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Independent Auditors' Report

Acting Secretary and Inspector General
United States Department of Labor:

Report on the Audit of the Financial Statements

Qualified Opinion on the Consolidated Financial Statements and Opinion on the Sustainability Financial Statements

We have audited the financial statements of the United States (U.S.) Department of Labor (DOL), which comprise the consolidated financial statements and the sustainability financial statements. The consolidated financial statements comprise the consolidated balance sheets as of September 30, 2024 and 2023, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

The sustainability financial statements comprise the statements of social insurance as of September 30, 2024, 2023, 2022, 2021, and 2020, the statements of changes in social insurance amounts for the years ended September 30, 2024 and 2023, and the related notes to the sustainability financial statements.

In our opinion, except for the possible effects on the 2024 and 2023 consolidated financial statements of the matters described in the Basis for Qualified Opinion on the Consolidated Financial Statements and Basis for Opinion on the Sustainability Financial Statements section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the United States Department of Labor as of September 30, 2024 and 2023, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Also, in our opinion, the accompanying sustainability financial statements present fairly, in all material respects, the United States Department of Labor's social insurance information as of September 30, 2024, 2023, 2022, 2021, and 2020, and its changes in social insurance amounts for the years ended September 30, 2024 and 2023 in accordance with U.S. generally accepted accounting principles.

Basis for Qualified Opinion on the Consolidated Financial Statements and Basis for Opinion on the Sustainability Financial Statements

For the years ended September 30, 2024 and 2023, DOL reported remaining obligations from the prior year related to the unemployment insurance programs enacted during the COVID-19 pandemic in the amount of $7.0 billion and $7.5 billion, respectively. These remaining obligations are reflected in the unobligated balance from prior year budget authority, net, caption of the combined statements of budgetary resources. DOL also included information related to these obligations in notes 18.A, 18.C, 18.D, 18.E, and 25. We were unable to obtain sufficient appropriate audit evidence about the methodology and certain underlying assumptions used to estimate the balances in fiscal years 2024 and 2023. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

In addition, DOL reported COVID-19 related unemployment insurance benefit overpayments of $10.0 billion and $3.4 billion, net of allowance for uncollectible accounts, in the accounts receivable, net (with the public) caption in the consolidated balance sheets as of September 30, 2024 and 2023, respectively. DOL also included information related to the accounts receivable and the allowance for uncollectible accounts in notes 4, 15, 19, 21, and 25. We were unable to obtain sufficient appropriate audit evidence about the methodology and certain underlying assumptions used in developing the estimated components of the related account balances in fiscal years 2024 and 2023, including the related bad debt expense. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DOL and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the consolidated financial statements and audit opinion on the sustainability financial statements.

Emphasis of Matter

As discussed in Notes 1-W and 1-Y to the financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of DOL’s estimated future income to be received and future expenditures to be paid using a projection period sufficient to illustrate long-term sustainability. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The statements of social insurance and changes in social insurance amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after any related trust funds are exhausted. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy or law is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability, for example, implementation of policy changes to avoid trust fund exhaustion or unsustainable debt levels. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material. Our opinion on the sustainability financial statements is not modified with respect to this matter.

Other Matter - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, Government Auditing Standards, and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Information

Management is responsible for the other information included in the *Agency Financial Report*. The other information comprises the Message from the Acting Secretary of Labor, Message from the Deputy Chief Financial Officer, and Other Information sections but does not include the financial statements and our auditors' report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2024, we considered DOL's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in Exhibit I, we identified certain deficiencies in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a 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. We consider the deficiencies described in Exhibit I to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether DOL's financial statements as of and for the year ended September 30, 2024 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-02.

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We also performed tests of DOL's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which DOL's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

DOL's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DOL's response to the findings identified in our audit and described in Exhibit II. DOL's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DOL's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 14, 2024

1. Improvements Needed in Controls Over Financial Reporting Related to Unemployment Trust Fund (UTF) Balances and Activity

The United States Department of Labor (DOL) operates the Unemployment Insurance (UI) program which provides benefit payments, including enhanced UI benefits in response to COVID-19, to eligible individuals. The UI benefit disbursements and activities are reported in DOL's Fiscal Year (FY) 2024 financial statements and related notes. Consistent with prior years, the preparation of DOL's financial statements requires management to make certain estimates and assumptions related to the UI programs that affect the reported amounts of assets, liabilities, and obligations as of September 30, 2024, and the associated expenses for the year then ended. These estimates include the UTF obligations of COVID-19 funding, the UTF COVID-19 benefit overpayment receivables, net, and a portion of the UTF expenses, among others.

In FY 2023, we found that management's controls over the estimates related to the obligation of UTF COVID-19 funding and the UTF COVID-19 benefit overpayment accounts receivable were not sufficiently designed and documented to support the methodology, assumptions, and data used to develop these estimates. In FY 2023, we also found that management did not have sufficient controls in place over the UTF expenses to ensure that benefit expenses reported in DOL's financial statements were timely reconciled to the state workforce agencies' (SWA) actual expense information.

In FY 2024, we noted that management did not remediate the prior year deficiencies over the UI program estimate methodologies for the obligation of funding and the benefit overpayment accounts receivable, and UTF expenses. The deficiencies noted increase the risk that material misstatements in DOL's financial statements could occur and not be prevented or detected and corrected in a timely manner. We have included below a summary of the specific issues noted:

UTF Obligation of COVID-19 Funding

Management did not have sufficient processes and controls in place to properly validate the reasonableness of the methodology, assumptions, and underlying data used to support the estimate of the remaining obligated amounts for UTF COVID-19 programs. This resulted in management's inability to properly support the completeness, existence, and accuracy of the $7.0 billion in remaining obligations reflected in the Unobligated balance from prior year authority, net, reported in the combined statement of budgetary resources for the fiscal year ended September 30, 2024, and the related information in notes 18.A, 18.C, 18.D, 18.E, and 25.

UTF COVID-19 Benefit Overpayment Accounts Receivables and Related Allowances

Management developed an estimate for the UTF benefit overpayment accounts receivable related to the UI pandemic programs for those SWAs that had not reported any benefit overpayment receivables to DOL. However, management did not have sufficient processes and controls in place to validate the relevance and reliability of the data and assumptions used in developing the estimate, such as the assumption related to the ratio of benefit overpayments accounts receivable to total benefit payments applied to those states who had not reported, or potentially underreported, its benefit overpayment receivables.

We also noted that management's review controls over the UI pandemic programs benefit overpayment allowances were not operating effectively. Specifically, management did not have sufficient processes and controls in place to validate the relevance and reliability of the historical collection data used to estimate the benefit payment allowances.

The above matters resulted in management's inability to properly support the completeness, existence, and accuracy of accounts receivable, net, reported in the consolidated balance sheet as of September 30, 2024, and the related information disclosed in notes 4, 15, 19, 21, and 25.

Although management took certain steps in FY 2024 to develop corrective action plans to address prior year findings, the above deficiencies related to the UTF obligation of funding and benefit overpayment accounts receivables continued to exist because management was not able to complete the appropriate analyses and other procedures to validate the relevance and reliability of certain assumptions and underlying data used in the estimates.

Unemployment Benefit Expenses

DOL management reports benefit expenses in DOL's financial statements using a combination of the daily cash drawdown data and actual expenses information submitted by the SWAs in the monthly financial summary reports. In response to the prior year's finding, management implemented a control to complete a monthly reconciliation of SWA expense data submitted in the monthly financial summary reports to the general ledger. However, we noted that the reconciliation control was not sufficiently designed and implemented to ensure that the reconciliation was performed at the appropriate level of precision. As a result, management initially did not identify and resolve a difference in the amount of $176 million that was reported in DOL's financial statements as expenses while the SWAs reported such amount as advances. Management subsequently made corrections for the $176 million.

This deficiency occurred because management did not develop policies and procedures at a sufficient level of detail to respond to the risks associated with the completeness, existence and accuracy of benefit expenses reported in DOL's financial statements.

The following criteria are relevant to the conditions noted above:

> The Government and Accountability Office's *Standards for Internal Control in the Federal Government* (the Standards), Section 7.04 states:
>
> Management considers all significant interactions within the entity and with external parties, changes within the entity's internal and external environment, and other internal and external factors to identify risks throughout the entity. Internal risk factors may include the complex nature of an entity's programs, its organizational structure, or the use of new technology in operational processes. External risk factors may include new or amended laws, regulations, or professional standards; economic instability; or potential natural disasters. Management considers these factors at both the entity and transaction levels to comprehensively identify risks that affect defined objectives. Risk identification methods may include qualitative and quantitative ranking activities, forecasting and strategic planning, and consideration of deficiencies identified through audits and other assessments.
>
> Section 10.02 of the Standards states:
>
> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks.
>
> Section 13.04 of the Standards states:
>
> Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical

> connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability. Sources of data can be operational, financial, or compliance related. Management obtains data on a timely basis so that they can be used for effective monitoring.
>
> Section 17.06 of the Standards states:
>
> Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis. These corrective actions include resolution of audit findings. Depending on the nature of the deficiency, either the oversight body or management oversees the prompt remediation of deficiencies by communicating the corrective actions to the appropriate level of the organizational structure and delegating authority for completing corrective actions to appropriate personnel.

To address the deficiencies noted above, we recommend that the Deputy Chief Financial Officer and the Assistant Secretary for Employment and Training:

1. Design and implement controls over their respective estimates to ensure management's review of the estimates are performed at a sufficient level of detail, and includes the review of the methodology, relevance and reliability of the underlying data, and assumptions used to develop the estimates;

2. Maintain documentation of the reviews performed to assess the reasonableness of the methodology, underlying data, and assumptions used to develop the estimates that is sufficiently detailed to evidence the specific items reviewed, analysis performed, and conclusions reached; and

3. Update DOL's policies and procedures to provide sufficient details on the performance of the reconciliation of the SWAs monthly financial summary report to the general ledger, including the required level of precision.

Management's Response:

See Exhibit II for management's response.

Auditors' Response

We will conduct follow-up procedures in FY 2025 to determine whether corrective actions have been developed and implemented.

U.S. Department of Labor

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

NOVEMBER 8, 2024

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

FROM: KEVIN L. BROWN
Deputy Chief Financial Officer

SUBJECT: FY 2024 Independent Auditors' Report on DOL's Consolidated Financial Statements, Report # 22-25-002-13-001

Please find the attached management's response to FY 2024 Independent Auditors' Report on DOL's Consolidated Financial Statements, Report # 22-25-002-13-001.

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: José Javier Rodríguez, Assistant Secretary, Employment and Training Administration

Jim Garner, Director, Unemployment Insurance

Management's Response
Fiscal Year 2024 Independent Auditors' Report

1. Improvements Needed in Controls Over Financial Reporting Related to Unemployment Trust Fund (UTF) Balances and Activity

The temporary, emergency unemployment insurance programs created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act expired on September 6, 2021. As has been thoroughly documented in numerous OIG and Government Accountability Office (GAO) reports, these programs, and the COVID-19 pandemic overall, put an enormous and unprecedented strain on the unemployment insurance (UI) system. Due to the challenges associated with these new programs and especially concerning the unique Pandemic Unemployment Assistance (PUA) program in particular, state UI agencies experienced an abnormally high amount of ongoing activity well beyond the expiration date of these programs. At this time, many states continue to process adjudication backlogs, address the Employment and Training Administration's (ETA) monitoring review findings, many of which may have impacted claimant eligibility, and detect and recover overpayments, among other ongoing activities.

We agree with the finding and that improvements are needed to the Department of Labor's (the Department) controls over the estimates related to the UTF balances and activities. The Department offers the following in response to the three key areas identified in this finding:

1. Obligation of COVID-19 funding:

   As outlined in Management's response to the Fiscal Year 2023 Independent Auditor's Report, the Department and the Office of Management and Budget (OMB) 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 and prior to the expiration of the programs on September 6, 2021. Under the Department's and OMB's interpretation, all budget authority and obligations for the expired 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 the Department'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 whose authorizations have lapsed.

   Since the expiration of the CARES Act provisions and through FY 2024, states continued to pay benefits, and reconcile funding, associated with the CARES Act benefit programs. In FY 2024, the Department was unable to gain additional support or identify an alternative methodology in support of the estimated unpaid obligation. Instead, the Department utilized the same estimation methodology that was used in support of the FY 2022 and FY 2023 AFR. The Department notes that state funding draws continued to decline throughout the year and the remaining unpaid obligation at the end of FY 2024 was lower than the prior year. The Department believes that the continued steady declines in program outlays throughout the year support the continued use of the current methodology. Management controls over the estimate were once again determined insufficient by the external auditors during the FY 2024 independent audit.

As a result, the Department will continue to investigate new, more effective controls over the unexpended obligation estimate in support of the FY 2025 AFR. While the Department believes that the unpaid obligation for FY 2025 will continue to decrease, the Department will continue to seek additional supporting information for the existing methodology or, if appropriate, adjust the methodology used in support of the FY 2025 AFR. ETA will continue these efforts throughout FY 2025.

2. UTF COVID-19 Benefit Overpayment Accounts Receivables:

   The Department continues to recognize the unique challenges that the State Workforce Agencies (SWA) faced in implementing and reporting the COVID-19 pandemic unemployment insurance programs. In FY 2024, ETA continued to analyze the COVID-19 expenses and benefit accounts receivables as reported by the SWA since the inception of the pandemic programs to determine the need for additional estimates. During FY 2024, ETA developed a trend analysis to estimate additional accounts receivable for COVID-19 benefit overpayments and recoded the additional estimates for Q3 and Q4. In addition, ETA reached out to the States not reporting on the ETA 902P and 227 Reports for PUA, Pandemic Emergency Unemployment Compensation (PEUC) and Federal Pandemic Unemployment Compensation (FPUC) on a quarterly basis to obtain benefit overpayment information.

   ETA will continue to update and analyze the trend analysis based on FY 2024 and FY 2025 data reported by the states. Management will consider refining the estimation methodology based on actual data reported but also information from the states currently unable to report. Additionally, management will review the aggregated ratio used to calculate the allowance for the FPUC and PUA programs to determine the applicable ratio.

3. Unemployment Benefit Expense:

   In response to a similar finding in the FY 2023 AFR, the Department implemented a new reconciliation process to ensure expense records entered into the general ledger match those reported by state workforce agencies in the monthly financial transaction summary reports. While the reconciliation process was effective at identifying any discrepancies, the reconciliation was not applied to all programs and therefore failed to capture a discrepancy under an older unemployment compensation program which was identified during the FY 2024 independent audit. As a result, the Department expanded the reconciliation process to ensure all potential programs are included in the reconciliation process.