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

Independent Auditors' Report

Secretary and Inspector General
United States Department of Labor

Report on the Audit of the Financial Statements

Qualified Opinion on the Consolidated Financial Statements and Opinion on the Sustainability Financial Statements

We have audited the financial statements of the United States (U.S.) Department of Labor (DOL), which comprise the consolidated financial statements and the sustainability financial statements. The consolidated financial statements comprise the consolidated balance sheet as of September 30, 2022, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

The sustainability financial statements comprise the statements of social insurance as of September 30, 2022, 2021, 2020, 2019, and 2018, the statements of changes in social insurance amounts for the years ended September 30, 2022 and 2021, and the related notes to the sustainability financial statements.

In our opinion, except for the possible effects on the 2022 consolidated financial statements of the matters described in the Basis for Qualified Opinion on the Consolidated Financial Statements and Basis for Opinion on the Sustainability Financial Statements section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the United States Department of Labor as of September 30, 2022, and its net costs, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Also, in our opinion, the accompanying sustainability financial statements present fairly, in all material respects, the United States Department of Labor's social insurance information as of September 30, 2022, 2021, 2020, 2019, and 2018, and its changes in social insurance amounts for the years ended September 30, 2022 and 2021 in accordance with U.S. generally accepted accounting principles.

Basis for Qualified Opinion on the Consolidated Financial Statements and Basis for Opinion on the Sustainability Financial Statements

In fiscal year 2022 DOL reported remaining obligations from prior year in the amount of $7.9 billion, net of a current year downward adjustment in the amount of $39.4 billion, related to the unemployment insurance programs enacted during the COVID-19 pandemic. These amounts are reflected in the unobligated balance

KPMG

from prior year budget authority, net, caption of the combined statement of budgetary resources for the year ended September 30, 2022. The obligations were comprised of $3.0 billion in undelivered orders- paid (public) and $4.9 billion in undelivered orders – unpaid (public). DOL also included information related to these obligations and the downward adjustments in notes 18.A, 18.D, 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 in fiscal year 2022. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

In addition, DOL reported COVID-19 related unemployment insurance benefit overpayments, net of allowance for uncollectible accounts, in the amount of $3.5 billion, in the accounts receivable, net (with the public), caption in the consolidated balance sheet as of September 30, 2022. DOL also included information related to the accounts receivable and the allowance for uncollectible accounts in notes 4, 19, 21 and 25. We were unable to obtain sufficient appropriate audit evidence about the methodology and certain underlying assumptions used in developing the estimated component of the related account balances in fiscal year 2022. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 22-01 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 DOL 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 qualified audit opinion on the consolidated financial statements and audit opinion on the sustainability financial statements.

Emphasis of 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 estimated future income to be received and future expenditures to be paid using 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 any related trust funds are 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 policy or law 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, for example, implementation of policy changes to avoid trust fund exhaustion or unsustainable debt levels. 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.

KPMG

Other Matter - 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 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.

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.

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 opinions. 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, *Government Auditing Standards,* and OMB Bulletin No. 22-01 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, *Government Auditing Standards,* and OMB Bulletin No. 22-01, 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 DOL'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 and Required Supplementary Information sections be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the 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 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 financial statements, and other knowledge we obtained during our audits of the 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

Management is responsible for the other information included in the *Agency Financial Report*. The other information comprises the Message from the Secretary of Labor, Message from the Chief Financial Officer, and Other Information sections but does not include the financial statements and our auditors' report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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, 2022, we considered the DOL'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DOL's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 were not identified. However, as described in 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 DOL's financial statements as of and for the year ended September 30, 2022 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. 22-01.

We also performed tests of DOL's 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 Findings

Government Auditing Standards requires the auditor to perform limited procedures on DOL's response to the findings identified in our audit and described in Exhibit II. DOL'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 DOL's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
December 13, 2022

1. Improvements Needed in Controls Over Estimates Related to Unemployment Trust Fund (UTF) 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. Although the UI pandemic programs expired at the end of fiscal year 2021, there continued to be UI benefit disbursement and related activities during fiscal year 2022 that are reported in the United States Department of Labor's (DOL) fiscal year 2022 consolidated financial statements and related notes. The preparation of the DOL financial statements requires management to make certain estimates and assumptions related to the UI programs that affect the reported amounts of assets and liabilities as of September 30, 2022, and the associated revenues and expenses for the year then ended. These estimates include the Obligation of COVID-19 funding, UTF COVID-19 benefit overpayment receivables, and UTF expenses, among others. We noted certain management controls were not sufficiently designed and documented to support the methodology, assumptions, and data used to develop these estimates. The deficiencies noted increase the risk that misstatements in DOL's consolidated financial statements 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

Management updated its prior year's estimate of UI obligations in the amount of $47.3 billion for certain UI claims for unemployed weeks that occurred prior to the expiration of the UI pandemic programs and recorded a downward adjustment of prior year's obligation in the amount of $39.4 billion. 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 to re-estimate the remaining obligated amounts. This resulted in management's inability to properly support the completeness, existence, and accuracy of the $7.9 billion remaining obligations or the $39.4 billion in downward adjustments reflected in the Unobligated balance from prior year authority, net, reported in the combined statement of budgetary resources for the fiscal year ended September 30, 2022, and the related information in notes 18.A, 18.D, 18.E, and 25.

UTF COVID-19 Benefit Overpayment Accounts Receivables

In fiscal year 2022, management developed an estimate for the UTF benefit overpayments accounts receivable related to the UI pandemic programs for those State Workforce Agencies (SWAs) that had not reported any benefit overpayment receivables to DOL as of September 30, 2022. However, management did not have sufficient processes and controls in place to validate the relevance and reliability of the data and assumptions used in developing the estimate. This resulted in management's inability to properly support the completeness, existence, and accuracy of $3.5 billion in accounts receivable, net, reported in the consolidated balance sheet as of September 30, 2022, and the related information disclosed in notes 4, 19, 21, and 25.

UTF Expense

DOL management estimates the monthly expense for SWAs using the daily cash drawdown data reported by SWAs until the reports reflecting the actual expenses for the month are submitted by the SWAs, usually 30 days after the end of the month. We noted that management's controls over the monthly expense estimate were not sufficiently designed to determine the completeness, existence, and accuracy of the cash drawdown data used to calculate the estimate. Specifically, the controls did not assess whether the SWA drawdown data contained any unusual fluctuations that would require adjustments before the data is used in the estimate. This resulted in an initial understatement of $5.2 billion of UTF expenses for fiscal year 2022. Management subsequently made corrections for the error because of our finding.

The deficiencies noted above occurred because management's risk assessment process did not sufficiently identify and assess the risk associated with the assumptions used in the estimates, nor assess the reliability of the underlying data used in developing the estimates, including the data provided by SWAs.

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 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 Deputy Chief financial officer and the Assistant Secretary for Employment and Training:

1. Design and implement controls over their respective estimates to ensure management's review of the estimates are performed at a sufficient level of detail, including the methodology, underlying data, and assumptions used to develop the estimates;

2. Maintain documentation of the reviews performed to assess the reasonableness of the methodology, underlying data, and assumptions used to develop the estimates that is sufficiently detailed to evidence the specific items reviewed, analysis performed, and conclusions reached; and

3. Provide additional training to the reviewers of the estimates to reinforce established policies and procedures, as necessary.

Management's Response:

See Exhibit II for management's response.

Auditors' Response:

We will conduct follow-up procedures in FY 2023 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

DECEMBER 13, 2022

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

FROM: KEVIN L. BROWN
Deputy Chief Financial Officer

SUBJECT: FY 2022 Independent Auditors' on DOL's Consolidated Financial Statements Draft Report #22-23-002-13-001

Please find the attached management's response to FY 2022 Independent Auditors' on DOL's Consolidated Financial Statements Draft Report #22-23-002-13-001.

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: Brent Parton, Principal Deputy Assistant Secretary, Employment and Training Administration

Jim Garner, Director, Unemployment Insurance

Management's Response
Fiscal Year 2022 Independent Auditors' Report

1. **Improvements Needed in Controls Over Estimates Related to Unemployment Trust Fund (UTF) Balances and Activity**

The temporary, emergency unemployment insurance programs created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act expired on September 6, 2021. As has been thoroughly documented in numerous OIG and Government Accountability Office (GAO) reports, these programs, and the COVID-19 pandemic overall, put an enormous and unprecedented strain on the unemployment insurance (UI) system. Due to the challenges associated with these new programs and especially concerning the unique Pandemic Unemployment Assistance (PUA) program in particular, state UI agencies experienced an abnormally high amount of ongoing activity well beyond the expiration date of these programs. At this time, many states continue to process adjudication backlogs, address the Employment and Training Administration's (ETA) monitoring review findings, many of which may have impacted claimant eligibility, and detect and recover overpayments, among other ongoing activities.

We agree with the finding and that improvements are needed to the Department of Labor's (the Department) controls over estimates related to the UTF balances and activities. The Department offers the following in response to the three key areas identified in this finding:

1. Obligation of COVID-19 funding:

   The Department and the Office of Management and Budget (OMB) 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 programs on September 6, 2021. Under the Department's and OMB's interpretation, all budget authority and obligations for the expired programs' benefits 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 the Department'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, whose authorizations have lapsed.

   In response to a similar Independent Audit finding for the Department's FY 2021 Agency Financial Report (AFR), the Department noted that additional insight and information was required from states to properly support the volume of ongoing activity in these programs, particularly activity related to the ongoing outlays. As promised in its response to the FY 2021 independent audit finding, the Department worked with Regional Offices in an effort to gather information on states' outstanding backlogs and quickly determined that ongoing activity would be incurred beyond known claims awaiting adjudication. States simply were not in a position at that time to know or provide sufficient information to the Department. Throughout the year, ETA's Regional Offices completed the CARES Act program reviews and identified numerous areas with significant potential to expand eligibility and broaden the pool of backdated benefit claims, and payments, for these programs.

Based on this additional information and the yet to be determined magnitude of these claimant impacts, the Department was forced to abandon the initial approach identified in its response to the finding in its FY 2021 AFR. Instead, the Department developed an alternative approach and a new estimate based on the best data and information available even as it recognized that additional data would still be necessary once states were able to determine the scope and impact of entitlement changes due to issues identified by the Regional Office Reviews. Given that this additional data was unavailable to meet the need in FY 2022, the Department developed a thorough and consistent estimation methodology relying on ongoing draw down activity in the 12 months following the expiration of the programs. Unfortunately, this approach was not deemed sufficient during the independent audit based on the potential for further volatility in future draws beyond the scope of the revised methodology.

To ensure more effective controls over the unexpended obligation estimate in support of the FY 2023 AFR, the Department has engaged a contract firm to facilitate coordination and communication between the National Office, Regional Offices, and all 53 states and territories. This effort is underway to determine how best to gather from the states and territories the full scope of information required to more effectively estimate the unexpended obligation. Once the full requirements have been determined, the group will initiate tailored correspondence with each of the 53 states and territories to gather the necessary data and information. The resulting data will be used to develop a new estimate of the Department's unexpended obligation relative to these CARES Act UI programs. ETA anticipates completion of the data collection efforts in time for the results to be analyzed and consolidated for inclusion in the FY 2023 financial reports.

2. UTF COVID-19 Benefit Overpayment Accounts Receivables:

   The Department recognizes the unique challenges that the State Workforce Agencies (SWA) faced in implementing and reporting the COVID-19 pandemic unemployment insurance programs. In FY 2022, the Department reported the data the states and territories submitted for the pandemic programs. However, due to the lack of reporting by multiple states and territories, including several states with possibly significant overpayments, the Department developed an estimation methodology for the UTF benefit overpayments accounts receivable based on the data that was available at the time. Unfortunately, this estimation methodology was not deemed sufficient during the independent audit based on the lack of support documentation over the assumptions used in the model.

   To ensure more effective controls over the benefit overpayment accounts receivable in support of the FY 2023 AFR, the Department has engaged a contract firm to facilitate coordination and communication between the National Office, Regional Offices, and all 53 states and territories. This effort is underway to determine how best to gather from the states and territories the full scope of information required to calculate the benefit overpayment accounts receivable more effectively. Once the full requirements have been determined, the group will initiate tailored correspondence with each of the 53 states and territories to gather the necessary data and information. The resulting data will be used to develop the calculation of the Department's benefit overpayments accounts receivable relative to these CARES Act UI programs. ETA anticipates completion of the data collection efforts in time for the results to be analyzed and consolidated for inclusion in the FY 2023 financial reports.

3. UTF Expense:

   The Department utilizes an estimation approach which relies on the funding drawn by states from the relevant Treasury-managed unemployment trust fund accounts as a measure of the amount of benefits disbursed in a state. Due to the unprecedented nature of the COVID-19 pandemic, the large number of new programs, funding mechanisms, new reporting requirements, and extensive level of fraud impacting the UI system and the PUA program in particular, the relationship of monthly draws and benefit disbursements has been less consistent than experienced prior to the pandemic. As a primary example of the change experienced, large returns of recovered benefits since the expiration of the CARES Act programs have caused unusually large fluctuations in the relationships between draws and disbursements. In response to this finding, the Department will monitor unusual fluctuations in the monthly draws. Monthly draws which indicate unusual fluctuations will be investigated through the review of daily activity which will be adjusted where necessary. The Department will continue to work with states to identify and understand these fluctuations and ensure states are accurately reporting both disbursements and recoveries in the underlying monthly financial transaction summary report. The Department will document these procedures in an updated UTF disbursement estimation methodology standard operating procedure.