

Testimony of
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U.S. Department of Labor
Before The
Subcommittee on Health, Education, Labor, and Pensions
Committee on Education and the Workforce
U.S. House of Representatives
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Thank you, Mr. Chairman, Ranking Member Andrews and Members of the Subcommittee. I appreciate the opportunity to come before you today to discuss financial management at the Department of Labor (DOL). Specifically, I understand this hearing is to provide an update on the Department's FY 2010 financial statement audit, a topic about which I testified before this Subcommittee on December 7, 2010.¹ This hearing took place because the Department was unable to achieve an unqualified opinion on its FY 2010 financial statements. During the hearing, I, as the Department's Chief Financial Officer, committed to the Subcommittee to resubmitting our financial statements to the Department's Office of Inspector General and independent auditor in the hopes that the auditor would issue a new – and critically an unqualified – opinion.

I am pleased to report that the Department's independent auditor, retained under contract by the Department's Inspector General, has in fact issued an unqualified, or "clean," opinion on the Department's FY 2010 consolidated financial statements. An unqualified opinion is the most

¹ H.R. Subcomm. on Health, Employment, Labor and Pensions of the Comm. on Education and Labor. *Review of the Independent Audit of the Labor Department's Fiscal Year 2010 Consolidated Financial Statements*, 111th Cong. 21-22 (Dec. 7, 2010).

favorable of financial audit outcomes and means that the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the audited entity in conformity with generally accepted accounting principles. Critically, this opinion must be issued by an independent, expert, third party who adheres to strict auditing and ethical standards.

As a result of the revised opinion we obtained late last month, the Department now has received an unqualified opinion on its financial statements for 14 consecutive fiscal years. The American people can continue to have confidence in the Department's financial operations and stewardship of the resources with which it has been entrusted. The Department's revised FY 2010 *Agency Financial Report* has been distributed to the Department's various Congressional oversight committees and posted to the Department's public website.

As you are aware, the Department's independent auditors issued a disclaimer of opinion in November 2010 on the FY 2010 financial statements. The auditors did not have sufficient time to complete audit activities in November, primarily due to the Department's transition to a new financial management system and the implementation and data conversion issues arising during that effort. At that time, our need to focus on supporting the department's mission and ensure funds were appropriately obligated at year-end did not allow us time to provide the auditors the data they required in a timely fashion. Since then, we have continued to work to improve our financial reporting, with the goal of resubmitting our FY 2010 financial statements and obtaining a clean opinion. We identified outstanding issues with our financial data, and established and met all major milestones in the audit process. We are extremely appreciative of the work of our colleagues in the Office of Inspector General and KPMG in completing this process. Their expertise has been invaluable in assessing and addressing the issues we have encountered.

While I am proud that we were able to achieve an unqualified opinion, I am also aware that there is significant work left to do. Both the original and revised FY 2010 audit reports note four areas that remain in need of the Department's attention. I can report today that we have made significant progress in resolving or mitigating many of the concerns leading to these findings.

Over the past six months we have continued to work to normalize the Department's financial operations and resolve outstanding data integrity issues arising from the integration of a number of existing legacy systems into a new, modern financial management environment. We are addressing system functionality, making operations more efficient and effective for users, and continuing user outreach and training efforts. While there is still work to do in all of these areas, we are buoyed by the unqualified, clean opinion we received from the independent auditor and we will build from this experience as we continue to strengthen the Department's financial management environment.

As I discussed in December, the initial disclaimer of opinion resulted from several key challenges: (1) user issues (e.g., an underestimated user base and a lack of understanding of substantial business process changes), (2) data quality issues, and (3) consistent project management and oversight. I would like to update the Subcommittee on our progress in each of these areas.

User Issues

In December, I noted that the Department significantly underestimated the system's user base during the planning process that started in 2008, resulting in a contract that did not anticipate sufficient training and system support. We have worked closely with our contractor technically and logistically to accommodate the increased and necessary numbers of users; and we continue to work with the Department's component agencies to ensure that the user community has been correctly identified and is supported. However, the Department's challenges in fully identifying the user base led to insufficient staff training initially, which in turn led to difficulty adapting to new business processes and practices in a new operating environment. With an additional six months of experience using the system, financial management personnel are more cognizant of how the system and its transparent internal controls work and thus we are seeing improvements in financial management outcomes. We continue to provide our users with training opportunities and hold weekly and biweekly outreach meetings with all subsets of our user community to ensure that problems are identified and resolved quickly. We have made tremendous progress in the last six months, and I believe that we are moving in the right direction.

Data Quality Issues

One of the key benefits of the effort to obtain an unqualified opinion on the FY 2010 financial statements was to fix the data quality issues that the auditor cited in the disclaimed opinion issued in November. As you are aware, we experienced a number of issues migrating old data from our legacy accounting system to the new system, and have had challenges transferring accurate data between the new financial management system and our legacy travel, procurement, grants, and human resources systems. The last six months have provided time to cleanse this data, synchronize our systems, and improve our interfaces, enabling us to provide more reliable and consistent data and reduce system errors that often delayed the ability of our financial management professionals to perform their work.

Oversight Issues

I identified a lack of consistent project management as a reason for system implementation and startup issues, noting that the career Deputy Chief Financial Officer and Associate Deputy Chief Financial Officer overseeing the system implementation both separated from the Department shortly after the system launched in January 2010. The Department has filled both of these positions in recent months, and we have direct and experienced day-to-day executive oversight over the system. Further, the Department's senior leadership has been routinely engaged in our efforts to obtain an FY 2010 audit opinion. These developments have greatly enhanced our ability to resolve outstanding issues and work with our colleagues throughout the Department to ensure that they are able to conduct the Department's financial business in an accurate and efficient manner.

Overall, we have worked closely with the Office of Management and Budget to discuss and assess our "lessons learned" during the system's implementation as part of its required Government-wide review of financial system modernization efforts. As I mentioned in December, the types of issues we experienced in producing auditable financial statements are relatively common for Federal agencies implementing a new system. I believe that adequately addressing the core areas I have highlighted will play a significant role in reducing the implementation issues that agencies tend to experience. This in turn should lead to more timely and accurate financial data preparation and submission.

In closing, Mr. Chairman, I am pleased that the Department was able to secure an unqualified opinion on the Department's FY 2010 financial statements and the accompanying assurance that the statements are presented fairly. Our stakeholders can have confidence in the data we have presented and that the Department has been financially transparent and accountable. We have overcome last year's temporary setback, but recognize that there are still improvements to make in our financial operations and reporting. FY 2011 is the first full fiscal year and audit cycle in which we are using only the new financial management system to record financial data and produce reports, and we are confident that we will be able to provide the auditors with a timely and auditable set of financial statements and accompanying data so that they may provide an opinion in November 2011.

Thank you for your time, and I would be happy to answer any questions you may have.