



June 23, 2010

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

Elliot P. Lewis

From: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

Subject: **Alert Memorandum:** Delays in Meeting Critical
Deadlines Associated with the U.S. Department of Labor
Fiscal Year 2010 Consolidated Financial Statement Audit
Report Number: 22-10-018-13-001

The OIG recognizes that the implementation of the New Core Financial Management System (NCFMS) has presented the U.S. Department of Labor with unprecedented challenges. We also recognize that the Department is working very hard to address these challenges. The purpose of this memorandum is to reiterate our concerns regarding the impact of continued delays in meeting critical deadlines associated with the Fiscal Year (FY) 2010 consolidated financial statement audit. As we communicated in our last Alert Memorandum dated April 28, 2010, we highlighted certain key deadlines that needed to be met by the Department to allow our contractor, KPMG LLP (KPMG), sufficient time to complete the necessary audit procedures over the Department's FY 2010 consolidated financial statements. Failure to meet these deadlines would critically impact the OIG and KPMG's ability to complete the audit and issue an opinion by November 15, 2010, in accordance with the Office of Management and Budget's (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In order to complete the necessary audit work, the Department must provide KPMG with complete and accurate data by the required deadlines. While the Department was able to substantially meet the first identified deadline of April 30, 2010, it did not meet the June 11, 2010, deadline for the second quarter financial data. Therefore, we are very concerned that KPMG will not be able to complete a full scope audit of the Department's consolidated financial statements by the OMB reporting deadline. This would require the issuance of a disclaimer of an opinion.

The continued delays have also resulted in significant operational challenges to the OIG and KPMG. Prior to this most recent delay, KPMG successfully rescheduled approximately 1,160 hours of staff time in an attempt to minimize costs. However, with

the much shorter lead time of this most recent delay, rescheduling staff time was not possible and KPMG has released approximately 800 hours of resources through July 11, 2010. If those resources are not successfully redeployed, KPMG will request compensation totaling approximately \$77,000.

As of now, we do not expect the delays to significantly impact the audit work being performed related to the Federal Employees' Compensation Act, District of Columbia Workmen's Compensation Act Special Fund, and Longshore and Harbor Workers' Compensation Act Special Fund. However, we are at a point in the audit process where the Department and the OIG must decide on how to best proceed with the FY 2010 financial statement audit. The potential options under consideration include:

1. Continue to have KPMG attempt to complete the FY 2010 full scope consolidated audit. However, depending on the timeliness and quality of the data received, this option could require a significant increase in the level of effort, requiring a change to the KPMG contract. The cost of this option could be significant and not within the OIG's budget. **In order to do this, we would need assurance that the Department would provide any additional funding necessary to complete the audit.** While this option would allow for the audit to continue, it would not guarantee that an opinion on the FY 2010 consolidated financial statements would be issued by the OMB deadline.
2. Modify the scope of the audit, and perform an audit of only the consolidated balance sheet and the statement of social insurance. Under this option, the goal would be to issue an opinion only on these statements.

We will work with the Department to evaluate these options and any others over the next couple of weeks to identify the best course of action. We will also be contacting OMB and the Government Accountability Office to discuss the current situation with them and to obtain their opinions on this matter.

For now, the Department should assume that full scope audit efforts will continue. As such, we ask that the Department continue to provide timely and accurate data as requested so that KPMG can continue its audit work. At a minimum, the Department needs an audited consolidated balance sheet in order to receive a full scope audit on all its consolidated financial statements once NCFMS is fully operational. Therefore, it is critical that the Department continue its efforts to remediate the issues encountered with NCFMS.

While the outcome of this year's audit remains unknown, we will continue to work with you and your staff to achieve the best outcome possible. We request that the Department review and confirm the due dates of the key documents and provide the OIG with additional details for the third and fourth quarter documents within 7 days from the date of this letter.