

**WRITTEN TESTIMONY OF
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U.S. DEPARTMENT OF LABOR**

**BEFORE THE HOUSE COMMITTEE ON EDUCATION AND THE WORKFORCE
SUBCOMMITTEE ON HEALTH, EMPLOYMENT, LABOR, AND PENSIONS
JUNE 2, 2011**

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to discuss the audit of the U.S. Department of Labor's (DOL's) revised Fiscal Year (FY) 2010 Consolidated Financial Statements.

BACKGROUND

The *Chief Financial Officers Act of 1990*, P.L. 101-576, requires Offices of Inspectors General (OIG) to audit and report on their agency's Consolidated Financial Statements in accordance with generally accepted auditing standards and OMB guidance. In order to fulfill this responsibility, the DOL OIG contracts with an independent public accounting firm, KPMG LLP, to conduct the audit. OMB requires that the audit be completed by November 15 of each year. For an agency as large as DOL, the complexity of this audit requires that, in order to meet this deadline and complete all steps necessary to render an opinion on the statements, the Department must provide significant financial information and supporting documentation throughout the fiscal year. Therefore, an inability on the part of the Department to produce the necessary information in a timely manner can affect the successful completion of the audit and may result in a less-than-favorable opinion for the Department or a Disclaimer of Opinion, which is the inability to render an opinion.

SPECIFIC REASONS FOR THE DISCLAIMER OF OPINION

Mr. Chairman, as detailed in my previous testimony in December, it was the Department's inability to provide timely and accurate financial data that resulted in the Department receiving a Disclaimer of Opinion for FY 2010. Following the

implementation of a new financial system known as the New Core Financial Management System (New Core), the Department encountered a significant number of problems and errors involving data migration, integration with other systems, reconciliation, and system configuration. Several examples of the problems they encountered were:

Data Migration

- Internal agency codes and general ledger accounts that were incorrectly migrated to New Core.
- Certain transaction identification and coding that were not properly captured in New Core when migrated.

Integration with Other Systems

- Integration between New Core and other financial systems that were not properly working subsequent to the implementation. For example, the Department was unable to record in a timely manner the majority of transactions related to the Unemployment Trust Fund and the Federal Employees' Compensation Act.

Reconciliation

- Incomplete account reconciliations as of September 30. For example, the Department could not reconcile its underlying supporting data for certain Unemployment Trust Fund balances to the general ledger in a timely manner.

System Configuration

- Improper system configurations resulting in the inability to properly record certain transactions in accordance with the United States Standard General Ledger requirements. As a result, the Department had to implement manual processes to correct these errors.

**AUDIT OF THE DEPARTMENT'S REVISED
FY 2010 CONSOLIDATED FINANCIAL STATEMENTS**

In my December testimony, I identified several actions which the Department needed to take in order to reissue its FY 2010 Consolidated Financial Statements. In the intervening months, Mr. Chairman, the Department was able to successfully mitigate the issues it experienced in FY 2010 to provide the necessary data for audit and to revise and reissue the Consolidated Financial Statements. Some of the major adjustments made by the Department since November 15 include:

- Resolving integration errors between New Core and other financial systems by reconciling and investigating differences.
- Reviewing all significant transactions to ensure they were in accordance with United States Standard General Ledger requirements.
- Adjusting and providing sufficient documentation for the Consolidated Financial Statements balances, by correcting material errors not identified as of November 2010, which impacted fund balance with treasury and accounts payable.

In March 2011, the CFO submitted a draft of the Department's revised Consolidated Financial Statements for audit and KPMG was able to complete the audit procedures necessary to render an unqualified or "clean" opinion. The Department has now received an unqualified opinion on its financial statements for 14 consecutive fiscal years.

MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

Even though the Department received an unqualified opinion, KPMG reported deficiencies in the Department's internal controls and made numerous recommendations to address them. A deficiency in internal control exists when the design or operation of a control does not allow management or its 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 agency's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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.

In terms of material weaknesses, the auditors found that the Department needs to implement and perform routine reconciliations, as well as develop and document all business processes and controls required to accurately and timely record transactions, including those from DOL subsystems and other Federal agencies.

Second, the Department needs to ensure that financial obligations are correct and properly recorded, as well as ensuring users are trained and possess the technical knowledge needed to properly record budgetary transactions.

Third, the Department needs to enhance supervisory monitoring reviews of adjusting journal entries and related documentation.

Finally, the Department needs to coordinate efforts with individual DOL agencies to develop policies and controls to address, as well as monitor, access to financial management systems.

In addition to the material weaknesses, the auditors noted the following significant deficiencies. The auditors found that the Department needs to design time and attendance reports that reflect the necessary information for it to ensure that payroll is properly processed. Lastly, the Department needs to improve the timeliness and accuracy of its accounting for property, plant, and equipment.

LESSONS LEARNED

Mr. Chairman, the Department continues to make improvements to the new financial system and to improve its financial management business processes. As this will

obviously not be the last system that the Department replaces, it is equally important to look at this implementation for any broader lessons that can be gleaned from a project management standpoint. For example, in the future the Department needs to:

- Fully understand and develop system requirements before beginning the procurement process;
- Ensure that interfaces with other key Departmental systems are built and tested prior to implementation;
- Identify the proper user base;
- Ensure that users are properly trained;
- Establish strict project management oversight responsibility;
- Establish a viable funding plan prior to starting the project.

CONCLUSION

Mr. Chairman, the Department has taken sufficient and appropriate corrective actions to enable KPMG to issue an opinion on the revised statements. Although the opinion is unqualified, it is important to emphasize that this does not guarantee an unqualified opinion for the FY 2011 statements. Our audit of the FY 2011 statements will be assessing the extent to which the Department has corrected the control weaknesses recently identified in the 2010 audit.

Thank you, Mr. Chairman, for the opportunity to present the results of the audit. I would be pleased to answer any questions that you or other members of the Subcommittee may have.