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Independent Auditors' Report

Secretary and Acting Inspector General
United States Department of Labor

Report on the Financial Statements

The accompanying financial statements of the United States (U.S.) Department of Labor (DOL) comprise the consolidated financial statements and the sustainability financial statements.

We have audited the consolidated financial statements, which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

We have audited the sustainability financial statements, which comprise the statements of social insurance as of September 30, 2021, 2020, 2019, 2018, and 2017; the statements of changes in social insurance amounts for the years ended September 30, 2021 and 2020; and the related notes to the sustainability 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 opinions 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. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 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 modified and unmodified audit opinions.

Basis for Qualified Opinion on the Consolidated Financial Statements

DOL included obligations of \$47.3 billion related to unemployment insurance programs enacted during the COVID-19 pandemic in the new obligations and upward adjustments caption in the combined statement of budgetary resources for the year ended September 30, 2021. These obligations were comprised of \$3.3 billion in undelivered orders- paid (public) and \$44.0 billion in undelivered orders – unpaid (public), which were disclosed in notes 18.E and 25. We were unable to obtain sufficient appropriate audit evidence about the methodology and certain underlying assumptions used to estimate the balances. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

In addition, DOL included COVID-19 related unemployment insurance benefit overpayments of \$4.4 billion, net of allowance, in the accounts receivable, net (with the public) caption in the consolidated balance sheet as of September 30, 2021, and in notes 4, 21 and 25. We were unable to obtain sufficient appropriate audit evidence about the completeness of the benefit overpayment receivable. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion on the Consolidated Financial Statements

In our opinion, except for the possible effects on the 2021 consolidated financial statement of the matter described in the Basis for Qualified Opinion on the Consolidated Financial Statements paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor as of September 30, 2021 and 2020, 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.

Opinion on the Sustainability Financial Statements

In our opinion, the sustainability financial statements referred to above present fairly, in all material respects, the U.S. Department of Labor's social insurance information as of September 30, 2021, 2020, 2019, 2018, and 2017; and its changes in social insurance amounts for the years ended September 30, 2021 and 2020, in accordance with U.S. generally accepted accounting principles.



Emphasis of a Matter

As discussed in Notes 1-W and 1-Y to the financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of DOL's future expenditures to be paid to or on behalf of participants, the present value of estimated future income to be received from excise taxes, and the present value of estimated future expenditures for administrative costs during a projection period sufficient to illustrate long-term sustainability. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The statements of social insurance and changes in social insurance amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after the related trust fund is exhausted. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current law or policy is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material. Our opinion on the sustainability financial statements is not modified with respect to this matter.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly, we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections 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 Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the Message from the Secretary of Labor, Message from the Chief Financial Officer, and Other Information sections is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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, 2021, we considered DOL's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control. Accordingly, we do not express an opinion on the effectiveness of DOL'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 I, we did identify 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 deficiency described in Exhibit I, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DOL's financial statements as of and for the year ended September 30, 2021 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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* or OMB Bulletin No. 21-04.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which DOL's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

DOL's Response to the Finding

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

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DOL's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 19, 2021

1. Improvements Needed in Controls over Financial Reporting Related to Unemployment Trust Fund Balances and Activity

Certain unemployment insurance (UI) pandemic programs were established in response to the COVID-19 pandemic to provide enhanced UI benefits to eligible individuals. Two of the largest pandemic programs were the Federal Pandemic Unemployment Compensation (FPUC) and the Pandemic Unemployment Assistance (PUA) programs. The new UI pandemic programs resulted in a significant increase in UI benefit disbursement and related activity in the Unemployment Trust Fund, which is included in the United States Department of Labor's (DOL) financial statements and related notes as of September 30, 2021. We noted certain management controls were not sufficiently designed and documented to support the specific items reviewed, analyses performed, and conclusions reached for certain UTF balances and related transactions. These deficiencies resulted in material corrections to the FY 2021 DOL financial statements and notes, and increased the risk that other misstatements could occur and not be prevented or detected and corrected in a timely manner. We have included below a summary of the specific issues noted.

Obligation of COVID-19 funding

The UI pandemic programs expired on September 6, 2021; however, DOL management determined that certain UI claims for unemployed weeks that occurred prior to the expiration of the UI pandemic programs were still in appeal or had not yet been processed as of September 30, 2021. As a result, management determined the need to establish an obligation for the future outlays to states for those UI claims that are ultimately determined eligible by the State Workforce Agencies (SWA).

Management developed a methodology and related assumptions to estimate the obligation; however, we noted that management did not have sufficient processes and controls in place to properly validate the reasonableness of the methodology and assumptions used. In addition, management did not have access to certain UI claim data that was critical to developing certain assumptions because all UI claims are processed by the state.

This occurred because management did not have an existing methodology in place that was suitable to perform such an estimate given the short time available due to federal reporting deadlines. Furthermore, management was not able to complete the analyses and back testing necessary to verify certain assumptions were valid. Management also did not have a sufficient process in place to coordinate and obtain the necessary data from the SWAs within the required reporting timeline. As a result, certain assumptions were not fully supported by relevant data.

These deficiencies resulted in management's inability to properly support the accuracy of \$47.3 billion in undelivered orders included in the new obligations and upward adjustments reported in the combined statement of budgetary resources as of September 30, 2021, and

the related \$44.0 billion in undelivered orders – unpaid (public) and \$3.3 billion in undelivered orders- paid (public), which were disclosed in note 18.E.

We also noted that management did not have a sufficient process in place to research the proper accounting treatment in accordance with U.S. GAAP for the obligation noted above. Specifically, we noted that while management researched and documented the justification for recording the obligation noted above, documentation to support the related accounting treatment could not be provided. As a result, management incorrectly recorded the obligation as a delivered order instead of an undelivered order and also incorrectly recorded a related liability. Although this entry had no impact on the new obligations and upward adjustments, it did cause benefits due and payable and gross costs to be overstated by \$44.0 billion and \$47.3 billion, respectively and advances and prepayments to be understated by \$3.3 billion. In addition, undelivered orders – unpaid and undelivered orders – paid were both understated by \$44.0 billion and \$3.3 billion, respectively. Management did correct these errors in its financial statements as of September 30, 2021.

UTF COVID-19 Overpayment Accounts Receivables and related allowances

DOL management’s financial reporting controls were not operating at the level of precision necessary to ensure that UTF benefit overpayments related to the FPUC and PUA programs were complete. This occurred because ETA did not consider or document the impact of certain SWAs not submitting PUA and FPUC benefit overpayment data to DOL during FY 2021. As a result, ETA was not able to timely recognize that the benefit overpayment data for these programs was not complete.

We also noted that management’s review controls over the benefit payment allowances for FPUC and PUA were not operating effectively. Specifically, we noted the uncollectible percentage management used to estimate the allowance for PUA and FPUC did not reflect the actual collection rate for those programs to date. Management relied on historical collection data from other UI programs because the programs were still fairly new and did not fully consider the FPUC and PUA data received to date. We estimated that the allowance for the FPUC and PUA benefit overpayments were collectively understated by approximately \$2.5 billion.

Financial Statement Disclosure of UTF Activity

The Office of Chief Financial Officer (OCFO) financial statement review control was not operating effectively to prevent certain misstatements in UTF information presented in the notes. As a result, we identified the following three material misstatements related to UTF COVID-19 activity:

- Note 2, Fund Balance with Treasury: Obligated Balance Not Yet Disbursed totaling \$20.2 billion in the Trust Funds column was misclassified as Non-Budgetary Fund Balance with Treasury

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- Note 24, Reclassification of Financial Statement Line Items for Financial Report Compilation Process: DOL incorrectly reported \$204.6 billion in both Transfers in without reimbursement and Transfers out without reimbursement in the Dedicated Collections Combined column and corresponding amounts in the Dedicated Collection Eliminations. However, the \$204.6 billion were intra-fund transfers related to the same UTF dedicated collections fund and therefore should have been eliminated and not reported in the note
 - Note 25, COVID-19 Activity: An unobligated balance remaining of \$112.2 billion was incorrectly presented in the note although the related indefinite authority was returned as of September 30, 2021

Management subsequently made corrections to the note disclosures once we notified them of the misstatements.

The following criteria are relevant to the conditions noted above:

- The Government and Accountability Office *Standards for Internal Control in the Federal Government* (the Standards), Section 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.

Section 10.03 of the Standards states:

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

Section 13.04 of the Standards states:

Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability. Sources of data can be operational, financial, or compliance related. Management obtains data on a timely basis so that they can be used for effective monitoring.

To address the deficiencies noted above, we recommend that the Assistant Secretary for Employment and Training:

1. Develop policies and procedures to coordinate with SWAs to obtain the necessary information needed to support related balances and assumptions, and to perform benchmarking and/or other analyses to validate new assumptions;
2. Amend policies and procedures to provide specific steps to be performed during the reviews and the documentation requirements, which should include the specific items reviewed, analyses performed, and conclusions reached; and
3. Maintain documentation of the reviews performed to assess the reasonableness of the underlying data, assumptions, and formulas used in the models that is sufficiently detailed to evidence the specific items reviewed, analysis performed, and conclusions reached.

Additionally, we recommend the Acting Chief Financial Officer:

4. Develop policies and procedures to ensure that the accounting treatment for significant transactions are appropriately researched and documented prior to recording the transaction to the general ledger; and
5. Enhance management review controls over the amounts that are presented in the notes to the financial statements.

Management's Response:

See Exhibit II for management's response.

Auditors' Response:

We will conduct follow-up procedures in FY 2022 to determine whether corrective actions have been developed and implemented.


U.S. Department of Labor

Office of the Chief Financial Officer
Washington, D.C. 20210



NOVEMBER 19, 2021

MEMORANDUM FOR: CAROLYN R. HANTZ
Assistant Inspector General for Audit

FROM: KEVIN L. BROWN 
Acting Chief Financial Officer

SUBJECT: FY 2021 Independent Auditors' on DOL's Consolidated Financial
Statements Draft Report #22-22-003-13-001

Please find the attached management's response to FY 2021 Independent Auditors' on DOL's Consolidated Financial Statements Draft Report #22-22-003-13-001.

We appreciate the opportunity to provide input and look forward to continued collaboration with the OIG audit team.

Please contact me if you have any questions.

cc: Angela Hanks, Principal Deputy Assistant Secretary, Employment and Training
Administration

Jim Garner, Director, Unemployment Insurance

Management's Response
Fiscal Year 2021 Independent Auditors' Report

1. Improvements Needed in Controls over Financial Reporting Related to Unemployment Trust Fund balances and Activity

By way of background, the temporary, emergency unemployment insurance programs created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act expired on September 6, 2021, and all benefits paid under these programs are for weeks of unemployment occurring prior to this expiration date. However, most states continue to work on and process backlogs of adjudications and appeals concerning claims in these programs and will continue to do so for some time. These backlogs are due to a variety of reasons, including the fact that states experienced an unprecedented volume of claims and were unable to adequately hire and train sufficient staff to process these claims in a timely manner; and other events that required states to process additional claims for an expanded pool of applicants. These factors contributed to states amassing significant backlogs of claims for these expired programs – again, for weeks of unemployment occurring prior to September 6, 2021.

The Department of Labor and the Office of Management and Budget agree that under the special, temporary UI programs authorized under Title II of Division A of the CARES Act (PL 116-136), the obligation to pay benefits to claimants arose no later than the applicable weeks of unemployment for which the benefits were payable prior to the expiration of the program(s) on September 6, 2021. Under DOL's and OMB's interpretation, all budget authority and obligations for the expired UI programs benefits thus occurred in FY 2021 at the latest, and any reimbursements to States for benefit payments in FY 2022 or beyond are considered outlays against those obligations. This treatment of funds is warranted by the fact that the claimants' entitlement (and DOL's corresponding liability) arose from the weeks of unemployment in FY 2021 for which the claimants were eligible for benefits. The expiration of these UI programs on September 6, 2021, makes recording obligations in FY 2021 appropriate, since agencies generally cannot incur new obligations against programs whose authorizations have lapsed.

The Department used available data and assumptions based on past patterns to quickly develop an estimate of the amounts needed to make timely obligations to cover future payments. The Department lacks information from states on known pending claims that remain unpaid; states have not previously collected or provided this type of data to the Department and were not in a position to quickly compile the information. Thus, the Department used the best available information to develop an estimate to support the obligations of funds. The temporary nature of the programs contributed to the Department's approach.

The Department provides the following responses to the audit report recommendations:

1. Prior to this audit report, the Department identified the need to gather information from states on pending adjudications and appeals in the UI programs and established a work group to begin developing an appropriate information collection request form to gather

this information in the future. The Department intends to finalize development of the request form and pursue public notice and comment in accordance with the Paperwork Reduction Act early in CY 2022. We recognize the value in having this information, however we recognize that we also must work within the confines of Federal regulations and state operational capacity to respond to this new, and extremely complex request for information.

2. Due to the late determination that the obligation would be necessary, the Department's efforts focused primarily on securing an estimate of the obligation sufficient to cover the magnitude of outstanding payments. In response to any future situations that may require actions similar to those that arose in FY 2021, the Department will ensure the development of a complete management review process alongside the estimation methodology to include the documentation of all reviewed items, the types of analysis used, and the reviewer's conclusions.
3. If situations arise in the future, that may require actions similar to that experienced in FY 2021, the Department will ensure all review documentation developed and utilized as described in the response to item 2, above, are certified and maintained to be provided alongside any estimates submitted. This documentation will include an assessment of the reasonableness of the underlying data, the assumptions, and the formulas used in the estimation model.
4. The requirement to record the significant transaction obligation in the FY 2021 financial statements arose just days before the end of the Fiscal Year. The determination that the approach was acceptable and would be utilized was developed and agreed upon in concert with the Office of Management and Budget (OMB); the Department's Office of the Chief Financial Officer; Departmental Budget Center; and the Employment and Training Administration, with the consent and support of the legal teams from both the Department and OMB. While the Department will make every effort to avoid last minute significant transactions, DOL will implement policies and procedures to ensure proper reporting of unique or novel transactions that have a material effect on financial reporting. Policies and procedures will enhance coordination between ETA and OCFO with regard to financial reporting matters and provide for documentation to support the financial reporting treatment. Documentation may include references to the accounting literature; prior and/or analogous transactions; and consultation with central guidance agencies.
5. The financial statement notes were prepared and reviewed in accordance with the current processes and procedures. DOL will re-enforce the current process with the reviewers to ensure that specific attention is applied to unusual and/or significant transactions. DOL will also note for the preparer(s) and reviewers any corrections that were recurring from FY2020 to FY2021 to ensure that they are corrected appropriately in FY2022.