

Management Assurances

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

FMFIA requires that agencies establish internal controls and financial systems that provide reasonable assurance that the integrity of Federal programs and operations is protected. It requires that the head of the agency provide an annual assurance statement whether the agency has met this requirement.

Appendix A of OMB Circular A-123 provides specific requirements for conducting management's assessment of internal control over financial reporting, and also requires the agency head to provide an assurance statement on the effectiveness of internal controls over financial reporting.

Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA requires that agencies implement and maintain financial management systems that comply substantially with the Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The agency head is to make an annual determination whether the financial systems substantially comply with FFMIA.

Federal Managers' Financial Integrity Act

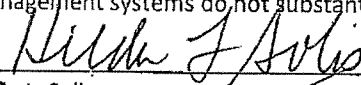
The Department of Labor's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). DOL is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of 3 material weaknesses over financial reporting. The weaknesses are summarized on the following page.

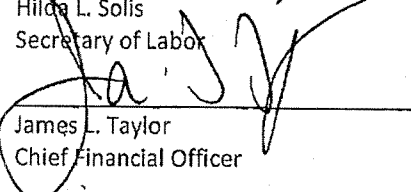
DOL conducted its assessment of the effectiveness of internal control over the efficiency and effectiveness of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, DOL can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2010, was operating effectively and no material weaknesses were found in the design or operation of the internal controls. Due to the material weaknesses noted in the financial reporting processes, DOL's financial management systems are not in substantial conformance with Section 4 of FMFIA.

In addition, DOL conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, DOL identified 3 material weaknesses in its internal control over financial reporting as of June 30, 2010. Other than the exceptions noted on the following page, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over financial reporting.

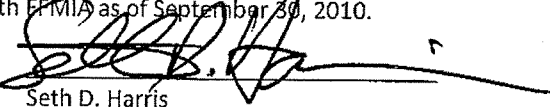
Federal Financial Management Improvement Act of 1996

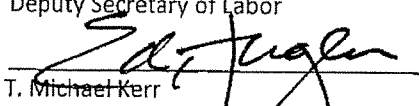
The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Due to the material weaknesses noted in the financial reporting processes, DOL's financial management systems do not substantially comply with FFMIA as of September 30, 2010.


Hilda L. Solis
Secretary of Labor


James L. Taylor
Chief Financial Officer

November 14, 2010


Seth D. Harris
Deputy Secretary of Labor


T. Michael Kerr
Assistant Secretary for Administration and Management/Chief Information Officer

for

Summary of Material Weaknesses

Weaknesses over Financial Reporting -- DOL implemented the New Core Financial Management System (NCFMS) in January 2010. The Department experienced significant transaction and reporting errors in its financial reporting processes resulting from the implementation. This was primarily due to data migration problems that required significant corrections during the remainder of the year; interfaces with subsystems initially not operating as intended; certain processes, such as for accounting for property, plant, and equipment, were not functioning properly within the new system and required workarounds; and lack of adequate policies and procedures to account for and reconcile data on a timely basis and the preparation and review of financial statements and reports. The Department was not able to prepare interim financial statements for the quarter ending March 31, 2010, for submission to OMB. Such financial statements were completed by early July but were not accurate. The Department is currently unable to produce auditable financial statements on a timely basis. Audit readiness and financial reporting have been delayed as a result of the need to resolve issues related to the migration, process workarounds, and legacy interfaces. Although significant progress has been made to correct the migrated data and resolve the issues with the interfaces such that day-to-day financial transaction processing is being performed on a timely basis, the Department must complete the correction of inaccurate data from the migration and implement formal policies and procedures for the preparation and review of interim and annual financial statements and reports. Management is in the process of implementing corrective action plans to address these deficiencies and expects to complete the corrective actions by the end of FY 2011.

Weakness over Preparation and Review of Journal Vouchers -- Journal vouchers, which are used to account for various significant activities, were not available when NCFMS was implemented in January 2010. Journal voucher templates, which are used to prepare the journal vouchers, were then created and training was provided to the users in late April 2010. An Accounting Handbook that explained how the journal vouchers are to be used was not prepared until July 2010. During the third and fourth quarter, additional journal voucher templates had to be prepared as it was determined that certain accounting transactions were not being properly recorded in the new system. A significant amount of journal vouchers were prepared and recorded in the new system prior to June 30, 2010, that subsequently needed to be corrected. In addition, a significant amount of the journal vouchers were not adequately supported or properly reviewed and approved by supervisory personnel. To remediate these deficiencies, management has developed a corrective action plan which includes assessing the adequacy of existing policies regarding journal voucher creation, approval, and supporting documentation requirements, drafting updates to existing policies to reflect needed changes and developing a mandatory training program for key stakeholders responsible for journal voucher creation and approval.

Weakness over Budgetary Accounts Reconciliations -- As of June 30, 2010, quarterly reconciliations between the *Apportionment and Reapportionment Schedules* (SF-132) and the *Report on Budget Execution and Budgetary Resources* (SF-133) were not performed, and the SF-133 was not reconciled to the *Statement of Budgetary Resources*. Formal policies and procedures were not in place for the reconciliations and the required documentation to support the handling of differences. The lack of these significant reconciliations places management at risk of preparing inaccurate financial reports and producing and relying on inaccurate status of funds data for operations, which could result in the inefficient and inappropriate use of appropriations, duplicate postings of multiyear funding, and possible Antideficiency Act violations. Management is currently reviewing existing policies and procedures to identify areas that can be strengthened with budgetary accounts reconciliation processes, particularly the SF-132 to SF-133 reconciliation, to ensure that all reconciliations are prepared, reviewed, and approved on a timely basis, properly documented, and differences resolved.