



August 18, 2010

MEMORANDUM FOR: JAMES L. TAYLOR
Chief Financial Officer

Elliot P. Lewis

From: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

Subject: Status of the U.S. Department of Labor
Fiscal Year 2010 Consolidated Financial
Statement Audit

In our Alert Memorandum dated April 28, 2010, we highlighted certain key dates that had to be met by the Department to allow KPMG LLP (KPMG) sufficient time to complete a full scope audit of the Department's Fiscal Year (FY) 2010 consolidated financial statements by the Office of Management and Budget's (OMB) deadline of November 15, 2010. We communicated that failure to meet these dates with complete and accurate information would critically impact KPMG's ability to complete its audit procedures and issue an opinion on all FY 2010 consolidated financial statements as required by OMB. The purpose of this memorandum is to provide you with the current status of the audit.

As you are aware, the Department missed the critical deadline of June 11, 2010, for delivering the second quarter financial statements and New Core Financial Management System (NCFMS) data extract of general ledger transactions. These items were subsequently provided on July 2, 2010; however, KPMG identified the following issues with the second quarter information provided:

- Numerous unusual variances and abnormal balances existed in the financial statements. KPMG submitted related questions on July 6, 2010, to which the Department began providing responses on July 14, 2010. However, management was not able to provide sufficient responses to substantially address all outstanding questions until August 9, 2010.
- The initial data extract was incomplete as it did not include any of the activity related to the Unemployment Trust Fund (UTF). The Department was ultimately able to provide an updated file that included the UTF activity on July 7, 2010.
- Because of issues the Department encountered in processing second quarter data in NCFMS, there was a significant increase in the volume of transactions that were included in the file. A significant portion of these transactions had no impact on the financial statements, but KPMG had to incur significant additional time removing these items from the data extract in order to select samples for testing purposes.
- Even after those efforts, KPMG's initial sample of grant and procurement expenses from the data extract totaled 319 items, which included approximately 57,000 records. As a result, KPMG requested that the Department clean-up the general ledger data for

the second and third quarters. The Department provided a revised expense population on August 4, 2010; however, it could not be reconciled to NCFMS. In addition, the Department provided revised second and third quarter data extracts of all general ledger data on August 6, 2010, but the activity for March 2010 was not provided until August 9, 2010.

- Although KPMG was able to select a sample of journal vouchers on July 21, 2010, the Department is experiencing significant difficulty locating sufficient supporting documentation.

We also recommended in our April 28, 2010, Alert Memorandum that the OCFO complete all reconciliations between NCFMS and all subsidiary systems, and all reconciliations of Fund Balance with Treasury, prior to providing NCFMS data extract files to KPMG. This did not occur, and in your July 8, 2010, response to our June 23, 2010, Alert Memorandum, you informed us that certain prepared-by-client (PBC) schedules and reconciliations would not be completed so that the OCFO could better focus its efforts on the integrity of the financial statement data. As discussed with you, some of these PBC items are critical to the audit (see Attachment), and the lack of receipt of these items has impaired KPMG's ability to perform audit procedures on certain financial statement line items. You have communicated to us that you intend to fund a contract modification for KPMG to perform these critical PBC reconciliations that the OCFO is unable to complete. Also, you and your staff have communicated to us that certain PBC items, such as reconciliations related to grant activity and a rollforward of property, plant, and equipment, will not be completed until closer to fiscal year end, severely limiting the time available to audit the related data.

While we acknowledge that the OCFO provided the third quarter financial statements and data extract early, the OCFO has identified numerous errors in this financial statement data that require adjustments we consider to be significant. Once these adjustments are made, KPMG will need to incur additional time to perform audit procedures over them, which impacts their ability to fully complete the third quarter audit procedures.

In summary, as of this date, KPMG has been unable to complete any significant second quarter testing. KPMG is also experiencing delays in selecting the third quarter samples for testing because of issues with the data extracts that are consistent with those identified in the second quarter. As such, although audit work will continue between now and November 15, **it is now probable** that the audit will result in the issuance of a disclaimer of an opinion by the OMB reporting deadline, November 15, 2010.

We have now reached the point where a decision must be made about how to proceed with the audit subsequent to the November 15 deadline. As discussed in prior Alert Memorandums, the Department needs an audited consolidated balance sheet as of September 30, 2010, in order to eventually receive a full scope audit again on all its consolidated financial statements. Therefore, we ask that you schedule a meeting with us so we can discuss the appropriate course of action for the audit going forward.

Attachment

cc: Daniel J. Lacey, Acting Deputy Chief Financial Officer

Critical PBC Items

Audit Area	Description
Budget	1. Reconciliation of Net Outlays to SBR 2. Reconciliation of SF-133 Report to SBR 3. Reconciliation of SF-132s to SF-133s 4. Budgetary to proprietary analyses
Payroll	5. Payroll reconciliation to the General Ledger (monthly)