



March 30, 2020

Ms. Julia Hearthway
Director, Office of Workers' Compensation Programs
U.S. Department of Labor
200 Constitution Ave, NW
Washington, DC 20210

Dear Ms. Hearthway:

The purpose of this letter is to agree upon terms of the audit engagement with management as required by the *Clarified Statements on Auditing Standards AU-C Section 210 Terms of Engagement* (American Institute of Certified Public Accountants Professional Standards) related to the balance sheets of the Longshore and Harbor Workers' Compensation Act (LHWCA) Special Fund, and the related statements of net cost and changes in net position and combined statements of budgetary resources as of and for the years ended September 30, 2019, and 2018 (hereinafter referred to as "financial statements").

Objective and Scope of the Audit

The objective of our audit of the financial statements is to express an opinion as to whether the presentation of the financial statements, taken as a whole, that have been prepared by management with the oversight of those charged with governance, conforms with U.S. generally accepted accounting principles. This engagement will be designed to obtain reasonable assurance about whether the financial statements are free of material misstatement, but not to provide assurance on internal control over financial reporting, nor to provide an opinion on overall compliance with laws and regulations. We will also perform certain limited procedures on the required supplementary information as required by auditing standards generally accepted in the United States of America. However, we will not express an opinion or provide any assurance on this information.

Responsibilities of the Auditor

We have the responsibility to conduct an audit of the LHWCA Special Fund financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States.

Our audit will involve performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements or schedules. In conducting the audit, we will perform tests of the accounting records and other such procedures as we consider necessary in the circumstances, based on our judgment, including assessment of the risks of material misstatement of the financial statements or schedules, whether due to error or fraud, to provide a reasonable basis for our opinions on the financial statements. We will also evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluate the overall financial statements' presentation.

Our audit of the financial statements will be planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements or schedules are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements or schedules even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Generally Accepted Government Auditing Standards*. Also, an audit is not designed to detect matters that are immaterial to the financial statements, and because the determination of abuse is subjective, *Generally Accepted Government Auditing Standards* does not expect auditors to detect abuse.

In making our risk assessments as part of planning and performing our audit, we will consider internal control relevant to the preparation and fair presentation of the financial statements in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. To achieve this purpose, we will not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

In accordance with professional standards, we are required to communicate control deficiencies that we consider to be material weaknesses and significant deficiencies. While the objective of our audit of the financial statements is not to opine on internal control over financial reporting, and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit, we will communicate any material weaknesses and significant deficiencies to the extent that they come to our attention.

A material weakness is a deficiency, or 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.

As part of obtaining reasonable assurance about whether financial statements are free of material misstatement, we will perform tests of compliance with certain provisions of applicable laws and regulations; noncompliance with which could have a direct and material effect on the determination of the financial statements and certain provisions of other laws and regulations specified in Office of Management and Budget Bulletin No. 19-03, including the provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996*. We will limit our tests of compliance to the provisions described in the preceding sentence, and we will not test compliance with all laws and regulations applicable to the Office of Workers' Compensation Programs. However, our objective is not to provide an opinion on overall compliance with such provisions.

Based on our audit of the financial statements, we will issue a report that will include the following expected form and content:

- Our opinion on the balance sheets as of September 30, 2019, and 2018, the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended;
- The results of our consideration of internal control over financial reporting, based upon our audit of the Fiscal Year (FY) 2019 financial statements, to include any material weaknesses or significant deficiencies to the extent that they come to our attention; and
- The results of our tests of compliance and other matters, based upon our audit of the FY 2019 financial statements, to include any of the following that come to our attention:
 - Instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the financial statements or other financial data significant to the audit objective and any other instances that warrant the attention of those charged with governance;
 - Instances of abuse that are material, either quantitatively or qualitatively; and
 - Instances in which the financial management systems do not substantially comply with the following *Federal Financial Management Improvement Act of 1996*, Section 803(a) requirements, as of September 30, 2019: (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Our report relating to internal control over financial reporting and compliance and other matters will describe the purpose of the report and will state that the report is not suitable for any other purpose. In accordance with *Generally Accepted Government Auditing Standards*, we are also required, in certain circumstances, to report fraud, noncompliance with provisions of laws and regulations, or abuse directly to parties outside the Department of Labor. It should be noted that circumstances may arise in which a report may differ from its expected form and content.

We will report in writing the following matters:

- Material, corrected misstatements that were brought to the attention of management as a result of audit procedures;
- Uncorrected misstatements accumulated by us during the audit and the effect that they, individually or in the aggregate, may have on our opinion in the auditors' report, and the effect of uncorrected misstatements related to prior periods;
- Significant difficulties and disagreements with management, if any, encountered during our audit; and
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

To the extent that they come to our attention, we will inform the appropriate level of management about any illegal acts, unless they are clearly inconsequential; material errors in the financial statements; and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to those charged with governance illegal acts that come to our attention, unless they are clearly inconsequential; material errors in the financial statements; and any instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the financial statements. If, during the performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to you our reasons for modification or withdrawal.

Responsibilities of Management

Financial statements are the responsibility of management. This responsibility includes maintenance of adequate records and related internal control policies and procedures, the selection and application of accounting principles, and the safeguarding of assets. In addition, management is responsible for compliance with applicable laws and regulations.

Management acknowledges and understands that it has responsibility for the preparation and fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations contained

therein. Management is also responsible for identifying and ensuring compliance with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations. In addition, management is responsible for providing us with legal and management representation letters. Management is further responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. An audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management is also responsible for informing us of all material weaknesses and significant deficiencies, of which it has knowledge, in the design or operation of such controls. To fulfill its responsibility regarding establishing and maintaining internal control, estimates and judgments by management are required to assess the expected benefits and related costs for internal control policies and procedures. In accordance with the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States, pursuant to the *Federal Managers' Financial Integrity Act*, internal control should provide management with reasonable, but not absolute, assurance about the achievement of objectives with regard to the reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use; compliance with applicable laws and regulations; effectiveness and efficiency of operations including the use of the entity's resources; and, safeguarding of assets.

In accordance with *Generally Accepted Government Auditing Standards*, as part of planning the audit, we will evaluate whether management has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements. To assist us, management agrees to identify previous audits, attestation engagements, or other studies that relate to the objective of the audit, including whether related recommendations have been implemented.

Management is also responsible for adjusting the financial statements to correct material misstatements and for affirming to us in separate representation letters for the financial statements that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial both individually and in the aggregate to the financial statements being reported upon taken as a whole. In addition, management will provide to us a written response in accordance with *Generally Accepted Government Auditing Standards* to findings included in our report relating to internal control over financial reporting and compliance and other matters.

Please sign and return this engagement letter to us to indicate your acknowledgement and understanding of management's responsibilities related to our audit of the financial statements. Should you or your staff have any questions at any time during the audit, please contact Sean Gilkerson, Acting Audit Director, at (202) 693-5225.

Sincerely,



Elliot P. Lewis
Assistant Inspector General
for Audit

ACCEPTED:

United States Department of Labor, Office of Workers' Compensation Programs

By: _____
Authorized Signature

Title

Date