

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, 2023 AND 2022

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

A handwritten signature in cursive script that reads "Carolyn R. Hantry".

U.S. Department of Labor
Assistant Inspector General for Audit

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

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LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT SPECIAL FUND

Management's Discussion and Analysis
Years ended September 30, 2023 and 2022

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). Cases meeting the requirements of the LHWCA are paid from the LHWCA Special Fund (Fund), which is financed primarily through carriers' annual assessments. In Fiscal Years (FY) 2023 and 2022, respectively, 1,990 and 2,117 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 Federal Employees', Longshore and Harbor Workers' Compensation (DFELHWC). Thus, DFELHWC 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 LHWCA or its extensions.

Administrative services for operating the Fund are provided by OWCP. 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. The financial accounting functions and reporting duties are the responsibility of the Division of Central Accounting Operations (DCAO) and the Division of Financial Reporting (DFR), respectively.

Financial Highlights

The majority of the Fund's revenue is generated through annual recurring assessments paid by self-insured employers and insurance carriers and in FY 2023 and FY 2022 totaled \$84,513,834 and \$85,819,132, 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 were \$320,468 in FY 2023 and \$339,045 in FY 2022.

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The Fund's costs of \$86,797,731 in FY 2023 were lower compared to the FY 2022 costs of \$90,758,599. 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 \$96,088,377 in FY 2023 decreased in comparison to \$102,858,285 in FY 2022. This was due to the receipt by the Fund of \$18.6 million, during FY 2022, from a bankrupt insurance company in order to pay any compensation payment related to their claimants. The Fund's budgetary outlays of \$87,211,098 in FY 2023 decreased in comparison to \$90,290,111 in FY 2022.

Performance Goals and Results

DFELHWC's administration of the Fund supports DOL's Strategic Goal 3 – *Improve Administration of and Strengthen Worker Safety Net Programs*. This goal broadly promotes the economic security of workers and families. In particular, DFELHWC's administration of the Fund supports *OWCP Performance Goal 3.1, Increase the efficiency and accuracy with which OWCP provides workers' compensation benefits for certain qualified workers who are injured or become ill on the job and improve return-to-work outcomes for injured workers*. DOL plays a large role in ensuring that worker benefits are protected and that employers administer benefit programs in an appropriate manner. DFELHWC assists in meeting this strategic goal by ensuring sufficient funds are assessed to fund the benefit payments, and payments to the beneficiaries are made promptly. In FY 2023 and FY 2022, assessments were sufficient to cover the costs, and performance goals targeting the timeliness of initial claims processing and benefit delivery outcomes were achieved.

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Internal Controls

The DFELHWC's Branch of Financial Management, Insurance and Assessment is composed of four employees and one supervisor. It implements strong internal controls by segregating duties and assigning roles and responsibilities to each function. Much of the oversight, evaluation, monitoring, control, and supervisory activities 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 procedures 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 manual, and conflict of interest regulations. All codes, statutes, and regulations governing the conduct of federal employees apply to all DFELHWC 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 544 authorized insurance carriers and self-insured employers, benefit payments are concentrated among 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 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.

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Management's Discussion and Analysis
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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 LHWCA (Title 33, United States Code, and 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

Mr. Christopher Godfrey, Director
Office of Workers' Compensation Programs, U.S. Department of Labor:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Longshore and Harbor Workers' Compensation Act Special Fund (the Fund), a fiduciary fund of the U.S. Department of Labor (DOL), which comprise the balance sheets as of September 30, 2023 and 2022, and the related statements of net costs, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis section be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2023, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing 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 were not identified. However, as described in the accompanying Exhibit I, we identified certain deficiencies in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 I to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements as of and for the year ended September 30, 2023 are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Fund's response to the findings identified in our audit and described in Exhibit I. The Fund's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of the Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results 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

Washington, D.C.
July 17, 2024

EXHIBIT I

1. Improvements Needed in Management's Review of the Longshore and Harbor Workers' Compensation Act Special Fund Journal Entries

The Office of Chief Financial Officer's (OCFO) control for reviewing the Longshore and Harbor Workers' Compensation Act journal entries was not operating effectively. Specifically, the journal entry reviewer did not identify the appropriate accounting entry associated with refunds of carrier assessments. A miscommunication between the program office and the OCFO resulted in the journal entry reviewer incorrectly identifying the original year the assessments had been collected, impacting the budgetary accounts used to account for the entry to refund those assessments.

Ineffective review controls can result in misstatements in the financial statements going undetected. As a result of the above conditions, we identified an understatement of \$404,181 in the following financial statement captions in the Statement of Budgetary Resources:

- Appropriations
- New obligations & upward adjustments
- Total budgetary resources
- Outlays, Net

Additionally, management omitted the impact of the refund of carrier assessments within financial statement disclosures 8 and 9.

The following criteria are relevant to the condition noted above:

The U.S. Government Accountability Office's Standards for Internal Control in the Federal Government, GAO-14-704G, Section 10.08, states:

Management designs control activities for appropriate coverage of objectives and risks in the operations. Operational process transform inputs into outputs to achieve the organization's objectives. Management designs entity-level control activities, transaction control activities, or both depending on the level of precision needed so that the entity meets its objectives and addresses related risks.

In addition, the *Standards for Internal Control in the Federal Government*, Section 14.03, states:

Management communicates quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing

risks, and supporting the internal control system. In these communications, management assigns the internal control responsibilities for key roles.

To address the deficiencies noted above, we recommend the Deputy Chief Financial Officer update the journal entry review procedures to confirm it has all necessary information regarding a transaction before the review and approval of journal entries.

Management's Response

OCFO has sufficient internal controls and processes in place for reviewing journal entries and follows them accordingly to ensure controls are operating effectively. As part of our internal control process, OCFO management verifies journal entries against the United States Standard General Ledger (USSGL) guidance outlined, as appropriate, in the most recently published Treasury Financial Manual (TFM) available at the time of review.

In this case, the originally published TFM guidance directed users to follow a specific transaction code for refunds of trust or special fund collections, which led to the journal entries that were recorded for the Longshore and Harbor Workers' Compensation Act Special Fund. OCFO followed the posting logic per the TFM based on the guidance specifically noted for trust or special funds. Therefore, OCFO used appropriate controls by applying the existing guidance at the time to record the accounting entries per the TFM.

After further research and analysis, OCFO discovered the ambiguity and conflicting guidance in the TFM for this business event when compared to the Office of Management and Budget (OMB) Circular A-11 guidance. OCFO communicated with OMB to share the observation and discrepancy, and both OMB and Treasury's Bureau of Fiscal Services agreed the TFM guidance required revisions to provide clarity and ensure alignment with OMB Circular A-11 guidance. The posting logic issue was immediately addressed and corrected in the general ledger by OCFO upon research and confirmation from OMB. As a result, Treasury made changes to the impacted transaction code guidance to align all refund scenarios with OMB Circular A-11 guidance. OCFO worked closely with OMB and Treasury to resolve the TFM issues, and revised Treasury TFM guidance was published in the June 2024 TFM release.

As an additional means to enhance communications with the program office, OCFO utilizes its monthly Touchpoint meetings with the program office to discuss business events and ensure accounting treatments are verified. In FY2024, OCFO also incorporated an additional verification process to follow up with the program office on supporting documentation provided to OCFO where the business event(s) for the transactions are not explicitly clear. This practice will ensure both the program office and accounting office has a mutual knowledge and understanding of the business events and its required accounting treatment.

Auditors' Response

We will conduct follow-up procedures during the performance of the FY 2024 audit to determine whether corrective actions have been developed and implemented.

**LONGSHORE AND HARBOR WORKERS'
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Balance Sheets

September 30, 2023 and 2022

(in dollars)

Assets	2023	2022
Intragovernmental		
Funds Balance with Treasury (Note 2)	\$ 3,250,347	\$ 6,373,067
Investments, net (Note 3)	70,000,000	58,000,000
Treasury interest receivable	10,500	-
Total intragovernmental assets	<u>73,260,847</u>	<u>64,373,067</u>
Accounts receivable, net (Note 4)	4,769,646	11,385,640
Total assets	<u>\$ 78,030,493</u>	<u>\$ 75,758,707</u>
 Liabilities and Net Position		
Liabilities		
Benefits due and payable	\$ 543,793	\$ 574,272
Deferred revenue	21,286,980	21,135,566
Other liabilities (Note 5)		
Defaulted carrier liability	23,666,896	21,449,170
Other	3,548	3,548
Total liabilities	<u>\$ 45,501,217</u>	<u>\$ 43,162,556</u>
Net position		
Cumulative results of operations	<u>\$ 32,529,276</u>	<u>\$ 32,596,150</u>
Total liabilities and net position	<u>\$ 78,030,493</u>	<u>\$ 75,758,707</u>

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, 2023 and 2022
(in dollars)

	<u>2023</u>	<u>2022</u>
Goal 3		
Gross program costs	\$ 86,797,731	\$ 90,758,599
Net cost of operations (Note 8)	<u>\$ 86,797,731</u>	<u>\$ 90,758,599</u>

Strategic Goal 3: Improve Administration of and Strengthen Worker Safety Net Programs

The accompanying notes are an integral part of these statements.

**LONGSHORE AND HARBOR WORKERS'
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 Statements of Changes in Net Position
 Years ended September 30, 2023 and 2022
 (in dollars)

	2023	2022
Cumulative Results of Operations:		
Beginning Balance	\$ 32,596,150	\$ 36,639,463
Non-exchange revenue (Note 1i)		
Investment interest	\$ 1,699,816	\$ 286,202
Payments under Sec. 44(c)(i)	25,000	39,438
Fines and penalties (Sec. 30(e) & 14(g))	51,115	640
Audit recoveries	320,468	339,045
Assessments (Note 9)	84,513,834	85,819,132
Benefit payments from defaulted carrier bals.	120,624	230,829
Total non-exchange revenue	\$ 86,730,857	\$ 86,715,286
Net cost of operations	(86,797,731)	(90,758,599)
Net change	(66,874)	(4,043,313)
Cumulative Results of Operations, ending	\$ 32,529,276	\$ 32,596,150
Net position, end of year	\$ 32,529,276	\$ 32,596,150

The accompanying notes are an integral part of these statements.

**LONGSHORE AND HARBOR WORKERS'
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 Statements of Budgetary Resources
 Years ended September 30, 2023 and 2022
 (in dollars)

	2023	2022
Budgetary Resources (Note 7 & 8)		
Unobligated balance from prior year budget authority, net (mandatory)	\$ 63,798,795	\$ 51,498,001
Appropriations (mandatory)	96,088,377	102,858,285
Total budgetary resources	\$ 159,887,172	\$ 154,356,286
 Status of Budgetary Resources		
New obligations & upward adjustments (total)	\$ 87,180,619	\$ 90,557,491
Unobligated balances, end of year		
Exempt from apportionment, unexpired accounts	72,706,553	63,798,795
Unobligated balance, end of year (total)	72,706,553	63,798,795
Total budgetary resources	\$ 159,887,172	\$ 154,356,286
 Outlays, Net		
Agency outlays, net (total) (mandatory)	\$ 87,211,098	\$ 90,290,111

The accompanying notes are an integral part of these statements.

**LONGSHORE AND HARBOR WORKERS'
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Notes to the Financial Statements

Years ended September 30, 2023 and 2022

Note 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 DFELHWC. DFELHWC has direct responsibility for the 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.

Prior to 1972, weekly and aggregate lifetime amounts of indemnity payments were capped at statutorily set limits. In 1972, the benefit scheme was radically altered 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 are not intended to present, and do not present, the full cost of the LHWCA Program (Program). In addition to the Fund costs presented in these statements, the full cost of the Program would include certain direct costs of OWCP in the form of salaries and expenses for administration of the Program and allocated costs of OWCP and other DOL agencies incurred in support of the Program. 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. The full cost of the Program is included in the DOL consolidated financial

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Notes to the Financial Statements

Years ended September 30, 2023 and 2022

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. Accordingly, the fiduciary assets and liabilities are not recognized on the consolidated balance sheet. The Fund is described in accordance with Statements of Federal Financial Accounting Standards 31 under Reporting Entity and in Note 22, Fiduciary Activity of DOL's consolidated financial statements and related notes.

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) Fund Balance with Treasury

The Fund's cash receipts and disbursements are processed by the U.S. Department of the Treasury (Treasury). Funds with the Treasury represent obligated and unobligated 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 if any, 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 one-day investments to maturity. 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.

(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

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Notes to the Financial Statements

Years ended September 30, 2023 and 2022

Fund's benefit overpayments made to individuals primarily from amended compensation orders and corrections of payment computations.

(f) Benefits Due and 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 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 employers 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.

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Notes to the Financial Statements

Years ended September 30, 2023 and 2022

The Fund's primary source of revenue is annual assessments levied on insurance carriers and self-insured employers. Assessments are recognized as non-exchange revenue when due. Refunds of assessment collections are recognized as contra revenue when issued. 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 benefits are paid. The Fund also 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.

(j) Other Conforming Changes

In accordance with the requirements of OMB Circular A-136, Longshore made other conforming changes to the financial statements and notes for FY 2023 as described below:

The Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources have been updated to be consistent with requirements of OMB Circular A-136.

Note 3 has been updated to rename the line label to Intragovernmental investments to conform with OMB Circular A-136 and to reference interest rates on investments maturing overnight to be consistent with the presentation in DOL's FY 2023 Agency Financial Report (AFR).

Note 8 has been updated to conform with OMB Circular A-136 and to be consistent with Note 19 of DOL's FY 2023 AFR.

(k) Immaterial Corrections of Errors

Amounts previously reported in the Statement of Budgetary Resources for the fiscal year ended September 30, 2022 have been revised for certain immaterial error corrections related to budgetary accounting for refunds of assessments, including increasing appropriations, new obligations and upward adjustments, total budgetary resources, and agency outlays, net by \$137,990. Corresponding corrections have also been made to related balances presented in notes 8 and 9.

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

Notes to the Financial Statements

Years ended September 30, 2023 and 2022

Note 2 – Fund Balance with Treasury

Fund Balance with Treasury at September 30, 2023 consisted of the following:

(In Dollars)	Obligated Balance Not Yet Disbursed	Entity Assets		Total Entity Assets	Non-entity Assets	Total
		Unobligated Balance Available	Unobligated Balance Unavailable			
Fund Balance with Treasury	\$ 3,250,347	\$ -	\$ -	\$ 3,250,347	\$ -	\$ 3,250,347

Fund Balance with Treasury at September 30, 2022 consisted of the following:

(In Dollars)	Obligated Balance Not Yet Disbursed	Entity Assets		Total Entity Assets	Non-entity Assets	Total
		Unobligated Balance Available	Unobligated Balance Unavailable			
Fund Balance with Treasury	\$ 6,373,067	\$ -	\$ -	\$ 6,373,067	\$ -	\$ 6,373,067

Fund Balance with Treasury at September 30, 2023 and 2022 consisted of cash deposits of \$3,250,347 and \$6,373,067, respectively. These cash deposits at September 30, 2023 and 2022 included \$496 and \$370, 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 self-insured employers.

Note 3 – Investments, Net

(In Dollars)	2023			
	Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental investments:				
Non-marketable:				
Par value (5.400%)	\$ 70,000,000	\$ -	\$ 70,000,000	\$70,000,000

(In Dollars)	2022			
	Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental investments:				
Non-marketable:				
Par value (2.720%)	\$ 58,000,000	\$ -	\$ 58,000,000	\$58,000,000

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

Notes to the Financial Statements

Years ended September 30, 2023 and 2022

A portion of the investments are assets being held as security by authority of Section 32 of the LHWCA for compensation and medical benefits to covered employees of defaulted carriers; these investments were \$23,666,400 and \$21,448,800 at September 30, 2023 and 2022, respectively. Investments at September 30, 2023 and 2022 consist of overnight securities. Investments at September 30, 2023 and 2022 bear an interest rate of 5.40 and 2.72 percent, respectively. Interest rates on securities bought and sold during FYs 2023 and 2022 ranged from 2.72 and 5.90 percent and between 0.01 and 2.72 percent, respectively.

Note 4 – Accounts Receivable, Net

Accounts receivable, net at September 30, 2023 and 2022 consisted of the following:

<u>(In Dollars)</u>	2023		
	Gross Receivables	Allowance	Net Receivables
Entity assets			
Benefit overpayments	\$ 366,265	\$ (113,815)	\$ 252,450
Assessments receivable	4,990,642	(473,446)	4,517,196
	<u>\$ 5,356,907</u>	<u>\$ (587,261)</u>	<u>\$ 4,769,646</u>

<u>(In Dollars)</u>	2022		
	Gross Receivables	Allowance	Net Receivables
Entity assets			
Benefit overpayments	\$ 402,114	\$ (122,266)	\$ 279,848
Assessments receivable	11,585,343	(479,551)	11,105,792
	<u>\$ 11,987,457</u>	<u>\$ (601,817)</u>	<u>\$ 11,385,640</u>

Assessments receivables 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, 2023 and 2022

Note 5 – Other Liabilities

Other liabilities at September 30, 2023 and 2022 consisted of the following:

<u>(In Dollars)</u>	<u>2023</u>	<u>2022</u>
Other liabilities		
Assessment overpayments by carriers	\$ 3,548	\$ 3,548
Defaulted carrier liability		
Held in LS Fund investments	23,666,400	21,448,800
Held in cash	496	370
	<u>23,666,896</u>	<u>21,449,170</u>
Total other liabilities	<u>\$ 23,670,444</u>	<u>\$ 21,452,718</u>

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 2023 and FY 2022 are \$405,744 and \$711,373, respectively.

Note 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 \$2,205,000 in FY 2023 and FY 2022, respectively. 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, 2023 and 2022

Note 7 – Status of Budgetary Resources

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, 2022, is shown below:

<u>(Dollars in Millions)</u>	2022		
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Outlays, Net
Statement of Budgetary Resources	\$ 154	\$ 91	\$ 90
Add: DCCA Stmt. of Budgetary Resources	8	5	5
Total Statement of Budgetary Resources	<u>162</u>	<u>96</u>	<u>95</u>
Budget of the United States Government	<u>\$ 162</u>	<u>\$ 96</u>	<u>\$ 95</u>

Note 8 – Reconciliation of Net Cost to Net Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays presented on a budgetary basis and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

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

Notes to the Financial Statements

Years ended September 30, 2023 and 2022

Note 8 – Reconciliation of Net Cost to Net Outlays – Continued

The reconciliation for the year ended September 30, 2023 and 2022 is shown below. All amounts shown are With the Public.

<u>(Dollars in thousands)</u>	<u>2023 Total</u>	<u>2022 Total</u>
NET COST OF OPERATIONS	\$ 86,798	\$ 90,759
Increase/(Decrease) in Assets:		
Accounts receivable, net	(21)	(340)
Increase/(Decrease) in Liabilities:		
Benefits due and payable	30	(267)
Total Components of net operating cost not part of the budgetary outlays	<u>9</u>	<u>(607)</u>
Components of the budgetary outlays that are not part of net operating cost		
Assessment Refunds	<u>404</u>	<u>138</u>
Total Components of budgetary outlays not part of net operating cost	<u>404</u>	<u>138</u>
Agency outlays, net (mandatory)	<u>\$ 87,211</u>	<u>\$ 90,290</u>

Note 9 – Non-Custodial Non-Exchange Revenues

Non-custodial non-exchange revenue at September 30, 2023 consisted of the following:

(In Dollars)

	<u>Current Fiscal Year</u>	<u>Prior Fiscal Year 2022</u>	<u>Prior Fiscal Year 2021</u>	<u>All Other Prior Fiscal Years</u>	<u>Current Year Collections</u>
Non-Exchange Revenue:					
Assessment revenue	\$ 84,918,015	\$ -	\$ -	\$ -	\$ 84,918,015
Total amount of federal revenues collected	<u>\$ 84,918,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84,918,015</u>

Refunds at September 30, 2023 consisted of the following:

(In Dollars)

	<u>Current Fiscal Year</u>	<u>Prior Fiscal Year 2022</u>	<u>Prior Fiscal Year 2021</u>	<u>All Other Prior Fiscal Years</u>	<u>Current Year Refunds</u>
Refunds/Payments:					
Assessment revenue	\$ -	\$ 404,181	\$ -	\$ -	\$ 404,181
Total amount of refunds	<u>\$ -</u>	<u>\$ 404,181</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 404,181</u>

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

Notes to the Financial Statements

Years ended September 30, 2023 and 2022

Note 9 – Non-Custodial Non-Exchange Revenues – Continued

Non-custodial non-exchange revenue at September 30, 2022 consisted of the following:

(In Dollars)

	Current Fiscal Year	Prior Fiscal Year 2021	Prior Fiscal Year 2020	All Other Prior Fiscal Years	Current Year Collections
Non-Exchange Revenue:					
Assessment revenue	\$ 85,957,122	\$ -	\$ -	\$ -	\$85,957,122
Total amount of federal revenues collected	<u>\$ 85,957,122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$85,957,122</u>

Refunds at September 30, 2022 consisted of the following:

(In Dollars)

	Current Fiscal Year	Prior Fiscal Year 2021	Prior Fiscal Year 2020	All Other Prior Fiscal Years	Current Year Refunds
Refunds/Payments:					
Assessment revenue	\$ -	\$ 137,990	\$ -	\$ -	\$ 137,990
Total amount of refunds	<u>\$ -</u>	<u>\$ 137,990</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 137,990</u>

The net effect of the assessment revenue and assessment refunds issued at September 30, 2023 and 2022 were \$84,513,834 and \$85,819,132, respectively.

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