshore Special Fund. Thus, the Special Fund is separated into two accounts, one for DCCA cases and the second for the LHWCA and its other extensions.

DLHWC's process for authorizing insurance carriers to insure risks and issue policies under the LHWCA and extensions, provides DLHWC with broad discretion to establish the amount it requires the carrier to deposit in security. 20 CFR Part 703, Subpart C. No statutory or regulatory requirements address allocating portions of the deposit in security by amount when the deposit secures obligations under more than one statute

administered by DLHWC. Further, the statute and regulations neither require DLHWC to allocate a carrier's security deposit into separate funds by statute nor dictate how seized funds will be allocated between statutes. Indeed, this distinction has no relevance for any statute administered by DLHWC other than the DCCA.

Although DLHWC's discretion is unlimited with respect to allocation of security deposit funds by statute, DLHWC has developed an internal procedure to address instances involving carriers approved to write policies under the DCCA prior to 1982. If an event occurs which warrants DLHWC's seizure of a carrier's security deposit, DLHWC will confirm under which statute(s) the insolvent carrier was authorized to write policies. If it is determined that the insolvent carrier was authorized to write policies under the DCCA as well as under the LHWCA and the other extensions, DLHWC will advise OWCP to allocate the seized security in proportion to each Act's aggregate share of expenses within the DCCA Special Fund and the Longshore Special Fund. If the carrier was only authorized to write policies under the LHWCA and its other extensions, but not under the DCCA, then all security will be deposited into the Longshore Special Fund. After one full fiscal year has transpired following the carrier's insolvency, DLHWC will, at its discretion, review expenses paid by the Fund(s) for cases on behalf of the insolvent carrier. DLHWC will advise OWCP whether a transfer or allocation adjustment of those security funds between the DCCA Special Fund and the Longshore Special Fund is advisable. Such transfer will only result from instances where a carrier is authorized to write policies under the DCCA, and active DCCA cases are paid by the Special Fund in disproportionate amounts. Moreover, because the DCCA has been repealed, and no new insurance policies have been written under the DCCA subsequent to July 26, 1982, DLHWC anticipates revisiting the necessity of this internal procedure at a later date.

OWCP's Division of Financial Administration (DFA) will review the transactions related to seized security deposits to determine the proper amount and proper posting logic. Once finalized, DFA will follow its current three person review and approval process for journal entries, as currently followed, prior to posting the allocated seized deposits into the General Ledger.

Auditors' Response:

Management indicated that action will be taken to address the matters identified in this finding.

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

Balance Sheets

September 30, 2016 and 2015

(in dollars)

Assets	2016	2015
Intra-governmental assets:		
Funds with U.S. Treasury (Note 2)	\$ 5,403	\$ 630,152
Investments, net (Note 3)	52,595,000	51,900,000
Total intra-governmental assets	52,600,403	52,530,152
Accounts receivable, net (Note 4)	1,068,867	2,482,964
Total assets	\$ 53,669,270	\$ 55,013,116
Liabilities and Net Position		
Liabilities:		
Intra-governmental liabilities		
Other liabilities (Note 5)	\$ 1,742,682	\$ —
Accrued benefits payable	2,953,642	2,011,450
Deferred revenue	27,497,164	27,529,661
Other liabilities (Note 5)	6,205,061	9,148,388
Total liabilities	38,398,549	38,689,499
Net position:		
Cumulative results of operations	15,270,721	16,323,617
Total liabilities and net position	\$ 53,669,270	\$ 55,013,116

The accompanying notes are an integral part of these statements.

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

Statements of Net Cost

Years ended September 30, 2016 and 2015

(in dollars)

	<u>2016</u>	<u>2015</u>
Goal 4		
Gross Program Costs	\$ 110,739,617	\$ 114,858,326
Net Cost of Operations (Note 8)	<u>\$ 110,739,617</u>	<u>\$ 114,858,326</u>

Strategic Goal 4: Secure retirement, health, and other employee benefits and, for those not working, provide income security.

The accompanying notes are an integral part of these statements.

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

Statements of Changes in Net Position

Years ended September 30, 2016 and 2015

(in dollars)

	<u>2016</u>	<u>2015</u>
Cumulative results of operations, beginning	\$ 16,323,617	\$ 20,559,878
Budgetary financing sources:		
Non-exchange revenues (Note 1i):		
Interest	56,410	7,601
Payments under Sec. 44(c)(i)	50,000	255,000
Fines and penalties (Sec. 30(e) & 14(g))	11,608	15,020
Audit Recoveries	265,887	380,017
Assessments	<u>111,479,816</u>	<u>112,141,427</u>
Total non-exchange revenues	111,863,721	112,799,065
Transfers in/out without reimbursement (Note 6)	<u>(2,177,000)</u>	<u>(2,177,000)</u>
Total financing sources	109,686,721	110,622,065
Net cost of operations	<u>(110,739,617)</u>	<u>(114,858,326)</u>
Net change	<u>(1,052,896)</u>	<u>(4,236,261)</u>
Net position, end of period	<u>\$ 15,270,721</u>	<u>\$ 16,323,617</u>

The accompanying notes are an integral part of these statements.

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

Statements of Budgetary Resources

Years ended September 30, 2016 and 2015

(in dollars)

	<u>2016</u>	<u>2015</u>
Budgetary Resources:		
Unobligated balance, brought forward, October 1	\$ 50,657,504	\$ 56,985,080
Appropriations (mandatory)	<u>110,177,634</u>	<u>110,384,863</u>
Total budgetary resources	<u>\$ 160,835,138</u>	<u>\$ 167,369,943</u>
Status of Budgetary Resources:		
New obligations and upward adjustments (Note 7 and 8)	\$ 112,931,059	\$ 116,712,439
Unobligated balances, end of year:		
Exempt from apportionment	<u>47,904,079</u>	<u>50,657,504</u>
Total budgetary resources	<u>\$ 160,835,138</u>	<u>\$ 167,369,943</u>
Change in Obligated Balance:		
Unpaid obligations, brought forward, October 1	\$ 2,021,788	\$ 1,857,721
New obligations and upward adjustments	112,931,059	116,712,439
Less: Outlays (gross)	<u>(111,999,204)</u>	<u>(116,548,372)</u>
Unpaid obligations, end of year	<u>\$ 2,953,643</u>	<u>\$ 2,021,788</u>
Obligated balance, start of year	<u>\$ 2,021,788</u>	<u>\$ 1,857,721</u>
Obligated balance, end of year	<u>\$ 2,953,643</u>	<u>\$ 2,021,788</u>
Budget Authority and Outlays, Net:		
Budget authority (mandatory)	<u>\$ 110,177,634</u>	<u>\$ 110,384,863</u>
Budget authority, net (mandatory)	<u>\$ 110,177,634</u>	<u>\$ 110,384,863</u>
Outlays, gross (mandatory)	<u>\$ 111,999,204</u>	<u>\$ 116,548,372</u>
Outlays, net (mandatory)	<u>\$ 111,999,204</u>	<u>\$ 116,548,372</u>

The accompanying notes are an integral part of these statements.

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

Notes to the Financial Statements

Years ended September 30, 2016 and 2015

(1) Summary Of Significant Accounting Policies

The principal accounting policies which have been followed in preparing the accompanying financial statements for the Longshore and Harbor Workers' Compensation Act (LHWCA) Special Fund (fund) are set forth below.

(a) Reporting Entity

The fund was established by Title 33, United States Code, Section 944(j), when the LHWCA was enacted in 1927. The fund is currently administered by 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.

Prior to 1972, weekly and aggregate lifetime amounts of indemnity payments were capped at statutorily set limits. In 1972, the benefit scheme was changed by eliminating the aggregate limit and tying weekly indemnity payment amounts to the national average weekly wage which is recalculated each year. In order to equalize benefits payable for pre-1972 cases, LHWCA Section 10(h) established a one-time increase, as well as annual benefit increases for pre-1972 cases entitled to compensation for permanent total disability or death. Fifty percent of this annual benefit increase for pre-1972 compensation cases is paid by the fund through annual assessment. The remaining fifty percent is paid by the separate 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

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

Notes to the Financial Statements

Years ended September 30, 2016 and 2015

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. 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 Treasury*

The fund's cash receipts and disbursements are processed by the U.S. Department of the Treasury (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 insurance carriers or self-insured employers (hereinafter collectively referred to as carriers).

(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 the fund's benefit

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

Notes to the Financial Statements

Years ended September 30, 2016 and 2015

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 primarily consist of a carrier deposit due to the District of Columbia Workmen's Compensation Act Special Fund (DCCA Fund) and amounts received by the fund from defaulted carriers which are being held as security by authority of Section 32 of LHWCA. These funds and investments are available for compensation and medical benefits to covered employees of the defaulted companies. In accordance with 20 CFR 703, once the fund, within its discretion, determines amounts seized from a carrier are no longer needed, it must return the funds to the insolvent carrier's estate. As a result, the fund reports these amounts as a liability until the related benefits are paid. 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 carriers which are to be refunded at the carriers' request or applied to reduce future assessments.

(h) *Deferred Revenue*

Deferred revenue represents the unearned assessment revenue as of September 30. The annual assessments cover a calendar year, and accordingly, the portion extending beyond September 30 has been deferred.

(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 carriers. Assessments are recognized as non-exchange revenue when due. In the case

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

Notes to the Financial Statements

Years ended September 30, 2016 and 2015

of amounts received by the fund from defaulted carriers which are being held as security by authority of Section 32 of LHWCA, revenue is recognized at the time benefits are paid. 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, 2016 and 2015 consisted of cash deposits of \$5,403 and \$630,152, respectively. These cash deposits at September 30, 2016 and 2015, included \$576 and \$676, respectively, which are being held as security by authority of Section 32 of LHWCA. These funds relate to the default of carriers, 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, 2016, consisted of the following:

<u>(In Dollars)</u>	<u>Entity Assets</u>			<u>Total Entity Assets</u>	<u>Non-entity Assets</u>	<u>Total</u>
	<u>Unobligated Balance Available</u>	<u>Unobligated Balance Unavailable</u>	<u>Obligated Balance Not Yet Disbursed</u>			
Trust Fund	\$ —	—	\$ 5,403	5,403	—	\$ 5,403

Funds with U.S. Treasury at September 30, 2015 consisted of the following:

<u>(In Dollars)</u>	<u>Entity Assets</u>			<u>Total Entity Assets</u>	<u>Non-entity Assets</u>	<u>Total</u>
	<u>Unobligated Balance Available</u>	<u>Unobligated Balance Unavailable</u>	<u>Obligated Balance Not Yet Disbursed</u>			
Trust Fund	\$ —	—	\$ 630,152	630,152	—	\$ 630,152

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

Notes to the Financial Statements

Years ended September 30, 2016 and 2015

(3) Investments, Net

Investments at September 30, 2016 and 2015 consisted of the following:

		September 30, 2016			
(In Dollars)		Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental securities:					
Non-marketable:					
Par value	\$	52,595,000	—	52,595,000	\$ 52,595,000
		September 30, 2015			
(In Dollars)		Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental securities:					
Non-marketable:					
Par value	\$	51,900,000	—	51,900,000	\$ 51,900,000

Investments of \$6,007,358 and \$9,078,900 at September 30, 2016 and 2015, respectively, are restricted assets that are being held as security by authority of Section 32 of LHWCA for compensation and medical benefits to covered employees of defaulted carriers. Investments at September 30, 2016 and 2015, consist of overnight securities. Investments at September 30, 2016, bear an interest rate of 0.11 percent compared to an interest rate of 0.00 percent for September 30, 2015. Interest rates on securities bought and sold during FY 2016 ranged from 0.00 percent to 0.29 percent compared to 0.00 percent to 0.06 percent for FY 2015.

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

Notes to the Financial Statements

Years ended September 30, 2016 and 2015

(4) Accounts Receivable, Net

Accounts receivable at September 30, 2016 and 2015, consisted of the following:

	2016		
<u>(In Dollars)</u>	Gross Receivables	Allowance	Net Receivables
Entity assets:			
Benefit overpayments	\$ 656,117	(124,438)	\$ 531,679
Assessments receivable	541,137	(3,949)	537,188
	\$ 1,197,254	(128,387)	\$ 1,068,867
	2015		
<u>(In Dollars)</u>	Gross Receivables	Allowance	Net Receivables
Entity assets:			
Benefit overpayments	\$ 743,720	(148,132)	\$ 595,588
Assessments receivable	1,903,906	(16,530)	1,887,376
	\$ 2,647,626	(164,662)	\$ 2,482,964

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 withholding of benefit payments, to the extent possible.

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

Notes to the Financial Statements

Years ended September 30, 2016 and 2015

(5) Other Liabilities

Other liabilities at September 30, 2016 and 2015 consisted of the following:

Intragovernmental		
Funds payable to DCCA Fund	\$ 1,742,682	\$ —
Assessment overpayments by carriers	197,127	68,812
Defaulted carrier liability:		
Held in investments	6,007,358	9,078,900
Held in cash	576	676
Total other liabilities with the public	<u>6,205,061</u>	<u>9,148,388</u>
Total other liabilities	<u>\$ 7,947,743</u>	<u>\$ 9,148,388</u>

Funds payable to the DCCA fund is the portion of defaulted carrier deposits collected and held by the fund that are related to covered employees under the DCCA fund. This entire balance is considered a current liability.

Assessment overpayments by carriers are to be refunded upon request or applied to reduce future assessments. The entire balance is considered a current liability.

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 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. The current portions of the defaulted carrier liability for FY 2016 and FY 2015 are \$1,639,997 and \$372,418, respectively.

(6) Transfers to OWCP

The fund reimburses OWCP (a related entity within DOL) for rehabilitation services provided to eligible claimants and certain direct expenses associated with administrative support of the fund. Approved transfers to OWCP were \$2,177,000 in both FY 2016 and FY 2015. 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, 2016 and 2015

(7) Status of Budgetary Resources

(a) Apportionment Categories of New obligations and upward adjustments

New obligations and upward adjustments reported on the Statement of Budgetary Resources in FY 2016 and FY 2015 consisted of the following:

<u>(In Dollars)</u>	2016	2015
Direct Obligations:		
Exempt from apportionment	\$ 112,931,059	\$ 116,712,439

(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, 2015 is shown below:

<u>(Dollars in Millions)</u>	2015		
	Budgetary Resources	Obligations Incurred	Gross Outlays
Stmnt. of Budgetary Resources	\$ 167	\$ 117	\$ 117
Add: DCCA Stmnt. of Budgetary Resources	14	8	8
Less: Adjustment for Carrier Security Deposit	(2)		
Less: Rounding Difference	(1)	—	—
Total Statement of Budgetary Resources	178	125	125
Budget of the United States Government	\$ 178	\$ 125	\$ 125

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

Notes to the Financial Statements

Years ended September 30, 2016 and 2015

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

	2016	2015
Resources used to finance activities		
Obligations incurred	\$112,931,059	\$116,712,439
Total resources used to finance activities	112,931,059	116,712,439
Resources used to finance items not part of the net cost of operations		
Resources that funded expenditure transfers	(2,177,000)	(2,177,000)
Total resources used to finance items not part of the net cost of operations	(2,177,000)	(2,177,000)
Total resources used to finance the net cost of operations	110,754,059	114,535,439
Components of net cost not requiring or generating resources in the current period		
Refunds of Assessment Overpayments	(65,770)	(81,315)
Change in Benefit Overpayments	87,603	661,761
Bad Debt Expense	(36,275)	(257,559)
Total components of net cost of operations that will not require or generate resources in the current period	(14,442)	322,887
Net cost of operations	\$110,739,617	\$114,858,326

TO REPORT FRAUD, WASTE OR ABUSE, PLEASE CONTACT:

Online: <http://www.oig.dol.gov/hotlineform.htm>

Email: hotline@oig.dol.gov

Telephone: 1-800-347-3756
202-693-6999

Fax: 202-693-7020

Address: Office of Inspector General
U.S. Department of Labor
200 Constitution Avenue, N.W.
Room S-5506
Washington, D.C. 20210