U.S. Department of Labor

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

NOVEMBER 10, 2023

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

FROM: KEVIN L. BROWN
Deputy Chief Financial Officer

SUBJECT: FY 2023 Independent Auditors’ on DOL’s Consolidated Financial Statements Draft Report # 22 24-004-13-001

Please find the attached management’s response to FY 2023 Independent Auditors’ on DOL’s Consolidated Financial Statements Draft Report # 22 24-004-13-001.

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 2023 Independent Auditors' Report

1. Improvements Needed in Controls Over Financial Reporting 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:

   As outlined in Management's response to the Fiscal Year 2022 Independent Auditor's Report, 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 and 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 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 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 the similar Independent Audit finding for the Department's FY 2022 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 outlined in its response to the FY 2022 finding, the Department, in coordination with an outside contract firm engaged to assist the effort, worked with staff from each ETA Regional Office and held conversations with the 53 states and territories with existing unemployment insurance programs. These conversations were helpful to gain a better understanding of some of the ongoing issues states faced and the significant differences between states' operational capacity along with further insight into the variety of issues that may impact ongoing outlays under the various Pandemic programs. Unfortunately, the Department was unable to gain sufficient detail as a result of these conversations to develop necessary improvements in the controls or to develop an alternative methodology for the unexpended obligation estimates in support of the FY 2023 AFR.

In support of the FY 2023 AFR the Department used the same estimation methodology that was used for the FY 2022 AFR. The Department believes that the additional 12-months of state draw down data available to estimate the unexpended obligations as of September 30, 2023, improved the Department's estimate. However, the management controls over the estimate were once again determined insufficient by the external auditors during the FY 2023 independent audit.

To ensure more effective controls over the unexpended obligation estimate in support of the FY 2024 AFR, the Department plans to continue its engagement with the contract firm that supported the Department's efforts in FY 2023. Through this engagement, the Department will continue its efforts to gather information in support of the existing estimation methodology or, if necessary, adjust the methodology used in support of the FY 2024 AFR. ETA anticipates that these efforts will continue throughout FY 2024.

2. UTF COVID-19 Benefit Overpayment Accounts Receivables:

   The Department recognized the unique challenges that the State Workforce Agencies (SWA) faced in implementing and reporting the COVID-19 pandemic unemployment insurance programs. In FY 2023, ETA continued to analyze the COVID-19 expenses and benefit accounts receivables as reported by the SWA since the inception of the pandemic programs to determine the need for additional estimates.

   During FY 2023, ETA conducted weekly meetings with Regional Office staff and SWAs to develop the most effective approach to gathering all the necessary information needed to record COVID-19 related obligations. Following this outreach with the Regional Offices and all 53 states and territories, ETA determined that no new data was available to support an alternative methodology for FY 2023. ETA will continue to work with the Regional Offices and SWAs to gather information regarding the unexpended obligations of the COVID-19 funding and COVID-19 benefit overpayment accounts receivables balances. ETA will also continue to analyze the COVID-19 expenses and benefit accounts receivables as reported by the SWAs since the pandemic programs began to determine if additional estimates are needed.

   ETA anticipates efforts to gather information will continue throughout FY 2024 and will incorporate additional insights gathered through these efforts and work with OCFO in posting more reliable accounts receivable adjustments. OCFO will also support the effort by looking at ratios of accounts receivables against cumulative benefit payments as reported on the ETA 2112 reports. OCFO will employ additional steps to ensure the reliability of any state reports against previous reports through trend analyses and other processes as required. OCFO will collaborate with ETA throughout the year as more information is gathered update any estimation methodologies.

3. Unemployment Benefit Expense:

   The Department relies on a software application referred to as the Financial Management Report System (FMRS) to capture new and revised unemployment benefit expenses as reported by states in the ETA 2112 UI Financial Transaction Summary report (ETA 2112). These unemployment benefit expenses are recorded in the Department's General Ledger (GL) and support the Department's annual financial reporting. As a result of differences identified between the GL and ETA 2112 reporting during FY 2023, management concurs that a control including more frequent reconciliations is required to ensure unemployment benefit expenses are properly reflected in the GL. ETA and OCFO will incorporate a monthly process to reconcile FMRS postings to ETA 2112 reports and ensure benefit expenses are captured timely. In addition, ETA and OCFO will implement a new control by way of a joint tracking tool to ensure effective communication regarding each FMRS application run completed during the Fiscal Year.