


U.S. Department of Labor

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



NOVEMBER 19, 2021

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

FROM: KEVIN L. BROWN 
Acting Chief Financial Officer

SUBJECT: FY 2021 Independent Auditors' on DOL's Consolidated Financial
Statements Draft Report #22-22-003-13-001

Please find the attached management's response to FY 2021 Independent Auditors' on DOL's Consolidated Financial Statements Draft Report #22-22-003-13-001.

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: Angela Hanks, Principal Deputy Assistant Secretary, Employment and Training
Administration

Jim Garner, Director, Unemployment Insurance

Management's Response
Fiscal Year 2021 Independent Auditors' Report

1. Improvements Needed in Controls over Financial Reporting Related to Unemployment Trust Fund balances and Activity

By way of background, the temporary, emergency unemployment insurance programs created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act expired on September 6, 2021, and all benefits paid under these programs are for weeks of unemployment occurring prior to this expiration date. However, most states continue to work on and process backlogs of adjudications and appeals concerning claims in these programs and will continue to do so for some time. These backlogs are due to a variety of reasons, including the fact that states experienced an unprecedented volume of claims and were unable to adequately hire and train sufficient staff to process these claims in a timely manner; and other events that required states to process additional claims for an expanded pool of applicants. These factors contributed to states amassing significant backlogs of claims for these expired programs – again, for weeks of unemployment occurring prior to September 6, 2021.

The Department of Labor and the Office of Management and Budget 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 prior to the expiration of the program(s) on September 6, 2021. Under DOL's and OMB's interpretation, all budget authority and obligations for the expired UI 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 DOL'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 against programs whose authorizations have lapsed.

The Department used available data and assumptions based on past patterns to quickly develop an estimate of the amounts needed to make timely obligations to cover future payments. The Department lacks information from states on known pending claims that remain unpaid; states have not previously collected or provided this type of data to the Department and were not in a position to quickly compile the information. Thus, the Department used the best available information to develop an estimate to support the obligations of funds. The temporary nature of the programs contributed to the Department's approach.

The Department provides the following responses to the audit report recommendations:

1. Prior to this audit report, the Department identified the need to gather information from states on pending adjudications and appeals in the UI programs and established a work group to begin developing an appropriate information collection request form to gather

this information in the future. The Department intends to finalize development of the request form and pursue public notice and comment in accordance with the Paperwork Reduction Act early in CY 2022. We recognize the value in having this information, however we recognize that we also must work within the confines of Federal regulations and state operational capacity to respond to this new, and extremely complex request for information.

2. Due to the late determination that the obligation would be necessary, the Department's efforts focused primarily on securing an estimate of the obligation sufficient to cover the magnitude of outstanding payments. In response to any future situations that may require actions similar to those that arose in FY 2021, the Department will ensure the development of a complete management review process alongside the estimation methodology to include the documentation of all reviewed items, the types of analysis used, and the reviewer's conclusions.
3. If situations arise in the future, that may require actions similar to that experienced in FY 2021, the Department will ensure all review documentation developed and utilized as described in the response to item 2, above, are certified and maintained to be provided alongside any estimates submitted. This documentation will include an assessment of the reasonableness of the underlying data, the assumptions, and the formulas used in the estimation model.
4. The requirement to record the significant transaction obligation in the FY 2021 financial statements arose just days before the end of the Fiscal Year. The determination that the approach was acceptable and would be utilized was developed and agreed upon in concert with the Office of Management and Budget (OMB); the Department's Office of the Chief Financial Officer; Departmental Budget Center; and the Employment and Training Administration, with the consent and support of the legal teams from both the Department and OMB. While the Department will make every effort to avoid last minute significant transactions, DOL will implement policies and procedures to ensure proper reporting of unique or novel transactions that have a material effect on financial reporting. Policies and procedures will enhance coordination between ETA and OCFO with regard to financial reporting matters and provide for documentation to support the financial reporting treatment. Documentation may include references to the accounting literature; prior and/or analogous transactions; and consultation with central guidance agencies.
5. The financial statement notes were prepared and reviewed in accordance with the current processes and procedures. DOL will re-enforce the current process with the reviewers to ensure that specific attention is applied to unusual and/or significant transactions. DOL will also note for the preparer(s) and reviewers any corrections that were recurring from FY2020 to FY2021 to ensure that they are corrected appropriately in FY2022.