



MAR 30 2010

MEMORANDUM FOR: DANIEL J. LACEY
Acting Deputy Chief Financial Officer

From: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

Subject: **Alert Memorandum: Risks to Timely Completion of the U.S. Department of Labor Fiscal Year 2010 Consolidated Financial Statement Audit**
Report Number 22-10-015-13-001

The OIG recognizes the significant challenges DOL is facing in implementing the New Core Financial Management System (NCFMS) for which you recently assumed responsibility following the retirement of Lisa Fiely and the departure of Jim Taylor. We also recognize your dedicated leadership in addressing the many problems associated with this new system. The purpose of this memorandum is to reiterate our concerns, which we discussed with you on Friday, March 26, 2010, over the implementation of the NCFMS and the impact on the DOL Fiscal Year (FY) 2010 consolidated financial statement audit. Our concerns are described in detail below and are categorized into three areas: Data Conversion, Financial Reporting, and Lack of Development and Implementation of Certain Key Processes. We wanted to bring these concerns to your attention because our audit procedures have already been greatly impacted, and any further delays could jeopardize our timelines for completion of the audit by November 15, 2010, in accordance with Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Our concerns are as follows:

Data Conversion

Data from the previous accounting system, the Department of Labor Accounting and Related Systems (DOLAR\$), had to be migrated to the new system; however, DOL has not adequately completed verification that all data was migrated correctly.

1. DOL was unable to provide supporting documentation that all planned data verification checks were performed. DOL planned to perform completeness and accuracy checks for each business process for which data was migrated to NCFMS. Of the 127 planned verification checks, DOL was only able to provide supporting documentation that 72 of them were performed.

2. The queries used to create Control Reports did not appear to be designed to reconcile the DOLAR\$ extracts to data processed into NCFMS. Rather, most queries compared information from the DOLAR\$ extract tables to the final staging tables in NCFMS. In cases where DOL directly queried NCFMS production tables, conditions were applied to only return records that were successfully processed into NCFMS.
3. DOL personnel have neither completed resolution of "go-live" data conversion errors, nor have they completed procedures to validate the completeness of the DOLAR\$ Document file source system extracts that are the primary source of sub-ledger data migrated into NCFMS.

Financial Reporting

DOL is currently unable to produce financial statements and is still addressing data integrity issues that impact the financial statements.

1. DOL is currently unable to produce a consolidated trial balance and consolidated financial statements from NCFMS. Consequently, DOL personnel have communicated that they do not expect to issue the second quarter consolidated financial statements by April 21, 2010, in accordance with OMB Circular A-136, *Financial Reporting Requirements*. As a result, DOL is in the process of requesting a one month extension from the OMB.
2. DOL is still addressing data integrity issues that need to be resolved in order to issue consolidated financial statements that are compliant with U.S. generally accepted accounting principles (GAAP). Some of the data integrity issues are as follows:
 - a. Adjusting entries have not been recorded to correct differences identified during the reconciliation of the data in DOLAR\$ to the data in NCFMS as of December 31, 2009.
 - b. Certain data in NCFMS has not been properly identified as either federal or non-federal.
 - c. We were informed that the funding lines in the NCFMS are not properly cross walked to the appropriate lines in the consolidated financial statements.

Lack of Development and Implementation of Certain Key Processes

The implementation of the NCFMS has changed the way certain key processes need to be performed. However, procedures have not been developed and implemented for some processes. Some of these instances include:

1. A process to record current-year apportionments in the NCFMS has not been fully developed and implemented.

2. No process is currently in place to record current-year fixed asset additions and deletions.
3. DOL is still in the process of developing and implementing procedures to compile the consolidated financial statements on a quarterly basis.

Collectively, the concerns noted above pose a risk that DOL will be unable to issue the consolidated financial statements in accordance with GAAP in sufficient time to allow our auditors, KPMG LLP (KPMG), to complete their audit as required by OMB. The migration of DOLAR\$ to NCFMS and the interim processes developed post implementation, have created three separate control environments to be tested as part of the audit. Additionally, the interim processes and the additional concerns noted above pose a significant risk that material misstatements may occur and go undetected. As such, this will require additional substantive testing, increased number of samples, and additional documentation and support needed from DOL.

To date, KPMG has been unable to complete their planning procedures for several areas. Additionally, the delay in issuing the second quarter financial statements will require KPMG to reschedule their staff for one month to other engagements and schedule additional staff for the remaining period of the audit to meet the demands of a compressed time schedule for timely completion of the audit.

Once again, we recognize that you and your staff are working very hard to address these significant challenges, and we appreciate your efforts in working with KPMG. Likewise, we are working very hard and will do everything we can to accomplish the audit. However, even with our cooperative efforts, if DOL does not timely address our concerns and your efforts are extended late into the year, we will be unable to complete the audit by November 15, 2010.

We have received your project plan to resolve the issues with the implementation of NCFMS to include the timely preparation of the quarterly and year-end consolidated financial statements. We will evaluate the project plan to ensure the milestones you provided will enable KPMG to complete their audit and issue an opinion by November 15, 2010. In the meantime, we recommend you proceed with your plan and ensure it addresses the risks we have identified related to Data Conversion, Financial Reporting, and Development and Implementation of Certain Key Processes. I respectfully request that you and your staff continue to keep the OIG and KPMG informed of your progress in executing your project plan and all significant challenges you are facing to thoroughly understand the issues and how you plan to address them.