

**REPORT TO THE OFFICE OF WORKERS'  
COMPENSATION PROGRAMS**



**DISTRICT OF COLUMBIA WORKMEN'S  
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.

*Eeliot P. Lewis*

Assistant Inspector General for Audit

**Date Issued: October 30, 2017**  
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**DISTRICT OF COLUMBIA WORKMEN’S  
COMPENSATION ACT SPECIAL FUND**

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**DISTRICT OF COLUMBIA WORKMEN'S  
COMPENSATION ACT SPECIAL FUND**

Management's Discussion and Analysis  
Years ended September 30, 2016 and 2015

**Mission and Organizational Structure**

The District of Columbia Workmen's Compensation Act of 1928 (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. The DCCA Special Fund (the Fund) also extends benefits to dependents if any injury resulted in the employee's death. Generally, benefits are paid directly from private funds by an authorized self-insured employer or through an authorized insurance carrier (hereinafter collectively referred to as carriers). Cases meeting the requirements of the Longshore and Harbor Workers' Compensation Act (LHWCA) as extended to DCCA are paid from the Fund, which is financed primarily through carrier contributions (assessments). In fiscal years (FY) 2016 and 2015, respectively, 420 and 421 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 program (DLHWC). DLHWC has direct responsibility for administration of the Fund

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.

Additionally, DCCA incorporates Section 10(h) of LHWCA, which 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 the Fund through the annual assessments and fifty percent is paid by the separate 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.

**Financial Highlights**

Investments were higher in FY 2016 than in FY 2015, because there were more funds on hand to invest at year-end. This was the result of a 12 percent increase in assessments combined with a 4 percent decrease in benefit expenses in FY 2016 as compared to FY

2015. Other liabilities decreased by \$451,482 as the defaulted carrier liability was reduced as benefit expenses related to a carrier's claimants were paid by the Fund.

The majority of the Fund's revenue is generated through annual recurring assessments paid by self-insured employers and insurance carriers. Assessment revenue totaled \$8,866,210 in FY 2016 and \$7,906,820 in FY 2015 (restated). Appropriations and revenue were higher in FY 2016 than in FY 2015 because of the timing of certain prior year collections, which caused management to increase the assessment in FY 2016.

The Fund's costs are slowly declining over the long-term as claims close, but remained relatively stable compared to FY 2015; \$7,452,330 in FY 2016 compared to \$7,766,818 for FY 2015 (restated). 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. The decrease in budgetary obligations incurred reflects the reduction of benefit payments over time due to no new claimants being admitted to the program and natural attrition of the current population.

### **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 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**

DLHWC's Branch of Financial Management, Insurance and Assessment is composed of four employees and one supervisor. It guards against unethical behavior by segregated 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 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 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 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 Workmen's Compensation Act of 1928 has been repealed and the Fund only assesses based on payments for cases that arose prior to July 26, 1982. The annual Fund assessment is assessed against a shrinking base of industry payments. Although there are approximately 103 authorized insurance carriers and self-insured employers, benefit payments are concentrated among a relatively few. For example, the top ten carriers and self-insurers alone pay 83 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 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 (33 U.S.C), 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.



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## 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 District of Columbia Workmen's Compensation Act 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 District of Columbia Workmen's 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.

### ***Emphasis of Matter***

As discussed in Note 8 to the financial statements, the Fund restated the 2015 financial statements to correct a material misstatement related to an error in a defaulted carrier's security deposit and to correct other misstatements related to errors in benefit payments. We have withdrawn our previously-issued auditors' report, dated August 31, 2016, and replaced it with this auditors' report on the restated financial statements. Our opinion is not modified with respect to this matter.

### ***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*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in Exhibit 1, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in Exhibit 1 to be material weaknesses.

### ***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 Responses to Findings***

The Fund's responses to the findings identified in our audit are described in Exhibit 1. The Fund's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.



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

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of 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 District of Columbia Workmen's Compensation Act (DCCA) Special Fund (DCCA 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 Longshore and Harbor Workers' Compensation Act (LHWCA) Special Fund (LHWCA Fund) and the 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. Furthermore, the DCCA Fund did not recognize an initial liability for the carrier security deposit or recognize revenue as the subsequent related benefit payments were made. As a result of these errors, certain financial line items were misstated in the FY 2015 financial statements. Specifically, we noted that accounts receivable, unobligated balance, brought forward, and unobligated balance exempt from apportionment were all understated by \$2 million. We also determined that other deferred revenue, net position, and other revenue were understated by \$938 thousand, \$1.1 million, and \$815 thousand, respectively. Management determined these errors were material and restated the FY 2015 DCCA Fund financial statements.

In addition, we noted the DCCA Fund did not properly account for the transactions related to the carrier's security deposit in the draft FY 2016 financial statements. As a result of these errors, accounts receivable and unobligated balances exempt from apportionment were all understated by approximately \$1.7 million, and expenditure transfers and new obligations were overstated by \$302 thousand. Furthermore, other liabilities, assessments, beginning net position, and unobligated balance, brought forward were understated by \$121 thousand, \$817 thousand, \$1.1 million, and \$2 million, respectively. These errors were corrected in the DCCA Fund's financial statements as of September 30, 2016.

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* (the Standards), *Principle 12*, states:

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

Material Weaknesses  
Exhibit 1

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

Material Weaknesses  
Exhibit 1

(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 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.

**2. Lack of Sufficient Controls over the Accuracy of Compensation Payments**

During our FY 2016 audit, we determined that the DCCA Fund lacked sufficient controls to ensure that compensation payments were accurate based on our testing of a statistical sample of 229 DCCA compensation payments for the year ended September 30, 2016. As a result of our testing, we identified six instances whereby the payment amount was greater than the amount due to the beneficiary per the compensation order.

Two exceptions occurred because the Division of Longshore and Harbor Worker's Compensation (DLHWC) incorrectly applied certain increases to the payment amount. The other four exceptions were related to overpayments within LHWCA section 10H claims for which DLHWC did not make the necessary adjustments to the compensation rate in the claims payment system.

As a result of our findings, we performed additional testing over the entire population of 10H payments, and identified twelve additional claimants that contained inaccurate payment amounts. The exceptions above resulted in cumulative net projected benefit overpayments of approximately \$97,000 as of September 30, 2016. These overpayments related to FY 2016 and prior fiscal years. Management corrected these errors in the FY 2016 financial statements and the FY 2015 restated financial statements.

These errors occurred because the DCCA Fund lacked sufficient monitoring controls related to the DLHWC's oversight of the DCCA Special Fund. Specifically, we noted that the DCCA Fund had not implemented sufficient monitoring controls to ensure compensation payments were properly supported by the related claim files maintained by the District of Columbia's Department of Employment Services.

The Standards, paragraph 10.02, states:

Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk

Material Weaknesses  
Exhibit 1

assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.

The Standards, paragraph 16.05, states:

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.

To address the deficiencies noted above, we recommend that the Director of the Division of Longshore and Harbor Workers' Compensation:

- a) Complete corrective actions to recover the overpayments, and
- b) Develop monitoring controls to ensure payments are periodically reviewed for accuracy and compensation rate changes are timely entered in the claims payment system.

***Management's Response:***

Management concurs with the finding. Corrections have been made to the cases identified.

***Auditors' Response:***

Management concurred with the finding.

**DISTRICT OF COLUMBIA WORKMEN'S  
COMPENSATION ACT SPECIAL FUND**

Balance Sheets

As of September 30, 2016 and 2015

(in dollars)

<b>Assets</b>	<b>2016</b>	<b>2015 (restated)</b>
Intra-governmental assets:		
Funds with U.S. Treasury (Note 2)	\$ 35,707	\$ 73,701
Investments, net (Note 3)	4,743,000	3,838,000
Accounts receivable (Note 4 and 8)	1,742,681	2,044,652
Total intra-governmental assets (Note 8)	6,521,388	5,956,353
Accounts receivable, net (Note 4 and 8)	923,327	604,475
Total assets (Note 8)	\$ 7,444,715	\$ 6,560,828
<b>Liabilities and Net Position</b>		
Liabilities:		
Accrued benefits payable (note 8)	\$ 216,174	\$ 250,603
Deferred revenue	2,000,000	2,049,109
Other liabilities (Note 5 and 8)	640,690	1,092,172
Total liabilities (Note 8)	2,856,864	3,391,884
Net position:		
Cumulative results of operations -- Other (Note 8)	4,587,851	3,168,944
Total liabilities and net position (Note 8)	\$ 7,444,715	\$ 6,560,828

The accompanying notes are an integral part of these statements.



**DISTRICT OF COLUMBIA WORKMEN'S  
COMPENSATION ACT SPECIAL FUND**

Statements of Net Cost

Years ended September 30, 2016 and 2015

(in dollars)

	<u>2016</u>	<u>2015</u> <u>(restated)</u>
Goal 4		
Gross Program Costs (Note 8)	\$ <u>7,452,330</u>	\$ <u>7,766,818</u>
Net Cost of Operations (Note 7 and 8)	\$ <u><u>7,452,330</u></u>	\$ <u><u>7,766,818</u></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.

**DISTRICT OF COLUMBIA WORKMEN'S  
COMPENSATION ACT SPECIAL FUND**

Statements of Changes in Net Position  
Years ended September 30, 2016 and 2015  
(in dollars)

	<b>2016</b>	<b>2015 (as restated)</b>
Cumulative results of operations, beginning	\$ 3,168,944	\$ 2,764,040
Adjustments: Correction of Errors (Note 8)	—	264,239
Beginning Balance, as adjusted (Note 8)	\$ 3,168,944	\$ 3,028,279
Budgetary financing sources:		
Non-exchange revenues		
Investment interest	5,027	563
Fines & penalties (Sec. 14(g))	—	100
Assessments (Note 8)	8,866,210	7,906,820
Total non-exchange revenues (Note 8)	8,871,237	7,907,483
Total Financing Sources (Note 8)	8,871,237	7,907,483
Net cost of operations (Note 8)	(7,452,330)	(7,766,818)
Net change (Note 8)	1,418,907	140,665
Net position, end of period (Note 8)	\$ 4,587,851	\$ 3,168,944

The accompanying notes are an integral part of these statements.

**DISTRICT OF COLUMBIA WORKMEN'S  
COMPENSATION ACT SPECIAL FUND**

Statements of Budgetary Resources  
Years ended September 30, 2016 and 2015  
(in dollars)

	<u>2016</u>	<u>2015</u> <u>(as restated)</u>
<b>Budgetary Resources:</b>		
Unobligated balance, brought forward, Oct. 1	\$ 5,727,923	\$ 4,323,832
Adjustments to unobligated balance brought forward, Oct 1 (Note 8)	—	1,948,094
Unobligated balance, brought forward, Oct. 1, as adjusted (Note 8)	<u>5,727,923</u>	<u>6,271,926</u>
<b>Budget authority</b>		
Appropriations (mandatory)	8,067,157	7,848,850
Spending authority from offsetting collections	—	—
Total budgetary resources (Note 8)	<u>\$ 13,795,080</u>	<u>\$ 14,120,776</u>
<b>Status of Budgetary Resources:</b>		
New obligations and upward adjustments (Note 6, 7 and 8)	\$ 7,489,864	\$ 8,392,853
Unobligated balances, end of year:		
Exempt from apportionment (Note 8)	<u>6,305,216</u>	<u>5,727,923</u>
Total status of budgetary resources (Note 8)	<u>\$ 13,795,080</u>	<u>\$ 14,120,776</u>
<b>Change in Obligated Balance:</b>		
Unpaid obligations, brought forward, October 1 (Note 8)	\$ 249,477	\$ 227,404
New obligations and upward adjustments (Note 8)	7,489,864	8,392,853
Less: Outlays (gross)	<u>(7,523,167)</u>	<u>(8,370,780)</u>
Unpaid obligations, end of year (Note 8)	<u>\$ 216,174</u>	<u>\$ 249,477</u>
Obligated balance, start of year (Note 8)	<u>\$ 249,477</u>	<u>\$ 227,404</u>
Obligated balance, end of year (Note 8)	<u>\$ 216,174</u>	<u>\$ 249,477</u>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority (mandatory)	<u>\$ 8,067,157</u>	<u>\$ 7,848,850</u>
Budget authority, net (mandatory)	<u>\$ 8,067,157</u>	<u>\$ 7,848,850</u>
Outlays, gross (mandatory)	<u>\$ 7,523,167</u>	<u>\$ 8,370,780</u>
Outlays, net (mandatory)	<u>\$ 7,523,167</u>	<u>\$ 8,370,780</u>

The accompanying notes are an integral part of these statements.

**DISTRICT OF COLUMBIA WORKMEN'S  
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 District of Columbia Workmen's Compensation Act (DCCA) Special Fund (Fund) are set forth below.

**(a) Reporting Entity**

The Fund was established by Section 44 (33 U.S.C. 944) when the DCCA was enacted in 1928. It was originally funded by Congressional Appropriation, and is 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 who are employed in the District of Columbia for work related injuries or death incurred on or before July 26, 1982. Effective July 26, 1982, the DCCA 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, cases. These financial statements do not include the special fund administered by the Mayor of the District of Columbia for cases occurring after July 26, 1982.

Additionally, LHWCA (Section 10(h)) 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 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 DCCA 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,

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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'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 carrier deposit due from the LHWCA Special Fund, assessments receivable and the Fund's benefit overpayments to individuals primarily from awarded compensation orders and corrections of payment computations.

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**(f) *Accrued Benefits Payable***

The Fund provides compensation and medical benefits for work-related injuries to employees who are employed in 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. Ultimate responsibility for the payment of such claims rests with the employer organizations.

**(g) *Other Liabilities***

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

**(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 insurance carriers and self-insured employers. Assessments are recognized as non-exchange revenue in the fiscal year that claims are paid. In the case 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 that 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.

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**(2) Funds with U.S. Treasury**

Funds with U.S. Treasury at September 30, 2016 and 2015 (restated) consisted of cash deposits of \$35,707 and \$73,701 respectively. These cash deposits at September 30, 2016 and 2015 included \$10 and \$97, 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.

Funds with U.S. Treasury at September 30, 2016 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			
<b>Trust Fund</b>	\$ —	—	35,707	35,707	—	35,707

Funds with U.S. Treasury at September 30, 2015 (restated) 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			
<b>Trust Fund</b>	\$ —	—	73,701	73,701	—	73,701

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Years ended September 30, 2016 and 2015

**(3) Investments, Net**

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

	<b>September 30, 2016</b>			
<u>(In Dollars)</u>	<b>Face Value</b>	<b>Premium (Discount)</b>	<b>Net Value</b>	<b>Market Value</b>
Intragovernmental securities:				
Non-marketable:				
Par value	\$ 4,743,000	—	4,743,000	\$ 4,743,000
	\$ 4,743,000	—	4,743,000	\$ 4,743,000

	<b>September 30, 2015 (restated)</b>			
<u>(In Dollars)</u>	<b>Face Value</b>	<b>Premium (Discount)</b>	<b>Net Value</b>	<b>Market Value</b>
Intragovernmental securities:				
Non-marketable:				
Par value	\$ 3,838,000	—	3,838,000	\$ 3,838,000
	\$ 3,838,000	—	3,838,000	\$ 3,838,000

Investments of \$59,000 and \$58,800 at September 30, 2016 and 2015, respectively, are assets that are being held as security by authority of Section 32 of the 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 at 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.



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Years ended September 30, 2016 and 2015

**(4) Accounts Receivable, Net**

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

	<b>2016</b>		
<u>(In Dollars)</u>	<b>Gross Receivables</b>	<b>Allowance</b>	<b>Net Receivables</b>
Entity intra-governmental assets:			
Carrier deposit due from LHWCA Special Fund	\$ 1,742,681	\$ —	\$ 1,742,681
Entity assets:			
Benefit overpayments	419,663	(335,615)	84,048
Assessments receivable	841,471	(2,192)	839,279
	1,261,134	(337,807)	923,327
	\$ 3,003,815	\$ (337,807)	\$ 2,666,008

	<b>2015 (restated)</b>		
<u>(In Dollars)</u>	<b>Gross Receivables</b>	<b>Allowance</b>	<b>Net Receivables</b>
Entity intra-governmental assets:			
Carrier deposit due from LHWCA Special Fund	\$ 2,044,652	\$ —	\$ 2,044,652
Entity assets:			
Benefit overpayments	493,228	(331,348)	161,880
Assessments receivable	444,628	(2,033)	442,595
	937,856	(333,381)	604,475
	\$ 2,982,508	\$ (333,381)	\$ 2,649,127

Carrier deposit due from the LHWCA Special Fund is the portion of defaulted carrier deposits collected and held by the Longshore Trust Fund that are related to covered employees under the Fund.

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 primarily recovered by partial withholding of benefit payments, to the extent possible.

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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:

<u>(In Dollars)</u>	<u>2016</u>	<u>2015</u> <u>(restated)</u>
Other liabilities:		
Assessment overpayments by carriers	\$ 460,185	\$ 94,680
Defaulted carrier liability:		
Held in LHWCA Fund investments	121,494	938,595
Held in DCCA Fund investments	59,000	58,800
Held in cash	11	97
	180,505	997,492
Total other liabilities	\$ 640,690	\$ 1,092,172

Assessment overpayments by carriers are to be refunded upon request or applied to reduce future assessments. All of these are current liabilities.

Defaulted employer liability relates to the funds 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 \$121,494 and \$817,101 (restated), respectively.

**DISTRICT OF COLUMBIA WORKMEN'S  
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Years ended September 30, 2016 and 2015

**(6) Status of Budgetary Resources**

**(a) Apportionment Categories of New Obligations and Upward Adjustments**

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

<u>(In Dollars)</u>	<u>2016</u>	<u>2015</u> <u>(restated)</u>
Direct Obligations:		
Exempt from apportionment	\$ 7,489,864	\$ 8,392,853

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

A reconciliation of budgetary resources, new obligations and upward adjustments 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>	<u>2015</u> <u>(restated)</u>		
	<u>Budgetary</u> <u>Resources</u>	<u>Obligations</u> <u>Incurred</u>	<u>Net</u> <u>Outlays</u>
Stmnt. of Budgetary Resources - DCCA	\$ 14	8	8
Add LHWCA Stmnt. of Budgetary Resources	167	117	117
Less Adjustment for Carrier Security Deposit	(2)	—	—
Less Round Difference	(1)	—	—
	<u>178</u>	<u>125</u>	<u>125</u>
Total Statement of Budgetary Resources	<u>178</u>	<u>125</u>	<u>125</u>
Budget of the United States Government	\$ <u>178</u>	<u>125</u>	<u>125</u>

**DISTRICT OF COLUMBIA WORKMEN'S  
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Years ended September 30, 2016 and 2015

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

	<u>2016</u>	<u>2015</u> <u>(restated)</u>
<b>Resources used to finance activities</b>		
New obligations and upward adjustments	\$ 7,489,864	\$ 8,392,853
Total resources used to finance activities	<u>7,489,864</u>	<u>8,392,853</u>
 <b>Components of net cost not requiring or generating resources in the current period</b>		
Refunds of assessment overpayments	(93,353)	(566,551)
Current year change in benefit Overpayments	73,565	(36,917)
Current year change in allowance for loss	4,426	(22,567)
Other adjustments	<u>(22,172)</u>	<u>—</u>
Total components of net cost of operations that will not require or generate resources in the current period	<u>(37,534)</u>	<u>(626,035)</u>
Net cost of operations	<u>\$ 7,452,330</u>	<u>\$ 7,766,818</u>

**(8) Restatement of Prior Year**

During FY 2016, the Fund identified an error in a defaulted carrier's security deposit that was seized in FY 2014. The entire security deposit was incorrectly deposited in another DOL fiduciary fund even though a portion of it belonged to the Fund. The Fund did not recognize an initial liability for the carrier security deposit or recognize revenue as the subsequent related benefit payments were made. As a result of these errors, accounts receivable, other liabilities, assessments revenue, and unobligated balance were misstated in the FY 2015 financial statements. In addition, the Fund identified errors in relation to certain benefit payments that were miscalculated. As a result of these errors, accounts receivable for overpayments and the related allowance, accrued benefits, gross program costs, obligations incurred, unobligated balance, obligations incurred, unpaid obligations, and obligated balance were misstated in the FY 2015 financial statements.

To correct these errors, the Fund restated its Balance Sheet, Statement of Net Costs, Statement of Changes in Net Position and Statements of Budgetary Resources for the fiscal year ended September 30, 2015 within the FY 2016 comparative financial statements. A summary of the effect of the restatement is shown below:

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Years ended September 30, 2016 and 2015

**(8) Restatement of Prior Year (continued)**

<b>Line items</b>	<b>2015, as previously reported</b>	<b>2015, as restated</b>	<b>Change</b>
<i><u>Balance Sheet</u></i>			
Intra-governmental assets:			
Accounts receivable	\$ –	\$2,044,652	\$2,044,652
Total Intra-governmental assets	\$3,911,701	\$5,956,353	\$2,044,652
Accounts receivable, net	\$570,322	\$604,475	\$34,153
Total assets	\$4,482,023	\$6,560,828	\$2,078,805
Accrued benefits payable	\$228,422	\$250,603	\$22,181
Other liabilities	\$153,577	\$1,092,172	\$938,595
Total liabilities	\$2,431,108	\$3,391,884	\$960,776
Cumulative results of operations –Other	\$2,050,915	\$3,168,944	\$1,118,029
Total liabilities and net position	\$4,482,023	\$6,560,828	\$2,078,805
<i><u>Statement of Net Costs</u></i>			
Gross Program Costs	\$7,804,999	\$7,766,818	(\$38,181)
Net Cost of Operations	\$7,804,999	\$7,766,818	(\$38,181)
<i><u>Statement of Changes in Net Position</u></i>			
Adjustments: Correction of Errors	\$ –	\$264,239	\$264,239
Beginning Balance, as adjusted	\$2,764,040	\$3,028,279	\$264,239
Assessments	\$7,091,211	\$7,906,820	\$815,609
Total non-exchange revenues	\$7,091,874	\$7,907,483	\$815,609
Total Financing Sources	\$7,091,874	\$7,907,483	\$815,609
Net cost of operations	(\$7,804,999)	(\$7,766,818)	(\$38,181)
Net change	(\$713,125)	\$140,665	\$853,790
Net position, end of period	\$2,050,915	\$3,168,944	\$1,118,029

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Years ended September 30, 2016 and 2015

**(8) Restatement of Prior Year (continued)**

<b>Line items</b>	<b>2015, as previously reported</b>	<b>2015, as restated</b>	<b>Change</b>
<u>Statement of Budgetary Resources</u>			
Adjustments to unobligated			
balance brought forward, Oct 1	\$0	\$1,948,094	\$1,948,094
Unobligated balance, brought forward, Oct. 1, as adjusted	\$4,323,832	\$6,271,926	\$1,948,094
Total budgetary resources	\$12,172,682	\$14,120,776	\$1,948,094
New obligations and upward adjustments			
Exempt from apportionment	\$8,467,231	\$8,392,853	(\$74,378)
Total status of budgetary resources	\$3,705,451	\$5,727,923	\$2,022,472
Unpaid obligations, brought forward, October 1	\$12,172,682	\$14,120,776	\$1,948,094
Unpaid obligations, end of year	\$130,845	\$227,404	\$96,559
Obligated balance, start of year	\$227,296	\$249,477	\$22,181
Obligated balance, end of year	\$130,845	\$227,404	\$96,559
	\$227,296	\$249,477	\$22,181

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