

Testimony of
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Committee on Education and Labor
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Thank you, Mr. Chairman, Ranking Member Price 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 in response to the Department's financial statement audit opinion dropping from an unqualified, or clean, opinion to a disclaimer.

An unqualified opinion 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, while a disclaimer states that the auditor does not express an opinion on the financial statements. As the auditors noted, the primary reason for the disclaimer was the transition to a new financial management system, and the implementation issues which arose during that effort. The Department shares the Committee's disappointment in this outcome, and we are committed to working with the Office of Inspector General (OIG) to identify and resolve the financial audit findings. We have already taken many steps to overcome the problems which disrupted our initial transition and we continue to work every day to bring the Department's financial systems into compliance with the highest accounting standards.

We are currently focused on normalizing financial operations, and plan to resubmit our FY 2010 statements within the next few months for review by the OIG. We are confident these actions will prove the 2010 disclaimer a temporary hiccup in what has been, and will again be, a long record of unqualified opinions and sound financial management at the Department.

When I was confirmed by the Senate to the position of Chief Financial Officer in late June, I knew that my first year on the job would be dominated by the challenges of completing the modernization of the Department's financial management systems – a process that began and was substantially defined by the previous Administration.

I have worked in the federal financial management community for a number of different agencies. I have either implemented or audited the implementation of several financial management modernization projects. I have found that the complexity of implementing these initiatives almost always makes it difficult initially to obtain clean opinions from auditors. While the process at DOL has certainly not been a seamless one, I have seen difficult implementation problems at other agencies and I have no doubt that the challenges we have encountered at DOL can and will be overcome.

Introduction

The Department spent \$35 million between 2003 and 2008 in an effort to replace an old financial system which failed to comply with applicable statutory and regulatory requirements. When this previous effort failed, the Department awarded a contract for the development and implementation of the Department's New Core Financial Management System (New Core or NCFMS) in July 2008, with a goal of replacing the legacy system which had been in use for over two decades. New Core is based upon a pre-configured software suite that is commercially available. The system generally met agency requirements and was preconfigured and pre-integrated to comply with all major Federal business processes. The Department was able to eliminate much of its risk by contracting for a product that was already in use within the Federal government, while also reducing development costs and accelerating the timeline for implementation. The Department does not own any hardware or software associated with New

Core, eliminating the need for costly infrastructure, maintenance, and in-house technical resources dedicated to system maintenance.

This system will provide users with a modern set of software tools and resources to automate manual processes and produce operational efficiencies, and establish, monitor, and enforce more effective internal controls to ensure resources were being safeguarded and used appropriately. The new system will also allow the Department to more readily adapt to new Office of Management and Budget (OMB), Treasury, and Congressional requirements, and improve the accuracy and timeliness of financial reports. It will also integrate a number of internal, independently developed feeder systems, including procurement, travel, and grants management systems, producing real-time cross-platform financial data and reducing transaction processing errors that resulted when those systems were reconciled in the former core accounting system.

New Core took 18 months to implement at an initial cost of less than \$15 million, and an annual operational cost of approximately \$20 million in program year 2010 and \$11 million in program year 2011, and would have been in alignment with the recent OMB directive on systems modernization. The initial “go live” date was October 1, 2009; however, the launch was delayed until January 14, 2010, to provide additional time to train users and continue data migration activities. While this delay was necessary from an operational perspective, it added to the growing pains during the transition that led to problems for the FY 2010 audit cycle.

In summary, Labor had failures on a number of fronts including: an underestimated user base; a lack of understanding of the substantial changes to business processes; and data quality problems. I will go into detail on each of these issues that are unfortunately common within the Federal space when implementing a financial system. The system was not the failure; the identification of system requirements and project planning were lacking. But we will overcome the transition and be back on track within a year through aggressive corrective actions that I have put into place with the support of the Department’s leadership.

Underestimated User Base

New Core user requirements were significantly underestimated during contract development. The initial contract envisioned only 300 transactional users, or those with access to the day-to-day accounting system. As of September 2010, we have over 625 users requiring this level of access. Further, the Department estimated only 200 users who could query the system for reports. As of September 2010, we have over 1,400 users requiring this level of access. Having significantly underestimated the user base, the original contract did not account for the additional need for user training, system support from the contractor, and general system load resulting from more than double the number of day-to-day users contemplated, and seven times the number of users requiring financial reports to ensure they are within their spending limits in order to run their programs effectively.

Lack of Understanding of Substantial Business Process Changes

The new system also brought substantial business process changes that were not fully anticipated when the contractor was selected. With real-time feedback on errors, automated invoice processing, and other enhancements, users were required to learn an entirely new way of performing the Department's financial management functions. Career staff, who had been performing functions a certain way for decades, were required to relearn basic processes and perform their functions in an entirely new environment. This change in business practice impacted every financial activity performed in the department, from processing grants and procurement actions to travel and personnel actions. While training in the National Office and regional sites was increased and an onsite training room with live system access and onsite support to aid individual users was created to address this shortcoming, the Department nevertheless had to play catch-up for months following the launch of the system as users became accustomed to a new way of tracking financial transactions.

We have also faced challenges adjusting to the more transparent internal controls environment that New Core provides. Numerous controls are embedded in the new system to prevent improper payments, Anti-Deficiency Act violations, fraud, and abuse. In the previous environment, these controls were largely performed manually by the CFO's office out of the general user's view. Now, real-time funds checks performed by New Core create error messages

that the user sees and transactions will not be processed if the error messages are not resolved. These messages are interpreted by the user as system errors rather than spending controls because they were never visible to the user before. It has taken time for our travel, grants, and procurement user communities to become acclimated to seeing and resolving error messages related to transaction validation rules. As users realize that these are not system errors, we can focus more attention on resolving real data migration and system integration issues affecting our system and its users.

Data Quality Challenges

While working through the issues caused by an expanded user base, we have also faced significant challenges with data migration from the old system to the new one. This involved the transfer of significant amounts of granular data, some of it decades old, from legacy financial and feeder systems to a modern system. For instance, the financial data in the Department's legacy financial system was never reconciled with the financial data in the procurement system. Before being migrated to New Core, the contract data had to be reconciled so that both systems would use the same financial data. This synchronization required enormous manual effort for NCFMS program staff and Department contracting staff, and was significantly more time consuming than anticipated. This situation was exacerbated with the migration of old vendor data, some of which was outdated and included erroneous banking data. This had a negative impact on the Department's ability to make timely vendor payments. We had to dedicate significant staff resources to this effort, as data transfer issues between systems have affected day-to-day financial information and hampered operations. These migration issues also affected our ability to provide timely and accurate financial reporting, both to DOL managers and externally to OMB, Treasury, and the audit team. This, in turn, significantly contributed to the disclaimed opinion.

The decision to delay the launch of New Core from October 2009 to January 2010 also meant that we operated two accounting systems during one fiscal year. Migrating previous fiscal years' data was challenging but the numbers were largely static. Migrating "live" financial data between systems for the same fiscal year was extremely difficult due to the inherent fluctuations in the numbers. Transactions initially processed in one system had to be reconciled with the new

system while new transactions were posted for the current period, essentially doubling the workload for our staff and creating a significant resource burden.

Consistent Project Management

The Department experienced significant turnover amongst its senior financial managers during most of the system's implementation and post-launch phases. The Department lacked a Senate-confirmed Chief Financial Officer from January 2009 until my confirmation in June 2010. The Department's career Deputy Chief Financial Officer and the Associate Deputy Chief Financial Officer overseeing the implementation both retired shortly after the system launched in January 2010, leaving the Department without any permanent financial management leadership. Coming at a critical period in the implementation, this gap in leadership led to delays in identifying and resolving some of the problems encountered during the startup of the new financial system and the business process re-engineering required to adapt DOL's existing procedures to the new system.

In spite of all the issues I have discussed here, it is important to note that the implementation issues I have been outlining did not impact the mission of the Department. During 2010, we made the conscious decision to focus on ensuring the mission was accomplished. We succeeded in that objective. The activities necessary to provide unemployment benefits, job training grants, support costs for workplace and mine safety inspections continued to function. In addition, we have made significant progress in addressing all of the challenges outlined earlier; and I am pleased to report that in 2011 we will be able to provide more accurate financial reporting and support for the Department's programs. The Department has nearly reached pre-implementation late payment rates and expects to improve operational efficiencies in 2011 beyond the benchmarks of the previous system. Additional data migration activities have substantially improved throughput despite the implementation of system-enforced internal controls and segregation of duties. Our issuance of grants, travel payments and procurements is consistently performed accurately and timely by New Core, nearly eliminating the need for manual workarounds previously necessary to release funds due to system integration and data migration issues. We continue to work closely with OMB, our Inspector General, and our component agencies to resolve remaining financial reporting issues and do not expect these

issues to have a material impact on the FY 2011 financial audit process. In fact, since we have made so much progress in resolving the implementation and financial reporting issues, it is my intention to resubmit our financial statements to the Office of Inspector General within the next few months to provide it the opportunity to fully audit our 2010 financial activities and potentially issue a revised opinion. As examples of our progress, New Core is now properly recording all grant obligations, costs, and payments. We also had difficulty preparing and reconciling the monthly submissions of the *Statement of Transactions* (SF-224) for several months following implementation of NCFMS, an issue which has also been resolved as the SF-224 reports are now being reconciled on a monthly basis and submitted timely.

In closing, Mr. Chairman, I have been involved in federal financial management for 30 years, both in the CFO and Inspector General communities. I've also directed the implementation of new financial systems on several occasions. The challenges which have occurred with the implementation of the Department's new system are unfortunate and I take responsibility for making sure they are overcome in a timely manner. The fact that other agencies have experienced similar problems when replacing older systems, and also lost their clean audit opinions, does not make this experience any less disappointing. However, we are confident that this situation is temporary and we remain on the right track to regain our clean audit opinion.

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