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.