U.S. Department of Labor

Office of Inspector General—Office of Audit

OFFICE OF THE CHIEF FINANCIAL OFFICER

MANAGEMENT ADVISORY COMMENTS IDENTIFIED IN AN AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

This report was prepared by KPMG LLP, under contract to the U.S. Department of Labor, Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Elliot P. Lewis
Assistant Inspector General
U.S. Department of Labor

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Executive Summary

KPMG LLP, under contract to the United States Department of Labor (DOL or the Department), Office of Inspector General (OIG), audited the DOL's consolidated financial statements as of and for the year ended September 30, 2008. The audit was conducted in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The objective of the audit was to express an opinion on the fair presentation of DOL's consolidated financial statements. Additionally, other objectives include expressing an opinion on DOL's compliance with requirements of section 803(a) of the *Federal Financial Management Improvement Act (FFMIA) of 1996* (Public Law 104-278), based on an examination.

In planning and performing the audit, DOL's internal control over financial reporting was considered in order to determine auditing procedures for the purpose of expressing an opinion on the consolidated financial statements. The objective of the audit was not to provide assurance on DOL's internal control over financial reporting; accordingly, such an opinion was not provided. However, certain matters were noted involving internal control and its operation that were considered to be significant deficiencies, and certain other matters were noted that were considered to be management advisory comments.

This report was prepared to provide information to management that could help in the development of corrective actions for the management advisory comments identified in the audit. A separate report will be issued to the Chief Information Officer and the Chief Financial Officer containing management advisory comments pertaining to the audit procedures performed over the Department's general and application controls over information technology (IT) systems that support the consolidated financial statements.

<u>Significant Deficiencies</u>

Details over the significant deficiencies, listed below, are included in the Independent Auditors' Report found in DOL's *FY 2008 Performance and Accountability Report*.

1. Lack of Adequate Controls over Access to Key Financial and Support Systems
2. Weakness Noted over Payroll Accounting
3. Lack of Segregation of Duties over Journal Entries

Management Advisory Comments

Although not considered to be significant deficiencies, certain other non-IT matters were noted during the audit which we would like to bring to management's attention. These findings and recommendations are presented in this report.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

February 3, 2009

Mr. Elliot P. Lewis, Assistant Inspector General for Audit
Ms. Lisa Fiely, Acting Chief Financial Officer
U.S. Department of Labor
Washington, DC 20210

Mr. Lewis and Ms. Fiely:

We have audited the consolidated financial statements of the U.S. Department of Labor (DOL) for the year ended September 30, 2008, and have issued our report thereon dated November 14, 2008. In planning and performing our audit of the consolidated financial statements of DOL, in accordance with auditing standards generally accepted in the United States of America, we considered DOL's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated 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.

During our audit we noted certain matters involving internal control and other operational matters that do not relate to information technology and are presented for your consideration. These comments and related recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I, Management Advisory Comments. Comments involving internal control and other operational matters noted that relate to information technology will be presented in a separate letter to you and the Chief Information Officer.

In addition, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicated them in our *Independent Auditors' Report* dated November 14, 2008.

Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of DOL's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of DOL management, DOL's Office of Inspector General, others within the organization, the Office of Management and Budget, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

1. Consolidated Financial Statements and Closing Package Review Processes

During our review of DOL's draft consolidated financial statements, we noted the following errors:

- The balances of expended appropriations and unexpended appropriations at fiscal year end were misstated by approximately $716 million. This error was corrected in early November for the final consolidated financial statements.
- A difference of $417.8 million existed between the balance of permanently not available appropriations reported on the combined statement of budgetary resources (SBR) and appropriations not available reported on the consolidated statement of changes in net position. The difference is related to rescissions that were erroneously excluded from the appropriations not available balance reported on the consolidated statement of changes in net position. This error was not corrected and was included in the FY 2008 Summary of Audit Differences, which was attached to the FY 2008 Management Representation Letter.
- In Note 2, DOL erroneously classified $277.9 million of Fund Balance with Treasury (FBWT) that had not been apportioned yet as unobligated balance available instead of unobligated balance unavailable. This error was corrected in the final consolidated financial statements.
- In Note 15, DOL misclassified $192 million of costs as income maintenance instead of employment and training. This error was corrected in the final consolidated financial statements.

During our review of DOL's draft closing package, we noted the following errors, all of which DOL corrected prior to the final submission of the closing package:

- DOL did not disclose the subsequent event related to the Black Lung Disability Trust Fund.
- DOL did not disclose the required supplementary stewardship information related to Human Capital.
- DOL did not record the proper balances for the Unemployment Trust Fund Sensitivity Analysis required as supplementary information.

In addition, we noted that the *U.S. Department of Labor Manual Series* (DLMS) does not include specific guidance on the review procedures of the consolidated financial statements and closing package that would guide DOL supervisors during their reviews.

The above issues were caused because the Office of Chief Financial Officer (OCFO) is not performing a sufficiently detailed review of the consolidated financial statements and closing package to ensure that misstatements, errors, and omissions related to the statements, notes, required supplementary information, and required supplementary stewardship information were detected and corrected. This resulted in the need to correct the consolidated financial statements and closing package prior to final submission, causing delays in the financial reporting process.

U.S. Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government (Standards)*, states, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, states "The agency head must establish controls that reasonably ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports..."

Recommendation

We recommend that the Chief Financial Officer ensure that OCFO personnel perform a more detailed review of all information in the *Performance and Accountability Report* (PAR) and closing package including financial statements, notes, supplementary information, and supplementary stewardship information. Furthermore, the Chief Financial Officer should update DLMS to include guidance for DOL supervisors to follow during their reviews, including procedures for comparing financial data reported on the different statements and notes to ensure accuracy and consistency.

Management's Response

Management disagrees with the auditors' characterization that the OCFO's review procedures are inadequate or that the conditions noted caused delays in the financial reporting process. Most of the errors and omissions cited were corrected in the final consolidated financial statements and are in the final Governmentwide Financial Report System (GFRS) closing package submission.

OCFO will, however, further strengthen the policies and procedures for reviewing the consolidated financial statements and GFRS closing package prior to final submission.

The detailed written procedures will be developed not later than March 31, 2009, but will not be made a part of DLMS until the effectiveness of the enhanced procedures are tested during the FY 2009 reporting cycle.

Auditors' Conclusion

Although the OCFO stated that it does not concur with the characterization of our comment, the OCFO has taken steps to address our recommendation. Therefore, this recommendation is considered **resolved and open**. FY 2009 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

2. Certain Improvements Needed in Financial Reporting

During the FY 2006 audit, we noted that programs and costs in the Statement of Net Cost (SNC) and the related suborganizations in Note 15 did not clearly link to the strategic goals included in Management's Discussion and Analysis (MD&A). In addition, DOL has historically included the Pension Benefit Guarantee Corporation (PBGC) in its MD&A and Performance Section and excluded it from its consolidated financial statements. In FY 2007, DOL obtained a permanent waiver from OMB to exclude PBGC from DOL's reporting entity and therefore, from its consolidated financial statements; however, this waiver did not address performance results. Absent discussion in the waiver about performance results and given the inclusion of PBGC in DOL's budget, DOL believes it should include PBGC performance results in its MD&A and Performance Section.

As a result, we included this as a finding in the FY 2007 Management Advisory Comments report and made the following recommendations:

We recommend that the Chief Financial Officer:

1. ***Develop and implement procedures to better link the SNC to DOL's strategic goals.***
2. ***Formally consult with OMB to determine whether or not PBGC performance information should be reported in DOL's PAR.***

During the FY 2008 audit, we reviewed the MD&A in DOL FY 2008 PAR and noted that the program level audited net costs in the SNC were not directly linked to the net costs of the strategic goals reported in the MD&A. In addition, we noted that the MD&A and the Performance Section were not consistent with financial information, as PBGC performance results were included in these sections; however, PBGC is properly excluded from DOL's consolidated financial statements.

Section II.2.6 of OMB Circular No. A-136, *Financial Reporting Requirements*, states "Entities should strive to articulate efficiency and effectiveness by developing and reporting objective measures that, to the extent possible, indicate result achieved and relate major goals and objectives in their strategic plan to cost categories (i.e., responsibility segments) presented in the entity's Statement of Net Cost (SNC)."

In addition, section II.4.4.1 of OMB Circular No. A-136 states, "The SNC should show the net cost of operations for the reporting entity, as a whole, by major program, which should relate to the major goal(s) and output(s) described in the entity's strategic and performance plans, required by [Government Performance and Results Act (GPRA)]."

Section II.1 of OMB Circular No. A-136 states, "Under the Reports Consolidation Act of 2000 (Pub. L. No. 106-531), agencies are permitted to submit combined reports in implementing statutory requirements for financial and performance management reporting to improve the efficiency of executive branch performance. These reports are combined in the PAR, which consists of the Annual Performance Report required by the Government Performance and Results Act (GPRA). (Pub. L. No. 103-62) with annual financial statements and other reports, such as agencies' assurances on internal control, accountability reports by agency heads and IGs' assessments of the agencies' most serious management and performance challenges. PARs provide financial and performance information that enables the President, the Congress, and the public to assess the performance of an agency relative to its mission and to demonstrate accountability."

Section II.2.1 of OMB Circular No. A-136 states, "The MD&A should provide a clear and concise description of the reporting entity's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems." In addition, section II.2.3 indicates, "The MD&A provides management with a vehicle for communicating insights about the entity, increasing the understandability of financial information, and providing information about the entity, its operations, service levels, successes, challenges, and future."

Despite the guidance above, OCFO personnel believe that DOL's strategic goals have been sufficiently linked to the SNC because, for each year presented, the total net cost of operations in DOL's MD&A section is reconciled to the corresponding total presented on the SNC.

The above finding causes inconsistency within the PAR with regard to the inclusion of PBGC in the MD&A and exclusion in the financial section. Furthermore, PAR readers are unable to easily relate audited costs by program presented in the SNC to the strategic goals discussed in the MD&A. As a result, we consider the FY 2007 recommendations **unresolved** pending improvements over the reporting of the net costs of the strategic goals reported in the MD&A and consultation with OMB over the reporting of PBGC.

Management's Response

OCFO maintains that the strategic goals are sufficiently linked. Strategic Goals are cross agency goals and as such cannot be cleanly separated and reported without taking a matrixed view of the process. Because of this, we believe the ability to reconcile the SNC with the total net cost of operations within the MD&A is the best *approach due to limited resources. Although OCFO believes that we have adequately disclosed the nature of the presentation, we agree to look into the issue of PBGC's inclusion in the MD&A; however, not the financial statement of the PAR.*

Auditors' Conclusion

We reviewed management's response, and we disagree with the conclusion for recommendation No. 1; therefore, recommendation No.1 is considered **unresolved** pending completion of corrective action plans with specified timeframes for implementation to address our recommendation. Furthermore, we consider recommendation No. 2 **resolved and open**. FY 2009 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

3. Budgetary Reconciliations and Analyses

During FY 2006 and FY 2007, we reported that the OCFO did not complete timely reconciliations related to the SF-132, *Apportionment and Reapportionment Schedules,* and the SF-133, *Report on Budget Execution and Budgetary Resources*. We also reported in FY 2007 that the reconciliation of the FY 2006 SBR to the President's FY 2006 Budget of the Untied States was not reviewed timely. Additionally in FY 2007, we reported that management did not perform budgetary to proprietary relationship analyses.

As a result, we made the following recommendations:

We recommend that management ensure that current policies and procedures over SF-132 and SF-133 reconciliations and budgetary to proprietary relationship analyses are enhanced to require (a) quarterly reconciliations, including budgetary to proprietary relationship analyses, be prepared and documented, (b) the completion of documented supervisory reviews over the reconciliations, and (c) the completion of these procedures by a certain date (e.g., 15 days after each quarter-end). We also recommend that the OCFO designate adequate resources to enforce the current completion and review policies and procedures over the reconciliation of the SBR to actual information in the President's Budget of the United States.

In FY 2008, we noted the following:

A. Reconciliations of the SF-132 to the SF-133:

During our audit work over the quarterly reconciliations of the SF-132 to the SF-133, we noted several instances where the amounts used to prepare the reconciliation did not agree to amounts reported on the source documents (i.e., the SF-132 and SF-133). This occurred because either the OCFO did not use the most recent SF-132 to prepare the reconciliation or because the reconciliation presented anticipated budget authority reported on SF-132 as actual budget authority. The OCFO does not report anticipated budget authority in the Department of Labor Accounting and Related Systems (DOLAR$) or on its SF-133. In addition, OCFO did not prepare a reconciliation for one Treasury Account Fund Symbol (TAFS). As such, DOL was not in full compliance with DLMS 6, Chapter 400, and OMB Circular No. A-11.

DLMS 6 – *Financial Management*, Chapter 400, *Administrative Control of Funds*, paragraph 411.C.4, *General Fund Control Responsibilities*, states, "the CFO is responsible for … Performing timely quarterly reconciliations of SF-132, Apportionment and Reapportionment Schedule, and SF-133, Report of Budget Execution, reports after each quarter, and ensuring full documentation/management review and approval of these reconciliations …"

OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, Appendix F, states that, Line 2B, *Recoveries of Prior Year Unpaid Obligations – Anticipated,* on the SF-132 and SF-133 should include the "amount of the current estimate of additional recoveries of prior fiscal year obligations anticipated in unexpired accounts for the remainder of the fiscal year." Appendix F of the Circular also states that Line 3A2, *Budget Authority, Appropriation – Anticipated,* should include "the amount of indefinite appropriations anticipated to become available under existing law for the remainder of the fiscal year [and the amount of] anticipated collection of available receipts."

DOL's SF-132 to SF-133 reconciliation policies and procedures do not specifically require the reviewer to verify that the amounts used to prepare the reconciliation agree to source documents and represent the most recent information or that a reconciliation is completed for all TAFS.

<u>B. Reconciliation of the SBR to the President's Budget</u>

We noted that the presentation of the OCFO's SBR to President's Budget reconciliation did not include the reconciliation of distributed receipts and net outlays, as required by OMB Circular No. A-136 and Statement of Federal Financial Accounting Standards (SFFAS) No. 7. Specifically, we noted that the distributed receipts ($795 million) reported on the FY 2007 combined SBR was not reported and reconciled to the distributed receipts ($800 million) reported as FY 2007 actual information in the FY 2009 President's Budget. In addition, we noted that OCFO reconciled gross outlays instead of net outlays. Accordingly, the difference between the net outlays ($47.1 billion) reported on the FY 2007 combined SBR and the net outlays ($48.3 billion) reported as FY 2007 actual information in the FY 2009 President's Budget was not identified or documented. The OCFO addressed our comment related to the reconciliation of gross outlays in preparing the FY 2008 DOL PAR. Furthermore, no documented evidence exists to support that the reconciliation was reviewed by a supervisor and that the review was completed in a timely manner.

OMB Circular No. A-136, Section II 4.6.8, states, “The amount of offsetting receipts distributed to agencies and reported in this statement shall also agree with, and be reconciled to the deductions for offsetting receipts as reported in the Budget of the United States Government.” In addition, “Outlays consist of disbursements net of offsetting collections. The outlays shall agree with, and be reconciled to, the agency outlay totals reported in the Budget of the United States Government (i.e., with the aggregate of the outlays for accounts within the budget).” This section further states, “Line 19D is calculated. It is computed as Line 19A less Line 19B less Line 19C. This amount shall agree with, and be reconciled to the net outlays (gross outlays less offsetting collections and receipts) as reported in the Budget of the United States Government.”

SFFAS No. 7*, Accounting for Revenue and Other Financing Sources,* paragraph 79 (g) states, “The following information about the status of budgetary resources should be disclosed: explanations of any material differences between the information required by paragraph 77 and the amounts described as "actual" in the Budget of the United States Government.”

GAO’s Standards states, “Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.”

The OCFO believes that disclosing distributed receipts does not add value to the note disclosure for the users of the information and that disclosing gross outlays is more valuable to the user than reporting net outlays. In addition, the OCFO indicated that the reconciliation was reviewed; however, the reviewer did not sign or date the reconciliation as evidence of his/her review.

C. Budgetary to Proprietary Analyses:

During our audit work related to controls over the budgetary to proprietary analyses, we noted the following:

- The budgetary to proprietary analysis for the first quarter was not performed and the second and third quarters’ analyses were not provided to us timely.
- Several instances existed where the OCFO did not perform certain budgetary to proprietary accounting relationships, when applicable (e.g., funded expense to delivered orders and expended appropriations to operating expenses). As a result, we noted a number of variances that were not identified, researched, and documented by the OCFO.

- The OCFO incorrectly included account 4392, *Permanent Reduction – New Budget Authority*, in performing the unexpended appropriations realized relationship analysis. As a result, certain differences were not identified by the OCFO.

- The OCFO budgetary to proprietary analyses only consisted of Budget FY 2008 activities and did not cover activities funded by older funding sources that are available until expended.

GAO's Standards states, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

These exceptions occurred because the OCFO implemented these budgetary to proprietary analyses at the end of FY 2007 and is currently making improvements to include a comprehensive list of budgetary to proprietary relationships on a quarterly basis and ensure that supervisory review is completed in a timely manner. Because of the relatively recent implementation, the OCFO has not yet documented the relationship analyses procedures and the expected timeframes for completing and reviewing these analyses by a certain date (e.g., 15 days after each quarter-end).

<u>D. Reconciliation of the SF-133 to the SBR:</u>

We noted that the OCFO did not complete the reconciliation of the SF-133s to the SBR for the September 30, 2008 quarter until November 8, 2008, which was after the draft financial statements were submitted to OMB. Although the completion date complied with OMB Circular No. A-136 requirements, it did not allow for timely identification and correction of potential misstatements in the SBR.

GAO's Standards states, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

OMB Circular No. A-136, Section II.4.6.1, states, "Information on the SBR should be reconcilable to the budget execution information reported on the SF-133 Report on Budget Execution and Budgetary Resources and with information reported in the Budget of the United States Government to ensure the integrity of the numbers presented. The SBR is an agency-wide report, which aggregates account-level information reported in the SF-133… Consistency between budgetary information presented in the financial statements and the Budget of the United States Government is critical to ensure the integrity of the numbers presented."

This issue occurred because DOL continued to record adjusting entries in the general ledger for FY 2008 until early November.

The lack of timely and complete reconciliations and budgetary to proprietary analyses increases the risk that material differences in external reports and in the general ledger may not be detected and corrected in a timely manner during the year or for year-end reporting.

Although management implemented certain corrective actions in FY 2008, our FY 2006 and FY 2007 recommendations were not fully addressed. As a result, we consider these recommendations **unresolved** pending completion of a corrective action plan and timeframes for implementation. These recommendations are modified below.

Recommendations

We recommend that the Chief Financial Officer:

1. Revise the current procedures to require the recording of anticipated recoveries and anticipated appropriations in the general ledger and reporting of them on the SF-133s throughout the year as required by OMB Circular No. A-11. In addition, provide supervisors with specific guidance on the proper review of the quarterly reconciliations between the SF-132 and SF-133, to include reviewing to ensure that all TAFS have been reconciled, the most current source documentation was used, and all differences have been identified and explained.
2. Reconcile and disclose distributed receipts in the SBR to President's Budget reconciliation and explain material differences identified in compliance with OMB requirements. In addition, the OCFO supervisor or separate personnel other than the preparer of the reconciliation should sign and document his or her review in order to provide evidence that the review was completed in a timely manner.
3. Complete implementation of comprehensive quarterly budgetary to proprietary analyses, including documented resolution of identified differences. These analyses should be documented, reviewed, and approved by an appropriate supervisor in a timely manner. In addition, documentation should be maintained to support these activities.
4. Formally document the budgetary to proprietary analyses procedures and the expected timeframe for completion and review each quarter.
5. Expedite the process for recording all adjustment entries at the end of the fiscal year and complete the quarterly reconciliations of the SF-133 to the SBR, including the completion of documented supervisory reviews over these reconciliations, by a certain date (e.g., 21 days after each quarter-end) that facilitates timely identification and correction of potential SBR misstatements. If necessary at year-end because of the posting of year-end adjusting entries, a preliminary reconciliation should be

completed and reviewed in conjunction with the submission of the initial draft consolidated financial statements to the auditors, with a final reconciliation occurring after all adjustments have been posted.

Management's Response

A. <u>Reconciliations of the SF-132 to SF-133</u>

During 2007 and 2008, the Office of the Chief Financial Officer (OCFO), continued to improve departmental budgetary accounting policies to communicate and coordinate the oversight of participating budgets and financial staff to reconcile tie points of SF–132s to SF-133. Management designed and implemented operating controls for end-of-quarters and end-of-year financial reporting that would detect improper balances in the relationships between budgetary and proprietary accounts.

OCFO is confident that the "pre-submission validation check" report performed at the system level reveals any budgetary deficiencies before the trial balance data is submitted through the edit checks of Department of Treasury's FACTS II.

Additionally, OCFO reconciles the SF-132 and SF-133 on a quarterly basis. The instances noted in the Notification of Finding and Recommendation (NFR), though reported on different lines, do not impact financial reporting in any way. Apart from quarterly reconciliations of the SF-132 to SF-133, OCFO performs other reconciliations that provide additional controls, such as the quarterly reconciliations of budgetary accounts to proprietary accounts and their analytical review. There are 22 reconciliations of budgetary accounts to proprietary accounts. The purpose of the reconciliations is to detect any variance between the budgetary accounts and the proprietary accounts. The variances are reviewed to ensure that a misstatement does not go unnoticed. Also, OCFO, performs a detailed Trend Analysis of the FY 2008 financial statement balances compared with the FY 2007 reported balances to detect any variance that may indicate an error in recording. All significant variances are analyzed to ensure that a misstatements are corrected immediately.

B. <u>Reconciliations of the SBR to the President's Budget</u>

OCFO agreed with the auditor's findings and reported net outlays in the FY 2008 PAR.

C. <u>Budgetary to Propriety Analysis</u>

Budgetary to proprietary relationship analysis as of 3/31/08 and 6/30/08 were not provided by OCFO until 8/20/08 and 8/8/08 respectively.

Response: This statement accurately reflects the dates that our analytical procedures were provided to the auditors. However, we note that these procedures *are only recommended to assist management in their review of accounting data. They are not required, nor are any due dates established in relative Federal guidance.*

No documented evidence exists to support the budgetary to proprietary relationship analyses as of 6/30/08 were reviewed and approved by a supervisor or someone other than the preparer in a timely manner.

Response: We concur with this statement, and will institute procedures for independent review and approval of future analytical procedures.

Certain budgetary to proprietary accounting relationships, when applicable, were not performed (e.g., funded expense to delivered orders and expended appropriations to operating expenses).

Response: The auditor is referring to the fact that certain procedures were not performed for the June quarter. However, as stated above, the budgetary/proprietary analytical procedures are recommended rather than required, and the fact that certain budgetary/proprietary procedures were only performed at year-end should not be considered an audit finding. The OCFO performs a variety of analytical tests throughout the fiscal year, including the budgetary/proprietary procedures, SF-132 and SF-133 reconciliations, and quarterly trend analyses. At year-end, the budgetary/proprietary procedures included 19 standard procedures recommended in the Original Draft Trial Balance Tie-point Project Workbook available on the USSGL website, plus three additional procedures. We believe that the scope of procedures performed throughout the fiscal year provided sufficient controls over budgetary and proprietary accounts, and the fact that certain procedures were not performed for each quarter does not constitute an audit finding.

We tested these relationships and noted a number of variances that were not identified, researched, and documented by management. For example, we noted differences of $1.8 billion, $148 million, and $1.1 billion in testing the relationship of Expended Appropriations (Current Outlays) to Operating Expenses for IACs 179, 163, and 322, respectively.

Response: We concur with the first and third bullet items mentioned above. OCFO has implemented policies and procedures to ensure that budgetary and proprietary analysis is completed.

We, on the other hand, do not concur with the remaining bullet items. OCFO did not perform certain budgetary and proprietary analysis only because they do not apply to accounts transferred from a Trust Fund; because these appropriations have Trust Fund funding, we have to exclude them from the analysis. Furthermore, the findings cited in the last bullet item were only accurate for the first quarter of FY-2008.

D. Reconciliation of the SF-133 to the SBR

OCFO management does not concur with the proposed recommendation. There is no requirement in OMB Circular A-136 to reconcile the SBR to the SF-133 reports within 21 days after the end of each quarter. The criteria quoted in the NFR do not apply to draft financial statements. As noted by the auditors in the condition statement, the SBR was reconciled to the SF-133 reports on November 8, 2008 which was nine days before the due date of the final consolidated financial statements.

Auditors' Conclusion

Recommendations for sections B and C are considered **resolved and open**. FY 2009 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed. However, we disagree with the OCFO conclusion for sections A and D. Regarding section A, the controls identified in management's response did not detect the differences identified during our testwork. For section D, the SF-133 to SBR reconciliation is a financial reporting control that should be implemented to detect and correct potential material misstatements in the SBR in a timely manner during the year-end preparation of the consolidated financial statements. Therefore, we consider our recommendations for sections A and D **unresolved** pending completion of corrective action plans with specified timeframes for implementation to address our recommendations.

4. Budget Apportionment Process

During our testing over management review of the SF-132s, we noted the following:

- The Departmental Budget Center (DBC) reported appropriated receipts in the amount of $13.8 million on Line 3D1A, *Offsetting Collections – Earned, Collected* instead of either Line 3A1, *Budget Authority, Appropriation – Actual* or Line 3A2, *Budget Authority, Appropriation –Anticipated* of the SF 132 for TAFS 16X5393.
- The DBC incorrectly reported FY 2008 appropriations received (current year appropriations) as Unobligated Balance: Brought Forward, October 1(Line 1A). This impacted TAFS 1608/090164 in the amount of $7.5 million.
- Regarding the $7.5 million noted above, the OCFO incorrectly recorded this amount in the general ledger in February 2008 as Allotments Realized instead of Unapportioned Authority. The accounting was not appropriate because Public Law 110-161, *Consolidated Appropriations Act, 2008,* made this amount available after July 1, 2008.

An adequate review was not performed of the SF-132s prior to submission to OMB or of the FY 2008 Consolidated Appropriations Act to determine the proper period of availability to incur obligations. This could result in *Anti-Deficiency Act* violations and misstatements of the year-end consolidated financial statements. In addition, when management identified the SF-132 errors, DBC had to contact OMB to explain the errors.

OMB Circular No. A-11, Appendix F states that, "Line 1A of the SF-132 should include the amount of unobligated balance brought forward from prior fiscal years as of October 1 of the current fiscal year that is available for obligation." The Appendix also states that, "Line 3A1 should include the amount of appropriated receipts collected in the current fiscal year [and the amount of] anticipated collection of available receipts."

Pursuant to Public Law 110-161*, Consolidated Appropriations Act, 2008, Division G, Title I Department of Labor, Veterans Employment and Training*, states, "Not to exceed $200,631,000 may be derived from the Employment Security Administration Account in the Unemployment Trust Fund to carry out the provisions of sections 4100–4113, 4211–4215, and 4321–4327 of title 38, United States Code, and Public Law 103–353, and which shall be available for obligation by the States through December 31, 2008, of which $1,984,000 is for the National Veterans' Employment and Training Services Institute. To carry out the Homeless Veterans Reintegration Programs under section 5(a)(1) of the Homeless Veterans Comprehensive Assistance Act of 2001 and the Veterans Workforce Investment Programs under section 168 of the Workforce Investment Act, $31,522,000, of which $7,482,000 shall be available for obligation for the period July 1, 2008, through June 30, 2009."

Recommendations

We recommend that:

1. The Assistant Secretary for Administration and Management provide DBC staff and supervisors with specific guidance on proper preparation and review of the SF-132s prior to submitting the forms to OMB.

2. The Chief Financial Officer implement review procedures to ensure that appropriations are made available for obligation in the general ledger system in accordance with the appropriations law.

OASAM Management's Response

OASAM agrees with the recommendation that DBC provide refresher training to its supervisors regarding review of the SF-132s. In addition, OASAM/DBC will modify its guidance to Agencies to include the period of funding availability on all allotment requests so more information is available during review to determine if the allotment should make funds available immediately, or at a later date. This guidance will be issued formally when OASAM/DBC issues its annual apportionment guidance once a full-year FY 2009 appropriation is enacted for the Department's programs. Also, this instruction will be included in all future DBC-issued apportionment guidance covering full-year appropriations.

OCFO Management's Response

OCFO agrees with the recommendations. No later than March 31, 2009, we will implement review procedures to ensure that appropriations are made available for obligation in the general ledger system, in accordance with the appropriations law.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2009 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

5. Recording Upward Adjustments Transactions

During FY 2007, we noted that DOL used improper U.S. Standard General Ledger (USSGL) accounts to record adjustments of $102 million in obligations. As a result, we made the following recommendation:

We recommend that the OCFO implement policies and procedures to ensure adequate controls exist for the proper recording of adjustments to delivered and undelivered orders. Specifically, the controls identified should ensure (a) the retention of adequate supporting documentation, (b) proper timing of recordation, and (c) proper coding of the adjustments to the correct standard general ledger accounts. The control environment should also include provisions for appropriate management review.

During our FY 2008 testing, we noted that DOL incorrectly recorded new current year obligations in the amount of $2.8 million as upward adjustments.

The above finding is due to the configuration of DOLAR$ combined with user errors which are causing improper account coding of certain adjustments to delivered and undelivered orders. DOL relies on a manual review of obligations above $50,000; however, the review did not detect and correct the items we identified as of June 30, 2008, since they were individually below the threshold. As a result, DOL is not in full compliance with the USSGL.

OMB Circular No. A-11, Section 20, *Terms and Concepts*, states, "multi-year budget authority is available for obligation for the specified period of time in excess of one fiscal year." During the unexpired phase of a multi-year appropriation, the budget authority is available for incurring "new" obligations. Agencies may use expired authority to make adjustments to obligations or disbursements only during a period of five years after the last unexpired year.

Although management implemented additional controls in FY 2008, our FY 2007 recommendation was not fully addressed. Therefore, we consider the FY 2007 recommendation **unresolved** pending completion of a corrective action plan and timeframes for implementation. This recommendation is modified below.

Recommendations

We recommend that the Chief Financial Officer:

1. Ensure that the new general ledger system, to be implemented in October 2009, is configured to properly record adjustments to current year delivered and undelivered orders.

2. Ensure adequate controls exist for the proper recording of all adjustments to delivered and undelivered orders and not only those above the $50,000 threshold. Specifically, we continue to recommend that the controls identified should provide for the (a) retention of adequate supporting documentation, (b) proper timing of recording the entry, and (c) proper coding of all adjustments to the correct standard general ledger accounts. The control environment should also include provisions for appropriate management review.

Management's Response

OCFO does not concur with this NFR, either the facts as stated by the auditors or the resulting conclusions. It is true that our existing accounting system initially records certain obligations as upward adjustments rather than standard obligation entries. The long term solution for this situation will be addressed in the design of the new general ledger system, currently scheduled for implementation in FY 2010. In the mean time, OCFO has implemented compensating controls to ensure substantial compliance with SGL accounting, which consist of an automated program and a detailed, manual review process. The automated program detects and corrects certain obligation entries regardless of the dollar value. Therefore, it is incorrect for the auditors to say that no transactions less than $50,000 are subjected to potential adjustment. A second, manual review process analyzes and, if necessary, corrects, transactions equal to or greater than $50,000.

The $50,000 threshold was established due to the fact that at this level, the material portion of the account balances would be evaluated and corrected if necessary. For example, the adjusted year end balances in accounts 4881 and 4891 total about $99 million. Of this amount, there are 225 transactions equal to or greater than $50,000, totaling about $90 million, or 90% of the account balance. The remaining $9 million was comprised of about 14,800 transactions. We do not believe it is necessary, nor is it an efficient use of resources, to individually analyze the remaining 14,800 transactions with a value of only $9 million. This amount is simply too immaterial to subject to this *detailed review process, and the cost of analyzing 100% of the transactions is not justified based on the corresponding dollar value.*

Federal internal control standards recognize that the level of controls established by management should be balanced against the risk of misstatement or misappropriation. OMB Circular A-123 states the following:

Federal managers must carefully consider the appropriate balance between controls and risk in their programs and operations. Too many controls can result in inefficient and ineffective government; agency managers must ensure an appropriate balance between the strength of controls and the relative risk associated with particular programs and operations. The benefits of controls should outweigh the cost. Agencies should consider both qualitative and quantitative factors when analyzing costs against benefits.

The auditors conclude and recommend that we analyze "all" transactions posted to these SGL accounts. We do not agree, and believe that our procedures comply with the internal control standards and provide a reasonable and efficient interim solution until such time as the general ledger is replaced in its entirety.

We also question the implication of the NFR statement that we are not in "full" compliance with the USSGL. While this may be true for a very insignificant amount of obligation transactions, Federal financial management standards require agencies to have financial management system that substantially comply with the USSGL. We conclude that the procedures in place during FY 2008 ensured substantial compliance over the use of upward adjustment accounts and met the applicable Federal standards.

Finally, we note that the use of the upward adjustment accounts rather than the standard obligation accounts does not have any impact to any line item of the basic financial statements. In other words, the risk of misstatement is zero.

Auditors' Conclusion

Regarding recommendation No. 1, the OCFO indicated that the underlying cause of the situation will be addressed in the design of the new general ledger system, currently scheduled for implementation in FY 2010. Therefore, we consider recommendation No. 1 **resolved and open**. Because corrective actions will not be effective until FY 2010, our FY 2009 audit procedures will assess progress made in addressing this recommendation. Regarding recommendation No. 2, because management made an assessment and determined that the balances under the $50,000 threshold in accounts 4881 and 4891 are immaterial in the aggregate to the consolidated financial statements, we consider recommendation No. 2 **resolved and open.** FY 2009 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed

6. Recording Budget Authority

During our FY 2008 substantive audit procedures over appropriations received and journal vouchers, we noted several instances where DOL did not record the budgetary and proprietary transactions simultaneously for economic events related to the approval of budgetary resources under a continuing resolution by OMB.

DOL's policy is to record proprietary entries related to appropriations received only when a Treasury Warrant is received. Budget and proprietary entries to post Treasury Warrants are completed via two separate transactions and by two different agencies, which are not coordinated appropriately. The OCFO posts the proprietary entry and DBC posts the budgetary entry. This policy could result in (1) potential abnormal balances in Fund Balance with Treasury upon disbursements for current year annual and multi-year funds and (2) imbalances in budgetary/proprietary relationships.

The USSGL, Section III Account Transactions, A196 states, "to record the annualized level of an appropriation provided under a continuing resolution."

Budgetary Entry
Debit 4119 Other Appropriations Realized
Credit 4450 Unapportioned Authority

Proprietary Entry
None

USSGL, Section III Account Transactions, A197 states, "To record Fund Balance with Treasury under a continuing resolution as determined by the Office of Management and Budget's automatic apportionment bulletin."

Budgetary Entry
None

Proprietary Entry
Debit 1090 Fund Balance with Treasury Under a Continuing Resolution
Credit 3101 Unexpended Appropriations – Appropriations Received

USSGL, Section III Account Transactions, A198 states, "To record Fund Balance with Treasury and adjust Fund Balance with Treasury Under a Continuing Resolution to zero upon the enactment of an appropriation and receipt of a Treasury Appropriation Warrant."

Budget Entry
None

Proprietary Entry
Debit 1010 Fund Balance with Treasury
Credit 1090 Fund Balance with Treasury Under a Continuing Resolution
Credit 3101 Unexpended Appropriation – Appropriations Received

USSGL, Section III Account Transactions, A104 states, "To record the enactment of appropriations….This transaction is not recorded by special or non-revolving trust funds unless amounts are appropriated from the General Fund of the Treasury via Treasury Appropriation Warrant."

Budgetary Entry
Debit 4119 Other Appropriations Realized
Credit 4450 Unapportioned Authority

Proprietary Entry
Debit 1010 Fund Balance with Treasury
Credit 3101 Unexpended Appropriations – Appropriations Received

Recommendations

We recommend that the Chief Financial Officer:

1. Amend current policies and procedures to properly and timely record budgetary and proprietary entries for the receipt of budget authority.

2. Combine the transaction codes used to record budget authority so that such proprietary and budgetary entries are posted simultaneously.

Management's Response

OCFO in consultation with OASAM plans to implement corrective actions effective in FY 2010. The Department plans to implement a new financial system in October 2009. OCFO in consultation with OASAM will amend the policies and procedures to implement the new system and to address the recommendations of this NFR. OCFO in consultation with OASAM will develop new transaction codes to combine the budgetary and proprietary and entries.

Auditors' Conclusion

These recommendations are considered **resolved and open**. Because corrective actions will not be effective until FY 2010, our FY 2009 audit procedures will assess progress made in addressing these recommendations.

7. Grant Monitoring Controls

DOL is charged with preparing the American workforce for new and better jobs and ensuring the adequacy of America's workplaces. As part of accomplishing this mission, the Employment and Training Administration (ETA), Veterans Employment & Training Services (VETS), and Bureau of International Labor Affairs (ILAB) issue grants to various organizations.

The ETA, VETS, and ILAB grantees are required to submit quarterly Financial Status Reports, which document the costs incurred by the grantee. The assigned Federal Project Officer/Grant Officer (FPO) initially performs a cursory review of the quarterly Financial Status Reports and then performs a more comprehensive review and analysis of the financial reports within 30 days of receipt of the reports. The FPO is responsible for ensuring that the grantee is submitting its required reports in a timely manner.

ETA grantees are also required to submit progress reports on a quarterly basis. The assigned FPO performs a comprehensive review and analysis of the performance reports within 30 days of receipt of the reports but no later than 75 calendar days after the end of the calendar quarter.

Additionally, VETS, and ILAB grantees are required to submit quarterly Federal Cash Transaction Reports through the Department of Health and Human Services' Payment Management System (HHS/PMS). These reports record the disbursements made by DOL to grantees.

During FY 2007, we noted various exceptions related to FPO's review and reconciliation of the grantees' progress reports. As a result, we made the following recommendations:

We recommend that the Assistant Secretary for Employment and Training:

1. ***Reinforce procedures which require a detailed review of the "Delinquent Cost Report" every quarter for the entire year. Additionally, FPOs or the individuals contacting the delinquent grantee should be required to maintain accurate records of the communication and results. Supervisors should review a sample of delinquent cost reports to confirm that the FPOs are resolving these situations timely; this review should be documented.***

2. ***Require supervisors to review a sample of grantees' progress report desk reviews to confirm that the reports are being completed timely; this review should be documented.***

We recommend that the Assistant Secretary for the Veterans' Employment and Training Service and the Deputy Undersecretary for International Affairs implement adequate procedures to ensure that submitted cost reports are recorded correctly and reconciled to DOLAR$ in a timely manner.

During our testing over the grants process in FY 2008, we noted the following weaknesses in internal control:

- A desk review was not completed for 1 of the 45 ETA grantee progress reports tested for the periods ended December 31, 2007 and March 31, 2008.
- A desk review was not completed timely (i.e., 75 calendar days after the end of the calendar quarter) for 4 of 45 ETA grantee progress reports submitted for the periods ended December 31, 2007 and March 31, 2008.
- The submission date for a desk review was not documented for 1 of the 45 ETA grantee progress reports tested, which prevented the testing of the timeliness of this review.
- Adequate documentation supporting that the FPO had followed up timely with the grantees on cost report delinquencies did not exist for 3 of the 30 delinquent ETA grantees selected for testing.
- For 5 of the 16 sample items related to VETS (2) and ILAB (3), DOLAR$ did not agree to the quarterly Financial Status Reports.

The above exceptions occurred because ETA did not adequately verify that all required progress report desk reviews were completed in a timely manner, as there was no supervisory review to ensure that the FPOs were performing all of their assigned grantees' progress report desk reviews timely. In addition, ETA does not have procedures in place to track late FPO desk reviews, and the Grants eManagement System (GEMS) does not require FPOs to both submit and save their reviews to ensure the submission date is recorded. Also, ETA did not consistently maintain adequate support for communications with grantees to resolve issues such as delinquent reporting. Concurrently, VETS and ILAB did not have adequate and/or fully implemented procedures in place to ensure that data submitted on the quarterly Financial Status Reports was recorded correctly and reconciled to the quarterly Federal Cash Transaction Reports and DOLAR$.

Without adequate detective controls over the grant expenditure process, grantees may be intentionally or unintentionally misreporting grant expenditures or misusing grant funding, causing DOL's financial statements to be misstated. Incorrect reporting by grantees could result in DOL not properly recording the cash position of the grantee, any amounts owed by the grantee, or any amounts owed by DOL to the grantee. As a result, grant-related expenses, advances, payables, and undelivered orders could be misstated.

Per DOL's *General Guidance on* GEMS *Usage for FY05* memorandum, DOL's policy regarding desk reviews states that, "desk reviews should be completed 30 days after receipt of the quarterly reports from grantees, but no later than 75 calendar days after the end of the calendar quarter."

In addition, GAO's Standards states "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records, which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes."

As a result, we consider the FY 2007 recommendations to be **unresolved** pending completion of a corrective action plan and timeframes for implementation. Additionally, we make the following new recommendations:

Recommendations

We recommend that the Assistant Secretary for Employment and Training ensure the following improvements are made to ETA's internal control structure:

1. Update ETA policy to improve documentation requirements for desk reviews and circulate the policy to ensure all FPOs are aware of the timeliness requirement of the desk reviews.

2. For the grants monitored in GEMS, develop a report in GEMS to note when desk reviews have not been performed by the FPO. In addition, the report should highlight/track desk reviews that are close to the completion deadline of 75 calendar days after the end of the calendar quarter. Supervisors should review these reports periodically and follow-up with the FPOs as appropriate.

3. For the grants monitored in GEMS, develop a system alert to prompt FPOs to save and submit their reports before exiting the system. This would provide each desk review with a submission date, allowing for verification of timeliness of the review.

VETS Management's Response

The Veterans' Employment and Training Service (VETS) will redouble its efforts to reconcile grantee financial reports to the general ledger. VETS grants management procedures are in place requiring quarterly financial reporting and reconciliation of grants.

The major challenge to quarterly reconciliation has been delinquency of reporting for grantees. VETS will take appropriate actions on delinquent reporting, holding agency field leadership accountable for timely inputs of SF 269 quarterly financial reports.

Once received, the Agency Budget Office (ABO) will ensure appropriate action to reconcile these reports with the Department's core financial system and general ledger. Our intent is to address and close this finding during FY 2009.

ILAB Management's Response

ILAB concurs with the management advisory comments stating that, as of the time of the audit review, ILAB had not fully implemented its procedures for effective grant monitoring controls. Fiscal Year 2008 Notification of Findings and Recommendations (NFR) 08-39, titled "Reconciliation of Grantee Financial Reports to the General Ledger," also recommended that ILAB "…implement its existing reconciliation procedures for all its grants."

In response to the aforementioned recommendation, ILAB developed written procedures and policies for Grant Officer Technical Representatives (GOTRs) to review and reconcile the grantee-submitted SF-269s to the PSC-272s submitted through the HHS/PMS system and DOLAR$. ILAB documents this reconciliation and review process using a Project Manager Financial Review sheet, developed specifically to provide evidence of execution of these activities, dated and initialed by the Project Manager/GOTR and filed with related technical and financial reports in a central location. As of the beginning of the September 2008 grant cycle, ILAB has completely implemented its reconciliation procedures for all grants as part of its oversight of federal funds.

In addition, in carrying out its responsibilities for proper oversight of Congressionally-appropriated funds for technical cooperation programming, ILAB reviews information submitted in the SF-269 and cross checks that information against information submitted by grantees in their Technical Progress Reports to ensure that grantees' use of funds corresponds to actual project activity levels. This review also involves ILAB checking SF-269s against the approved budget for the project to ensure that grantees do not exceed funding amounts obligated by ILAB. ILAB written procedures also call for follow-up communications with grantees, if a grantee is late in submitting its SF-269s and/or when ILAB has questions regarding information submitted by a grantee in its SF-269. These communications are documented in ILAB's project files. ILAB presented evidences of this process for following-up with grantees regarding SF-269 submissions during the FY 2008 audits.

ILAB remains committed to proper oversight of funds and in ensuring their existing procedures are followed for maintaining proper internal controls.

ETA Management's Response

Management agrees with this finding and is implementing corrective actions to improve controls in the area. Notification from the Deputy Assistant Secretary was sent to ETA Administrators requiring all National Office Federal Project Officers (FPOs) to document grants managed out of the National Office through the Grants Electronic Management System (GEMS). Training on GEMS to new users began in the 1st quarter of fiscal year 2009. ETA has revised appraisal standards in FY09 for supervisors of FPOs (both

National Office and Regional staff) to require the review of GEMS management reports of FPO desk reviews to confirm that the reports are being completed timely, and to note any delinquent reporting. Supervisors will go over the results of those reviews with employees quarterly as well. Finally, ETA management will determine the feasibility of upgrading GEMS 4.0 to include additional management report(s) such as the desk reference exception report that would highlight/track the completion of desk reviews. The completion of this is based on available funding.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2009 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

8. Grant Closeouts

During the FY 2006 and FY 2007 audits, we identified various exceptions related to the closeout of grants, including timeliness and inconsistent review of closeout documentation. As such, we made the following recommendations:

We recommend that the Assistant Secretary for Employment and Training develop and implement review procedures within the Closeout Unit that the supervisor will perform over the closeout inventory tracking system. These procedures should include:

1. ***Following up on any grants that have not been closed within the required timeframes;***
2. ***Contacting the Closeout Specialists who are assigned to grantees that have not submitted the closeout packages and are nearing the end of the required time frame (90 days) to confirm that communication is occurring with the grantees;***
3. ***Reviewing the status of grants where the closeout package has been submitted by the grantee;***
4. ***Ensuring that the grant specialists are reviewing and reconciling the closeout documents within the required 30 day timeframe;***
5. ***Ensuring that grants that are with the Division of Financial and System Services (DFSS) are properly and timely being de-obligated in DOLAR$; and***
6. ***Reviewing, on a sample basis, closeout documentation, specifically the Grant Closeout Preliminary Record, Accounting Checklist, and de-obligation entries, to ensure that they are all properly approved and agree to all supporting documentation.***

During our testing over grant closeout procedures in FY 2008, we noted the following weaknesses:

- For 1 of the 45 closed grants selected for testing, the file folder could not be located; therefore, this sample item could not be tested;
- For 3 of the 44 closed grants tested, the Closeout Specialist did not consistently review and analyze the closeout documentation and complete the required financial reconciliation within 45 days from the receipt of the final grant forms. No evidence in the grant file indicated what delayed the reconciliation process. Additionally, 1 of the grants was not assigned to a Closeout Specialist in a timely manner, causing a delay in the closeout of this grant.
- For 2 of the 264 ETA grant-related undelivered orders tested, closeout was not conducted for the grants although final cost reports had been submitted prior to the end of the grant's period of performance.
- For 8 ILAB grants identified during our HHS/PMS to DOLAR$ suspense testing, funds were drawn down through HHS/PMS but were not expended by the grantee and reported by the end of the period of performance. Therefore, money was due to the U.S. Department of the Treasury (Treasury) for these unused funds.
- For 3 of 3 Office of Disability Employment Policy (ODEP) grant-related undelivered orders tested, closeout was not conducted timely (i.e., within 12 months) although final SF 269s were received.

The above instances were a result of misplaced files during transition to a new barcode filing system and inadequate follow-up procedures regarding the closing of grants. In addition, the review of the Closeout Inventory Tracking System (CITS), closeout reconciliations, and all completed grant closeouts was insufficient to ensure that the Closeout Specialists were adequately documenting their communications with the grantees. Furthermore, the Office of the Assistant Secretary for Administration and Management (OASAM), which administers grants for ODEP and ILAB, has not appointed a designee to conduct closeout of grants. Currently, OASAM closes its grants when funds have expired, in lieu of when activities have been completed. Ultimately, the above instances could result in grants that are not closed in a timely manner and an overstatement of undelivered orders because of the delayed de-obligation.

Per ETA's Closeout Manual, once the grantee has submitted the closeout forms, the Closeout Specialist receives an email notification that the forms are ready to be reviewed in the Grants Closeout System (GCS). Internal procedures require that the closeout specialist review, analyze, and reconcile the closeout documents within 45 days from receipt of the grant forms. The specialist works with the FPO to resolve any financial discrepancies by comparing the final cost report submitted by the grantee to the costs reported in DOLAR$ to ensure that the information submitted meets the grant requirements and agrees with DOLAR$ and the final SF-269 (or equivalent). Once all of the documents have been accepted and the financial reconciliation completed, the Accounting Checklist is completed by the Closeout Specialist. The checklist summarizes the pertinent information for the grant, the net amount paid by DOL, the costs incurred, and the amount to be de-obligated. The Grant Officer clicks “submit” on the “Mod Approval Process History” screen, which acts as an electronic signature. The package is then sent electronically to DFSS for reconciliation between HHS/PMS and DOLAR$. The DFSS accountant receives an electronic notice through E-Grants that a grant is on the work list that needs to be closed. Once the package is received by DFSS, the HHS/PMS reconciliation to DOLAR$ is completed within 7 days. A de-obligation is processed, if needed. The information is then sent back to the Closeout Unit where the Grants Officer performs a final review of the documentation and sends a Notification of Closure to the grantee as evidence of approval.

In addition, GAO’s Standards states, “Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records, which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.”

Although management implemented certain corrective actions in FY 2008, our FY 2006 and FY 2007 recommendations were not fully addressed. As a result, we consider these recommendations **unresolved** pending completion of a corrective action plan and timeframes for implementation. These recommendations are modified below.

Recommendations

We recommend that the Assistant Secretary for Employment and Training improve the procedures for supervisory review of the grant closeout process. These procedures should include:

1. Reviewing the CITS with the Closeout Specialists periodically to determine the status of grant closeouts in conjunction with and/or in addition to regular monthly meetings;
2. Following up with staff within 3-5 workdays to make sure that immediate action required as a result of the monthly meeting is completed;
3. Following up on any grants that have not been closed within the established time frames;
4. Ensuring that the Closeout Specialists are reviewing and reconciling the closeout documents within the established 45-day time frame;
5. Ensuring that the Closeout Specialists are documenting any delays in closeout and including such documentation in the grant file; and
6. Reviewing, on a sample basis, closeout documentation, specifically the Grant Closeout Preliminary Record/MOD Process History, Accounting Checklist, and de-

obligation entries, to verify that they are all properly completed and approved and agree to all supporting documentation.

In addition, we recommend that the Assistant Secretary for Administration and Management ensure that the OASAM grant officers for ODEP and ILAB:

1. Implement the DLMS procedures requiring the designation of a Closeout Specialist to handle the accounting aspects of closing out grants, such as de-obligating funds and following up with grantees to ensure unused funds drawn down are returned to the Treasury.

2. Develop and implement specific procedures to complete the grant closeout process within 12 months of each grant's completion in accordance with DLMS. These procedures should include (a) performing final reconciliations between HHS/PMS, DOLAR$, and the final cost reports to determine whether all funds drawn down were expended, (b) de-obligating funds not reported as expended, and (c) following up with grantees to ensure unused funds drawn down are returned to the Treasury.

ETA Management's Response

Management does not concur with the Notification of Findings and Recommendations (NFR) for FY 2008. We object to the auditors' use of the internal processes and due dates outlined in our Closeout Handbook to prepare a consolidated audit report. The timeframes referenced throughout the NFR are those stated in the Closeout Handbook which is intended for guidance purposes only. They are internal benchmarks and goals that should not be considered requirements.

We are governed by the requirements outlined in the DLMS-2, Chapter 800, Section 870 and ETO No. 3-05 which provide closeout procedures for ETA's expired grants, agreements and national office contracts. The DLMS states that grants are to be closed 12 months from the expiration date. All of ETA's closeouts are processed in accordance with the DLMS regulations. A copy of these procedures was previously provided to the auditors.

OASAM Management's Response

DLMS procedures requiring the designation of a closeout specialist have been implemented. However, the Office of Procurement Services has contracted grant specialists who perform grants closeout offsite. Due to the large volume of grants requiring closeout, contractor personnel have been directed to close out the "oldest" completed grants first. To date approximately 106 grants have been closed with the return of more than $2 million in cash outlays.

Auditors' Conclusion

We disagree with ETA's management's response. The Closeout Handbook indicates that ETA employees must comply with the outlined requirements. Therefore, these recommendations are considered **unresolved** pending completion of corrective action plans with specified timeframes for implementation to address our recommendations. Furthermore, we consider the recommendations to OASAM **resolved and open**. FY 2009 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

9. Grant Accrual Review Controls

The ETA grantees are required to submit quarterly Financial Status Reports (ETA 9130), which document the costs incurred by the grantee. These quarterly reports are due to ETA within 45 days of quarter-end. This gap in reporting time causes a delay in being able to report grantee costs in DOL's general ledger. To account for these expenses that have not yet been reported at quarter-end, ETA calculates an accrual and records this accrual on the last day of the quarter. The accrual is then reversed on the first day of the following quarter, and actual costs are then recorded once reported by the grantees. The accrual is calculated based on certain cost-to-payment ratios, which are calculated during an annual accuracy analysis.

This accuracy analysis is usually performed within the third quarter of every year to compare the actual costs reported by the grantees to the prior year-end accrual. The cost factors to be used in calculating the current year-end grant accrual (as well as the first three quarters of the following year) are determined by this annual analysis, which is calculated by the Financial Systems Specialist under the guidance and review of ETA management. According to the FY 2007 accuracy analysis "Executive Summary" prepared by ETA in FY 2008, "the stratified ratios to be used for the FY 2008 grant and contract accrual were calculated as an average of the FY 2006 and FY 2007 analysis data."

During our testing over the FY 2007 grant accrual accuracy analysis (completed in the third quarter of FY 2008), we noted that the FY 2008 ratios were calculated using only the FY 2007 underlying grant data rather than the average of the FY 2006 and FY 2007 data. This error was not detected and corrected by management's review of the analysis.

The instance above was caused by the lack of an adequate management review of the preparation of the grant accrual accuracy analysis and calculation of ratios to be used to estimate the FY 2008 fourth quarter accrual. Without proper manager review of the analysis and calculation of accrual ratios, the quarterly grant accrual could be misstated, causing grant expenses, advances, payables, and undelivered orders to be misstated. At September 30, 2008, the failure to use the average of FY 2006 and FY 2007 costs in the ratio calculation resulted in a $5.7 million difference between the two accrual calculations.

GAO's Standards states, "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records, which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes."

Recommendation

We recommend that the Assistant Secretary for Employment and Training implement procedures that require a more thorough managerial review of the grant accrual accuracy analysis and related ratio calculations.

Management's Response

Management concurs with this finding. ETA has detective controls in place that would reveal any material error in calculating the accrual ratios or the actual accrual itself, including comparison to prior quarters and review of the overall amounts and distribution of the accrual entry. However ETA made immediate corrective actions upon discovery of this issue, including: additional training for the Financial Systems Specialist and revisions to the written standard operating procedures for the grant accrual analysis. Evidence of these corrective actions has already been provided to KPMG.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2009 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

10. Statement of Differences (FMS-6652) Reconciliation Process

On a monthly basis, agencies report their deposit and disbursement activity to the Treasury using the SF-224, *Statement of Transactions*. Upon receiving the SF-224 from DOL, Treasury compares its deposit and disbursement records to the deposit and disbursement data reported on the agency's SF-224. If any differences are noted, Treasury reports these discrepancies on the FMS-6652 for deposits or disbursements.

Treasury requires that federal agencies reconcile their account 1010 and any related sub-accounts with the FMS-6652. In addition, federal agencies must research and resolve differences reported on the monthly FMS-6652.

During our FY 2008 audit work, we noted the following:

For OASAM's FMS-6652 reconciliation process for Agency Location Code (ALC) 16012004:

- The following information was not presented or disclosed on the document provided to support OASAM's Region IV March 2008 FMS-6652 reconciliation: (1) the individual transactions that reconcile to the total net difference as of March; (2) explanations and, if applicable, subsequent corrective actions initiated for each individual transaction; and (3) appropriate evidence to substantiate supervisory review of the FMS-6652 reconciliation for timeliness, accuracy, and completeness.
- OASAM's Region V FMS-6652 reconciliation over deposits for the month of March 2008 did not contain sufficient and appropriate audit evidence to substantiate supervisory review of the reconciliation for timeliness, accuracy, and completeness.
- The following information was not presented or disclosed on the document provided to support OASAM's Region II March 2008 FMS-6652 reconciliation: (1) a separate reconciliation to substantiate the performance of the FMS-6652 reconciliation; (2) the individual transactions that reconcile to the total net difference as of March; (3) the causes and subsequent corrective actions initiated for each individual difference transaction; and (4) appropriate evidence to substantiate supervisory review of the FMS 6652- reconciliation for timeliness, accuracy, and completeness.

For the Employment Service Administration (ESA) ALC 16012013:

- The preparation of the ESA monthly FMS-6652 reconciliation for this ALC is not being performed timely.
- Differences reported on the FMS-6652 are not being resolved timely. Specifically, we noted that 3 of 20 individual differences examined were unresolved for more than 60 business days.

The exceptions for ALC 16012004 occurred because the OASAM Region II accountants did not review the FMS-6652 report for deposits on a monthly basis. In addition, OASAM management did not communicate to Regions IV and V district offices the procedures to perform and document the FMS-6652 reconciliation and related supervisory review. The monthly Statement of Differences reconciliation over disbursements for ALC 16012013 was not prepared timely because of ESA staffing shortages. Specifically, the employee that was responsible for the performance of the aforementioned reconciliation retired prior to ESA finding a replacement to assume these responsibilities.

Reconciliations that are not prepared timely and according to Treasury guidelines increase the potential risk that the closing balance of Fund Balance with Treasury (FBWT) is misstated. In addition, differences that are not resolved timely decrease management's assurance that the FBWT ending balance is reliable.

The Treasury's FBWT *Reconciliation Procedures, A Supplement to the Treasury Financial Manual,* (TFM) *Volume I, Part 2, Chapter 5100, November 1999* (Reconciliation Procedures), states, "The procedures defined in this document provide step-by-step instructions on reconciling the Fund Balance with Treasury (FBWT) … These procedures pertain to Federal agencies that must report receipt and disbursement activity to Treasury."

TFM Chapter 5100, section 5125, *Background*, states, "Agencies should document their reconciliations and make them available to agency management, auditors and Treasury if requested … Reconciling FBWT accounts is a key internal control process. It assures the reliability of the Government's receipt and disbursement data reported by agencies. Therefore, agencies must perform timely reconciliations and implement effective and efficient reconciliation processes."

GAO's Standards states, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

Recommendations

We recommend that the Assistant Secretary for Administration and Management implement the following monthly reconciliation and review procedures over the FMS-6652:

1. Ensure that personnel are reviewing the FMS-6652 report, the deposits, and disbursements on a monthly basis.
2. Ensure that personnel retain supporting documentation, whether electronic or hard copy, to identify: (1) that FMS-6652 reconciliations are performed for deposits and disbursements; (2) that these reconciliations are completed timely; (3) that these reconciliations are reviewed by someone other than the preparer; (4) a log of unresolved differences; (5) explanations for causes of differences; and (6) corrective actions taken.
3. Ensure that OASAM management, on a quarterly basis, monitors the quality of the performance of newly implemented procedures by obtaining status reports and supporting documentation that address the issues noted in the bullets above.

In addition, we recommend that the Assistant Secretary for Employment Standards:

4. Require that existing personnel are cross-trained so that individuals are available to perform certain duties in the event that responsible parties are absent or unavailable to perform their assigned duties.

OASAM Management's Response

OASAM accepts the recommendations and working with the OCFO, has implemented the three recommendations in this finding.

Corrective action was taken with staff in the Boston/New York Regional Office to remind them that the FMS-6652 Statement of Difference for deposits is to be accessed for both the 16-01-2001 and 16-01-2002 on at least a monthly basis, regardless of activity. Also, pursuant to the realignment of OASAM's finance and accounting responsibilities, the work that was previously carried out by the Boston/New York Region is now being completed by the Atlanta Regional Office. Consequently, the FMS-6652 Statement of Difference review will no longer be done by the Boston/New York Regional Office.

The Chicago Region has also already implemented corrective action. The reviewing official (Regional Finance Officer or Supervisory Accountant) now initials and dates each of the reconciliation documents during monthly meetings with the Senior Accountant. These documents are retained in accordance with the Department's document retention standards.

ESA Management's Response

We do not agree with the Notification of Findings and Recommendation (NFR) as presented. While ESA did not perform a formal reconciliation (i.e., a reconciliation that included appropriate signatures), differences were identified and addressed. We agree that the appropriate signatures on the reconciliations were not obtained until the dates indicated in the NFR due to staffing changes/shortages. However, there is no potential risk of the Treasury's fund balance to be misstated since ESA's Branch of Accounting and Financial Systems conducts monthly reconciliations and account reviews. Currently, monthly reconciliations are completed within five business days after the end of the period and include appropriate signatures. All identified differences are researched and reviewed in the next reporting cycle.

Auditors' Conclusion

The recommendations addressed to OASAM are considered **resolved and open**. FY 2009 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed. Regarding the recommendation to ESA, the response did not provide corrective action to address our recommendation. Therefore, we consider our recommendation to ESA to be **unresolved** pending completion of corrective action plans with specified timeframes for implementation to address our recommendation.

11. Supervisory Review of the Monthly Reconciliation of State Deposits

The Bureau of Public Debt (BPD) within Treasury is responsible for recording, summarizing, and reporting to DOL the amounts collected related to federal and state tax receipts that affect the Unemployment Trust Fund (UTF) balance. On a monthly basis, BPD prepares the federal and state tax collection data in an electronic file and forwards it to the DOL OCFO; this file is subsequently posted in DOL's general ledger. As a result, DOL relies on the BPD controls to ensure that the data reported regarding federal and state tax collection data are complete and accurate. If an examination of BPD federal and state tax collection data discloses that the amounts are inaccurate, then the tax revenue recorded in DOL's general ledger could be potentially misstated.

To compensate for this risk, the Office of Workforce Security (OWS) monitors the accuracy of the deposit information transmitted to Treasury by the states using the monthly reports (i.e., ETA-2112, *the UI Financial Transaction Summary*) submitted to DOL by the states. In order to monitor the states, the OWS Budget Analyst on a monthly basis reconciles the deposits reported by the state on the ETA-2112 to the state deposits reported on Treasury's UTF Transaction Statement obtained from the BPD website. This control is designed to detect differences between the deposit amounts reported to Treasury and DOL.

Based on our inspection of the supporting documentation and re-performance of the October 2007 and March 2008 state deposit reconciliations, we noted the following issues that were not detected in the supervisory review over the state deposits monthly reconciliation:

- One state's (i.e., Wisconsin) total state deposits was computed incorrectly for purposes of reconciling to DOLAR$, and when it was subsequently compared to the total state deposits per Treasury, a difference was identified that did not actually exist. The amount the state deposited as reported by Treasury was correct.
- One state (i.e., Indiana) did not provide an adequate explanation for the difference between the state deposits reported on Treasury's UTF Transaction Statement and the state deposits reported on the state's ETA-2112. Thus, we could not determine if the appropriate corrective action was initiated or taken.
- OWS does not maintain any physical or electronic evidence to support that a supervisor or separate personnel other than the preparer reviewed the October 2007 and March 2008 state deposits reconciliations.

The lack of an adequate review process over the state deposits reconciliations increases the potential for the following risks: (1) significant differences between the amount of state deposits reported by Treasury and the amount of deposits reported on the state's ETA-2112 may not be properly and timely resolved; (2) misstatements may be recorded in the general ledger and remain undetected, given that DOL relies on the state deposit information reported by Treasury; and (3) insufficient explanations regarding differences between the amount of state deposits reported by Treasury and the States may be accepted without a proper reasonableness assessment.

The discrepancies noted above resulted from the following:

- The deposit amount reported in the reconciliation was calculated incorrectly because of the removal of a formula used to calculate the total deposit per state. In addition, the supervisory review did not assess the accuracy and completeness of the macro used to report the total amount of deposits reported per state by Treasury.
- Insufficient explanations provided by the state (Indiana) were accepted without the preparer and/or reviewer performing additional procedures to corroborate the explanation provided by the state.
- The reviewer is not required to physically or electronically document the completion of the review of the monthly state deposits reconciliation.

We also noted that the procedures above are not required under or documented in DOL policies.

GAO's Internal Control Management and Evaluation Tool states, "Appropriate control activities are employed, such as reconciliations of summary information to supporting detail and checking the accuracy of summarizations of operations." In addition, it states, "this information should be available on a timely basis to allow effective monitoring of … activities, and transactions and to allow prompt reaction."

GAO's Standards also states, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

Recommendations

We recommend that the Assistant Secretary for Employment and Training direct OWS management to document and implement procedures over state deposits reconciliations to include the following:

1. Assessing the accuracy and completeness of the macro used to report the total deposits per Treasury in DOLAR$;
2. Assessing the reasonableness of explanations provided for differences between the data reported by Treasury and the States, and following up on such explanations as needed; and

3. Documenting (physically or electronically) the completion of supervisory review.

Management's Response

ETA Management does not concur with the Notification of Finding and Recommendation. In the Background section of the NFR, the following statement is made: "This control is designed to detect differences between the deposits amounts reported to Treasury and DOL ***as well as detect potential misstatements posted in the general ledger due to inaccurate deposit information reported by the states****". Inaccurate deposit information reported by the States has no impact on information posted in the general ledger. The Department of the Treasury is the source for deposit information, not information reported by States.*

Similarly, the first bullet point listed under "Conditions" is incorrect. It states "a difference was identified that did not actually exist due to the amount being recorded incorrectly in DOLAR$." The amount recorded in DOLAR$ was correct, as it was obtained from Department of Treasury file. OWS did have an error in its reconciliation, but the error was internal and it did not affect the financial statements.

Nonetheless, management has reviewed and assessed the macro embedded in the excel spreadsheet used to conduct this reconciliation. The macro performed as intended; the reason for the previous oversight was that the macro was not applied to the full data range. Once the macro was applied to the full data range, the reconciliation resulted in the deposits reported by the state balancing with the transactions recorded by Department of Treasury. In addition, management believes that the State's explanations for the deposits are reviewed closely. Also, in regards to documenting the completion of supervisory review, management implemented a supervisory review process in May 2008. At the completion of the monthly reconciliation the budget team leader now physically signs the monthly summary sheet.

While, management has taken action to enhance the review process, by March 2009 they will take additional steps to further strengthen it, specifically in pursuing answers from States for any incomplete or unclear comments.

Auditors' Conclusion

Although management stated that they do not concur with our recommendations, they have taken steps to address them. Therefore, these recommendations are considered **resolved and open**. FY 2009 audit procedures over the monthly reconciliations will determine whether these recommendations have been adequately addressed and can be considered closed.

12. Improper Cutoff of Collections Related to Custodial Revenue

OSHA generates revenue by assessing fines and penalties to businesses that do not meet safety and health standards. In the FY 2006 and FY 2007 audits, we noted that OSHA collections were not properly cut-off at year end because of the use of Treasury's CA$HLINK to report collection information instead of information within the Integrated Management Information System (IMIS). Consequently, Treasury will not identify differences that may actually exist. Additionally, if collections are not recognized when they are received, then reported collections related to civil monetary penalties may be understated.

As a result, we made the following recommendations:

1. ***We recommend that the Chief Financial Officer and the Assistant Secretary for Occupational Safety and Health develop policies and procedures to record collections received near year-end in the general ledger in the proper fiscal year.***

2. ***We recommend that the Chief Financial Officer update current policies and procedures to specifically indicate what source documents are appropriate to use in order to record deposit transactions into DOLAR$ (and indicate what source documents are not appropriate source documents for deposit transactions recorded in the general ledger).***

3. ***We recommend that the Assistant Secretary for Occupational Safety and Health use the deposit information recorded in IMIS as the source documentation for deposits to be recorded into DOLAR$.***

During our FY 2008 testing of custodial revenue, we noted that differences in timing between cash collections received and recorded in DOLAR$ for OSHA, ESA, and the Employment Benefits Security Administration (EBSA) resulted in a net overstatement of cash collections in the amount of $643,000 as of September 30, 2008. The overstatment was caused by the following:

- OSHA's usage of the CA$HLINK Deposit Activity Report as its primary source document to record cash collection information into DOLAR$. Also, OSHA does not consider this issue significant enough to warrant changing its existing process.
- ESA did not properly record collections to DOLAR$ based on support from its subledger at the beginning of FY 2008. As such, deposits were received and recorded in the subledger, but not recorded in DOLAR$ until processed by the bank. ESA has since implemented a new system, and the issues regarding cash cutoff should be eliminated.
- EBSA records collections into DOLAR$ upon receipt of the deposit tickets from the lockbox bank. Therefore, custodial revenue is not recorded for collections physically

received and processed by the lockbox until receipt of the lockbox deposit confirmation by the bank.

In addition, the OCFO has not issued standardized polices regarding the recording of collections by various DOL agencies to ensure that financial reporting cutoffs are proper, which has resulted in the above misstatements.

TFM Chapter 3300, *Statement of Transactions (SF-224) Reporting by Agencies for which the Treasury Disburses*, section 3300.10 states, "Agencies prepare the monthly FMS-224 based on: vouchers paid or accomplished by RFCs; Intra-governmental Payments and Collections (IPAC) transactions accomplished; Cash collections received for deposit on SF-215s; and Electronic payments/deposits such as those processed through the Automated Standard Application for Payments (ASAP) System or the Fedwire Deposit System."

The USSGL states that, "account 1110, Undeposited Collections, represents collections on hand, not yet deposited within the same accounting period."

Additionally, SFFAS No. 7 states, "Cash collections should be based on amounts actually received during the fiscal period, including withholdings, estimated payments, final payments, and collections of receivables. Cash collections include any amounts paid in advance of due dates unless they are deposits … Nonexchange revenues are inflows of resources that the Government demands or receives by donation. Such revenue should be recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable. Nonexchange revenue should be measured by the collecting entities, but should be recognized by the entities legally entitled to the revenue (the recipient entities)."

As a result of our FY 2008 testing, we consider the FY 2006 and FY 2007 recommendations **unresolved** pending completion of a corrective action plan and timeframes for implementation. In addition, we have modified the first recommendation as stated below.

Recommendation

We recommend that the Chief Financial Officer:

1. Develop and issue a standardized policy regarding the recording of collections by various DOL agencies to ensure that financial reporting cutoffs for custodial activities are proper and consistent. Additionally, the Chief Financial Officer should monitor agencies' compliance with the policy.

Management's Response

OCFO agrees with the finding and intends to develop and issue policies and procedures by March 31, 2009, to standardize the recording of collections by DOL agencies. While OCFO recognizes that some Agencies disagree with this finding, this new policy will ensure that collections are recorded in the appropriate period and synchronize Department practice with Federal Generally Accepted Accounting Principles (GAAP) and the Treasury Financial Manual (TFM). The standard policy will specify appropriate source documents to record deposit transactions into DOLAR$. OCFO will monitor compliance with this standardized policy.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2009 audit procedures over collections will determine whether this recommendation has been adequately addressed and can be considered closed.

13. Interest Receivable Calculation and Accural Related to Custodial Receivables

In the FY 2006 and FY 2007 audits, we noted that OSHA only records interest receivable when debt letters are sent to employers or when debt is transferred to Treasury for debt collection. Additionally, the Mine Safety and Health Administration (MSHA) omitted one day of interest for each month during the period from November 2005 to December 2006.

As a result, we made the following recommendations:

1. ***We recommend that the Chief Financial Officer and the Assistant Secretary for Occupational Safety and Health develop procedures to accrue and record interest receivable on a quarterly basis.***

2. ***We recommend that the Chief Financial Officer and the Assistant Secretary for Mine Safety and Health design, test, and implement changes to MSHA's subsidiary ledger to correct errors in the calculation of interest and ensure that controls are in place to detect such system errors in the future.***

During our FY 2008 testing, we found that agencies within DOL do not use a standard method for recording interest receivable and penalties due, and lack accruals related to these receivables for financial reporting purposes. We have identified the following instances:

- OSHA's methodology of accruing for interest only when assessment letters are sent and when the debt is referred to Treasury does not ensure that the agency's interest receivable balances are appropriately accrued between the time of the last debt letter and financial reporting date. Currently, no method is in place to ensure interest is properly stated for receivables that have not been calculated at period end.

- ESA and MSHA's methodology of accruing for interest on a monthly basis, on the anniversary date of the debt, does not ensure that each agency's interest receivable balances are appropriately accrued between anniversary interest calculation and financial reporting dates. Additionally, no method is in place to ensure interest is properly stated for receivables whose anniversary date does not fall on the financial reporting date.

Additionally, OCFO does not disclose in the footnotes the amount of interest due on delinquent debt that has not been written off or perform a formal assessment that such disclosure is immaterial to the custodial activity footnote.

The current policies and procedures set forth above were developed for programatic reasons and were not established with financial reporting criteria in mind. As a result, the interest receivable balance is understated at period end.

OMB Circular No. A-129, *Policies for Federal Credit Program and Non-Tax Receivables*, states, "Interest, penalties, and administrative costs should be added to all debts unless a specific statute, regulation, loan agreement, contract, or court order prohibits such charges or sets criteria for their assessment. Agencies shall assess late payment interest on delinquent debts. Further, agencies shall assess a penalty charge of not more than six percent (6%) per year for failure to pay a debt more than ninety (90) days past due, unless a statute, regulation required by statute, loan agreement, or contract prohibits charging interest or assessing charges or explicitly fixes the interest rate or charges. A debt is delinquent when the scheduled payment is not paid in full by the payment due date contained in the initial demand letter or by the date specified in the applicable agreement or instrument. Agencies shall assess administrative costs to cover the cost of processing and handling delinquent debt. Agencies must adjust the interest rate on delinquent debt to conform with the rate established by a U.S. Court when a judgment has been obtained."

SFFAS No. 1, paragraph 53 through 55, states, "Interest receivable should be recognized for the amount of interest income earned but not received for an accounting period … No interest should be recognized on accounts receivable or investments that are determined to be uncollectible unless the interest is actually collected. However, until the interest payment requirement is officially waived by the government entity or the related debt is written off, interest accrued on uncollectible accounts receivable should be disclosed."

The Guide for Managing Loans and Administrative Debt, Chapter 6, *Delinquent Debt Collection of Managing Federal Receivables*, states, "The Debt Collection Act of 1982, as amended (codified at 31 U.S.C. 3717), requires agencies, unless expressly prohibited or restricted by statute or contract, to assess three separate and distinct types of late charges on all delinquent debts … Late charges are categorized as interest, penalties, and administrative costs ... The agency will continue assessing these late charges at the rates established by the agency until final payment is received, unless debt collection activity is suspended or terminated, the debt is compromised, the late charges are waived, or the late charges are altered as the result of court judgment."

As a result of our testing, we consider prior year recommendation No. 1 as **unresolved** pending completion of a corrective action plan and timeframes for implementation. This recommendation is modified below. Additionally, we consider prior year recommendation No. 2 as **resolved and closed**.

Recommendations

We recommend that the Chief Financial Officer:

1. Standardize the procedures for recording accounts receivables related to DOL's custodial activities. Specifically, interest receivable and penalties related to delinquent debt should be accrued up to period end, or until the debt is deemed uncollectible and reserved for. In order to accomplish this, the various subledger systems should be updated so that interest is automatically calculated and updated at period end. If no such change can be implemented, the agencies should perform a manual accrual calculation for the interest and post the accrual to the general ledger, on a quarterly basis.

2. Implement one of the following procedures: (a) include a disclosure in the custodial activity footnote which specifically states the amount of interest due on delinquent debt that has not been written off, or (b) complete a formal assessment to determine that such interest is immaterial to the custodial activity footnote.

Management's Response

OCFO agrees with the auditors and plans to standardize the Department's procedures. While some Agencies disagree, this new policy will ensure that DOL fully complies with Federal Generally Accepted Accounting Principles (GAAP) regarding accrual and reporting on interest earned for all active debts, including in-house debts and those transferred to Treasury for cross-servicing or offset collection action.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2009 audit procedures over the monthly reconciliations will determine whether these recommendations have been adequately addressed and can be considered closed.

14. Recording Refunds and Collection Fees Related to Custodial Activities

During our FY 2008 audit procedures, we noted 5 instances where refunds or collection fees related to custodial activities were recorded to the incorrect IAC or general ledger account. In 3 of the instances, OSHA and EBSA recorded the refunds or collection fees to IAC 710 instead of the appropriate IAC. IAC 710 corresponds to TAFS 20X1807, which is appropriately excluded from DOL's financial statement preparation process. IAC 710 was established so that refunds issued for collections of cash received by the agencies in prior fiscal years that had been transferred to Treasury could be properly recorded and processed. If refunds related to collections of cash from prior years were issued and recorded in the current year in a DOL TAFS, cash collections for the current year would be understated. In 2 of the instances, MSHA recorded refunds in the incorrect IAC and general ledger account.

The above instances resulted because of the lack of policies and procedures established by the OCFO to address the proper accounting of refunds and collection fees related to custodial activities. As such, OSHA, MSHA, and EBSA have historically accounted for refunds and collection fees incorrectly, and custodial revenue reported in the FY 2008 financial statement footnotes is overstated by $830,690.

SFFAS No. 7 states, "The source and disposition of revenue from taxes, duties (which are a type of tax), and related fines, penalties, and interest should be measured by the collecting entities in a manner that enables reporting of (1) cash collections, refunds, and the "accrual adjustment" necessary to determine the total revenue and (2) cash or cash equivalents transferred to each of the recipient entities and the revenue amounts to be recognized by each of them. The collecting entities function in a custodial capacity with respect to revenue transferred or transferable to the recipient entities. The collecting entities should not recognize such revenue, but should account for and report upon the above mentioned custodial activities. … Amounts payable for refunds (including refund offsets and drawbacks) should be recognized when measurable and legally payable under established processes of the collecting entities."

Recommendations

We recommend that the Chief Financial Officer:

1. Establish policies and procedures related to the proper accounting for refunds of custodial collections and collection fees.
2. Develop and implement monitoring procedures to ensure that all agencies with custodial activities implement the refund and collection fee accounting policies and procedures once established.

OSHA Management's Response

OSHA met with the staff involved in recording refunds as soon as we became aware of this inconsistency and reviewed the appropriate IAC codes with them. We consider this recommendation resolved and closed for OSHA.

MSHA Management's Response

MSHA will establish procedures that conform to the new OCFO policies and procedures after the OCFO publishes the new procedures.

EBSA Management's Response

NFR 08-23, Refunds and Collection Fees Recorded Improperly in DOLAR$ included two conditions pertaining to EBSA. The first condition essentially states that refunds applicable to current fiscal year cash collections were improperly posted in IAC 710. To correct this condition, EBSA promptly revised its processes to clearly identify and distinguish refunds applicable to current year collections versus those related to prior year collections to allow OCFO to properly post said refunds to the appropriate IAC. This action should resolve and close this particular NFR 08-23 condition. The other condition cited in NFR 08-23 pertains to the improper recordation of Treasury's collection fees in IAC 710. Based on discussions at the KPMG/OCFO audit meeting weeks ago, it is our understanding that OCFO will take appropriate measures, if not already done so, on behalf of EBSA to correct this condition by recording collection fees in the appropriate IAC. As previously mentioned to the auditors, all of our agency's collection fees to the Treasury are transacted in the same fiscal year as the underlying collection.

OCFO Management's Response

In summary, not later than March 31, 2009, OCFO will develop and issue policies and procedures to ensure that fee collections and refunds of collected fees are recorded in the appropriate period. OCFO will also implement monitoring provisions to ensure compliance with the established policies and procedures.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2009 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

15. Reconciliations between MSHA Standardized Information System (MSIS) and DOLAR$

MSHA's mission is to ensure safe and healthy work environments for miners by setting and enforcing standards, providing training, and encouraging continual improvement in workplace safety and health. MSHA imposes civil penalties for violations of health and safety standards. The penalties are collected in the field offices, and the deposit data/checks are subsequently forwarded to US Banks. US Banks scans the checks via Electronic Check Presentation (ECP) and compiles a listing of deposits. This information is used to populate the Treasury CA$HLINK system, which can be viewed by MSHA and other agencies.

MSHA utilizes MSIS to internally track the amounts of these deposits. The deposit information recorded in MSIS is populated by a Microsoft Excel macro; the data recorded comes directly from the US Banks listing of individual ECPs. These deposits are keyed into MSIS manually, and then uploaded to a drive which is accessible by MSHA Finance.

To record the deposit information into DOLAR$, the MSHA Finance group downloads the electronic deposit ticket of ECPs each day from US Banks. This U.S. Banks download is used as the source document for the deposit and is manually recorded in DOLAR$ at a summary level. MSHA Finance also compares this information to CA$HLINK to verify the deposit recorded in DOLAR$.

During the FY 2008 audit, we noted that the MSHA monthly reconcilation performed ensures that MSIS activity is posted in DOLAR$, but does not ensure that all custodial-related activities are properly recorded in MSIS.

MSHA's monthly reconciliation uses DOLAR$ data as the beginning balance, reconciles DOLAR$ ending balance, and does not compare the MSIS ending collections balance to the DOLAR$ ending collections balance. Additionally, MSHA does not use MSIS, the subledger, as its source document to record cash collections into DOLAR$. As a result, the detailed subledger does not support the summary level transactions posted to DOLAR$. Since a comprehensive reconciliation between DOLAR$ and MSIS is not completed, MSHA indirectly avoids reporting discrepancies that may exist between the two systems. As of August 31, 2008, the difference between cash collections recorded in MSIS and cash collections recorded in DOLAR$ was approximately $321,000.

OMB Circular No. A-123, states, "Agencies and individual Federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective management controls for results-oriented management; (ii) assess the adequacy of management controls in Federal programs and operations; (iii) identify needed improvements; (iv) take corresponding corrective action; and (v) report annually on management controls. "

Recommendations

We recommend that the Assistant Secretary for Mine Safety and Health:

1. Revise MSHA's monthly reconciliation process to incorporate a comparison of the MSIS year-to-date (YTD) collections activity as of period end to the DOLAR$ YTD collection activity as of period end, and identify and explain any differences.
2. Consider using the deposit information reported in MSIS as the source documentation for deposits to be recorded into DOLAR$.

Management's Response

MSHA agrees that its monthly reconciliation procedures need to be revised to provide more timely and accurate reconciliations, and noted that the year-end reconciliation was acceptable. The auditors provided several suggested changes to the reconciliation procedures and MSHA is incorporating these suggestions in its revised SOPs. MSHA agrees to consider using MSIS as the source document for deposit information. MSHA will evaluate the accuracy and effectiveness of this data in the 2nd quarter of FY 2009.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2009 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

16. Controls over Internal-Use Software

In FY 2008, we noted that the OCFO does not have a review process in place to determine that DOL agencies are accurately reporting all costs that are required to be capitalized or expensed. Additionally, the quarterly Certification for Internal-use Software Projects Under Development reports do not request sufficient information for this review to take place, nor do they contain sufficient information to compare the internal-use software assets and amounts recorded in the Capitalized Asset Tracking and Reporting System (CATARS) to the internal-use software assets and amounts reported by the agencies. The situation above increases the risk that balances in DOLAR$ asset account 1830-*Information Technology Software*, and the related account 1839-*Accumulated Amortization Automated Data Processing (ADP) Software,* may be misstated. In addition, DOL may not be in compliance with SFFAS No. 10, *Accounting for Internal Use Software*.

Recommendations

We recommend that the Chief Financial Officer:

1. Implement a review process to determine that the agency is accurately reporting all costs that are required to be capitalized or expensed.
2. Revise the Certification for Internal-use Software Projects Under Development reports to include sufficient information on costs capitalized and expensed for the fiscal year to date.
3. Develop and implement procedures to compare the internal-use software assets and amounts recorded in CATARS to the internal-use software assets and amounts reported by the agencies.

Management's Response

OCFO has a review process in place to determine that DOL accurately reports all costs that are required to be capitalized or expensed.

OCFO requires each agency to submit a certification form to identify the software projects in process and their related costs. For example, ETA and EBSA had incurred significant software costs during FY 2008. OCFO verified that the direct and indirect costs of these projects were capitalized and transferred to Construction in Progress (CIP).

In addition to the existing procedures, the Certification for Internal-use Software Projects under Development has been revised as suggested by KPMG. Each quarter, the CATARS reconciliation team will review the certification forms to verify that the direct and indirect costs of projects in CIP that should be capitalized were reported by the agencies. The Team will also determine if any projects have been completed and request the agencies to transfer the related costs of any completed projects to Software in use.

Further, the CATARS reconciliation team will reconcile the costs reported in the certification forms to costs recorded in CATARS and resolve all differences noted.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2009 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

<u>17. Accounting for Costs on Certain Job Corps Contracts</u>

The Office of Job Corps has several contracts with educational organizations to provide various services. These contracts are administered out of the National Office of Job

Corps. The contractors draw down funds through HHS/PMS and submit monthly or quarterly cost reports to the Office of Job Corps.

During FY 2007, we noted that DOL records drawdowns by contractors as expenses in general ledger account 6105, Current Operating Expense – Other, for costs related to Job Corps' National Training Center (NTC) contracts. However, these drawdowns do not represent actual costs (goods and services received) incurred by the contractor, but rather the amount that is supposed to cover the contractor's immediate cash needs (an advance). As a result, we made the following recommendations:

We recommend that the Assistant Secretary for Administration and Management:

1. ***Develop and implement written policies and procedures to properly record NTC contractor activities in accordance with SFFAS No. 1, including identification of source documents necessary to support the recording of these activities.***

2. ***Establish procedures to require the review of the contractor cost reports for accuracy and completeness prior to the recording of the associated costs into the general ledger, and to take corrective action when a contractor submits an inaccurate or incomplete cost report.***

In FY 2008, we tested a sample of 41 Job Corps expenses and noted for 3 costs related to Job Corps contracts that DOL recorded the drawdowns by the contractors as expenses in Account 6105, Current Operating Expense – Other. Similar to FY 2007, these drawdowns did not represent actual costs incurred by the contractor, but were intended to cover the contractor's immediate cash needs. Therefore, until the contractor submits a cost report detailing its actual costs for the period, DOL does not have evidence to support the amount of costs actually incurred.

These exceptions occurred because cost reports are not being used to record activity in DOL's general ledger and no review process is in place to ensure contractors are submitting accurate cost reports. In addition, DOL does not have written policies and procedures addressing the recording of costs. As a result, DOL could be misstating its costs and advances related to this activity by recording expenses based on a drawdown versus the actual cost report.

SFFAS No.1, *Accounting for Selected Assets and Liabilities*, defines Advances as, "cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients'' anticipated expenses or as advance payment for the cost of goods and services the entity acquires. Examples include … assets disbursed under a contract, grant, or cooperative agreement before services or goods are provided by the contractor or grantee."

In addition, GAO's Standards states, "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation."

Although management implemented certain corrective actions in FY 2008, our FY 2007 recommendations were not fully addressed. As a result, we consider these recommendations **unresolved** pending completion of a corrective action plan and timeframes for implementation. These recommendations are redirected to be addressed to the National Director of the Office of Job Corps instead of the Assistant Secretary for Administration and Management.

Management's Response

In response to finding number NFR-07-21 in the FY 2007 audit, the Office of Job Corps issued new policies and procedures to record and monitor costs for the National Training contracts on the HHS-PMS draw-down system.

Under the new NTC contracts issued in 2008, the NTC's are required to submit a 272 report (expense report) through the HHS Payment Management System (PMS). Cost transactions in DOLAR$ are created with the submission of the 272 report instead of through draw downs and proper recording to GL account 6105 will occur automatically.

New policies and procedures for monitoring costs include issuance of a new cost reporting form that includes more extensive draw-down and cost data, and new procedures for COTR and budget review for contractor submitted costs reports.

Seven of the 12 Job Corps contracts on the HHS-PMS draw-down system were converted to the new policies and procedures in FY 2008. The remaining five will be converted in FY 2009.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2009 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

18. Reestablishment of the Unemployment Compensation Advisory Council (UCAC)

In the FY 1997 audit (OIG Report No. 12-98-002-13-001), the OIG reported that the UCAC required by the Social Security Act had not been reestablished. Section 908 of the Social Security Act makes no provision for delaying the establishment of a new advisory council, and the issues for which the UCAC is responsible are significant to the unemployment insurance program.

In the FY 1997 report, the OIG made the following recommendation:

We recommend that the Assistant Secretary for Employment and Training ensure that the Unemployment Compensation Advisory Council is reestablished as required by Section 908 of the Social Security Act.

The finding and recommendation has been repeated in subsequent audits.

According to section 908 of the Social Security Act, starting in 1992 and "every 4th year thereafter, the Secretary of Labor shall establish an advisory council to be known as the Advisory Council on Unemployment Compensation." The purpose of this council is to "evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and any other aspects of the program and to make recommendations for improvement."

We noted that the last meeting of the Advisory Council on Unemployment Compensation was in 1997. Since the Social Security Act requires this council to meet every four years, ETA is not in compliance with this requirement of the Social Security Act. ETA has proposed an amendment to the Social Security Act in the Unemployment Compensation Program Integrity Act of 2005, 2006, and 2008 that would require the Secretary of the Department of Labor to establish an advisory council periodically instead of every four years; however, Congress has not yet approved this amendment. As a result, we consider this issue **resolved and open** until the legislation is amended.

Management's Response

ETA agrees with the recommendation to continue pursuing amendment of the Social Security Act with language similar to that found in the Unemployment Compensation Program Integrity Act of 2006. A copy of the proposed language has been provided to the auditors for their reference.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2009 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

19. Monitoring Controls over Child Agency Financial Data

DOL's Office of Job Corps allocates approximately $167 million to four federal entities (U.S. Forest Service, National Park Service, Bureau of Indian Affairs, and Bureau of Reclamation) (i.e., the child entities) to operate 28 Job Corps Centers (i.e., Civilian Conservation Centers (CCC)) throughout the country. In prior years, DOL was required to report the budgetary activity of these budget allocations on its consolidated financial statements. Effective in FY 2007, DOL (i.e., the parent entity) is required by OMB Circular No. A-136 to report in its consolidated financial statements both the budgetary and proprietary accounts and activities related to these allocations to the child entities.

In FY 2007, we noted that DOL had not implemented sufficient monitoring controls to provide DOL management with assurance that the information being reported by the child agencies was accurate and complete as of September 30, 2007. For example, DOL had not established monitoring controls to ensure the operating effectiveness of the child entities' controls over FBWT and the other balance sheet accounts. Additionally, no reconciliation was performed between the detailed cost reports submitted by each CCC to the aggregate trial balances submitted by each of the four federal entities and reported in DOL's consolidated financial statements.

As a result, we made the following recommendation in FY 2007:

We recommend that the Chief Financial Officer and the Assistant Secretary for Administration and Management work together to develop procedures to consistently monitor the amounts being reported on the child entities' trial balances. At a minimum, these procedures should include procedures to monitor the child entities' controls over FBWT and the other significant balance sheet accounts and to perform quarterly comparisons of amounts being reported on the CCC cost reports to the amounts being reported in the child entities' trial balances.

In FY 2008, the OCFO continued to obtain the summary level trial balances from the child entities and reported this information in DOL's consolidated financial statements. However, during FY 2008, DOL had not implemented sufficient monitoring controls to provide DOL management with assurance that the information being reported by the child entities is accurate and complete. We noted that the OCFO did perform a comparison between the amounts reported by the child entities and recorded in DOLAR$ against the amounts reported in the detailed cost reports submitted by the 28 CCCs. However, no follow-up was performed regarding the differences encountered in this comparison. In addition, no review of documentation that supports the line items included in the detailed cost reports was completed.

Personnel in the Office of Job Corps indicated they did not perform any formal monitoring procedures other than scanning the detailed cost reports for unusual balances because they believe it is the child entity's responsibility to monitor these costs. The lack of effective monitoring controls over the child entities' trial balances and related internal controls at the child entities over balance sheet accounts increases the risk that amounts being reported in DOL's consolidated financial statements may be misstated.

OMB Circular No. A-123 states that, "the agency head must establish controls that reasonably ensure that obligations and costs are in compliance with applicable law, funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports …".

Additionally, GAO's Standards states, "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records, which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes."

As a result, we consider the FY 2007 recommendation to be **unresolved** pending improvements over the monitoring controls surrounding the child entities' activities and balances. This recommendation is modified below.

Recommendation

We recommend that the Chief Financial Officer and the National Director of the Office of Job Corps work together to develop procedures to consistently monitor the amounts being reported on the child entities' trial balances. At a minimum, these procedures should include procedures to monitor the child entities' controls over FBWT and the other significant balance sheet accounts and to properly follow-up on differences identified during the quarterly comparisons of amounts reported on the CCC cost reports to the amounts reported in the child entities' trial balances.

Management's Response

Job Corps does not concur with the finding. As described below, Job Corps and OCFO have adequately monitored the child agencies' financial reporting.

The Office of Job Corps, in conjunction with the OCFO, initiated a 23 point ***Action Plan*** *to ensure compliance with Parent-Child requirements. The plan required analysis and reconciliation of the following eighteen items: 1) Costs reported on the ETA 2110F with amounts recorded in DOLAR$ (4 items) and to the individual trial balances (4 items); 2) Analysis of planned to actual expense as reported on the ETA 2110F (4 items); 3) Individual trial balances to the costs reported in DOLAR$ (3 items), and; 4) Transfers-in reported by USDA and DOI (3 items). Each of these eighteen items has been completed for FY08. The reconciliations produced some inconsequential differences which were researched, determined to be immaterial, and were corrected by the agencies where necessary.*

*Three additional requirements of the **Action Plan** have been satisfactorily completed: 1) Financial training for regional project managers; 2) Review of the 2007 PAR for each agency, and: 3) Review of regional monitoring reports (this is also an on-going requirement).*

*The final 2 **Action Plan** items are currently in process: on-site reviews at the finance centers of the USDA Forest Service, DOI Bureau of Reclamation, and DOI National Park Service and field visits to individual centers. Job Corps procured the services of an outside accounting firm to audit internal agency procedures for the management of Job Corps funds, to reconcile Treasury Transfers to trial balances, and to assess controls and compliance with agreed upon procedures. The contract commenced on June 6, 2008. The contract length is 12 months. The audit includes site visits to each agency HQ and selected Job Corps Centers. The audit statement of work includes the following:*

- *"…Evaluation of controls used by USDA and DOI headquarters to ensure the appropriateness of operating costs reported by their Job Corps Centers*
- *Review and reconciliation of Treasury fund transfers*
- *Review of documentation that supports the line items reported on ETA Form 2110F Financial Report*
- *Review and documentation that shows how USDA and DOI used Construction, Rehabilitation and Acquisition (CRA) funds provided by Job Corps … determination if USDA and DOI used the CRA funds for their intended purpose …"*

Job Corps has steadily worked to improve not only its monitoring activities but has worked to improve the USDA/DOI's understanding of our reporting and documentation needs. We have provided training and are seeing a marked improvement in the quality of the agency center 2110F reports. It has taken time for Job Corps to work with the respective agencies in reporting properly but we are confident that in FY09, and beyond, our monitoring, analysis, and reconciliation of agency center 2110F reports, treasury transfers, and trial balances will comply with the parent-child requirements.

*In addition to the reviews of internal control over balance sheet accounts being performed by the independent CPA firm at the finance centers and selected Job Corps centers, and the other **Action Plan** points described above, OCFO will:*

- *request and review Governmentwide Account Statement (GWA) reports of Fund Balances with Treasury as of the end of each quarter,*
- *request supporting documentation for other balance sheet accounts with unusual balances or unexpected fluctuations, and*
- *implement a process to reconcile the DOLAR$ trial balances by IAC to the quarterly trial balances provided by the child agencies and adjust any differences noted.*

Auditors' Conclusion

Although the Office of Job Corps stated that it does not concur with our recommendation, the Office of Job Corps and the OCFO have taken steps to address it. Therefore, this recommendation is considered **resolved and open**. FY 2009 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

20. Accounting for the Federal Employees' Compensation Act (FECA) Activities

Although DOL does not receive appropriations for FECA benefit payments paid by DOL on behalf of other Federal entities, we noted that DOL increases expended appropriations (account 5700) and unexpended appropriations used (account 3107) when it makes a FECA benefit payment on behalf of another Federal entity. When DOL collects the reimbursement from the other Federal entity, expended appropriations and unexpended appropriations used are decreased by the amount collected. For cases where the benefit payments are made and the related reimbursements are collected in the same fiscal year, no financial statement impact on expended appropriations and unexpended appropriations used results. However, for receivables that are due for collections in one or two years, expended appropriations and unexpended appropriations used are misstated by the uncollected amount at the end of the fiscal year. The misstatement amount represents the difference between benefit payments made in the current year and reimbursements received from other Federal entities for benefit payments made in the current and prior years.

DOL believes that the entry to increase expended appropriations and unexpended appropriations used should be recorded to recognize financing sources to fund benefit payments made.

As a result, expended appropriations and unexpended appropriations used for FECA as of September 30, 2008, were overstated by $66.7 million. The difference was posted to the FY 2008 Summary of Audit Differences, which was attached to the FY 2008 Management Representation Letter.

SFFAS No. 7 states, "Appropriations, until used, are not a financing source. They should be recognized in capital as 'Unexpended Appropriations' (and among assets as 'funds with Treasury') when made available for apportionment, even if a Treasury Warrant has not yet been fully apportioned. Unexpended appropriations should be reduced for appropriations used and adjusted for other changes in budgetary resources, such as rescission and transfers."

SFFAS No.7 also states that, "When used, appropriations should be recognized as a financing source in determining net results of operations. Appropriations are used in operations when goods and services are received or benefits and grants are provided.

Goods and services (including amounts capitalized) are considered received when a liability is established."

In accordance with the Financial Management Services (FMS) Federal Intragovernmental Transactions Accounting Policies Guide, the following is the proprietary entry to record DOL's payment of FECA benefits on behalf of another Federal entity:

Debit 6400 Benefit Expense
Credit1010 Fund Balance With Treasury

Recommendation

We recommend that the Chief Financial Officer:

1. Formally consult with Treasury to determine the appropriate accounting treatment for all FECA-related activities and revise current procedures and transaction codes accordingly.

Management's Response

We do not concur with this finding. Contrary to the Auditors' statement, "DOL does not received appropriations for FECA benefit payments…," the FECA program is funded from two sources, reimbursable revenue and direct appropriations. We agree that DOL records expended appropriation (account 5700) and unexpended appropriation used (3107) for all benefit payments. But later, as OCFO records the accounts receivable that are due from other Federal agencies those accounts are reversed. The net effect is the correct balances for those two accounts because these amounts will not be reimbursed from other agencies; these amounts are covered by the current year appropriation.

Auditors' Conclusion

We disagree with management's conclusion because the accounting is not consistent with the FMS Federal Intragovernmental Transactions Accounting Policies Guide. If management disagrees with the accounting in the FMS Federal Intragovernmental Transactions Accounting Policies Guide, the Chief Financial Officer should consult with Treasury to resolve the difference between the FMS Federal Intragovernmental Transactions Accounting Policies Guide and current DOL accounting for FECA-related funding activities. Therefore, we consider our recommendation **unresolved** pending completion of corrective action plans with specified timeframes for implementation to address our recommendation.

21. Controls over the Integrated Federal Employees Compensation System (iFECS)

For the period of October 1, 2007 through March 31, 2008, we tested a sample 119 claimaints and noted the following exceptions:

- No current medical evidence was on file for 2 claimants; however, current CA-1032s, *Request for Information on Earnings, Dual Benefits, Dependents and Third Party Settlements*, were on file.
- No current CA-1032s were on file for 3 claimants; however, current medical evidence was on file.
- No current medical evidence or CA-1032s were on file for 2 claimants.

In addition, no evidence existed that the Claim Examiners (CEs) followed-up with these claimants timely to obtain the required documentation.

The above instances were a result of CEs being less concerned about the changes in their status given the severity of their condition and age. As a result, timely follow-up did not occur as required by the Division of Federal Employees Compensation (DFEC) program's FECA procedure manual (the Manual), which resulted in non compliance and created a risk that benefit payments could be misstated.

Section 2-0812-7 of the Manual states, "All cases require completion of Form CA-1032 on a yearly basis and completion of Form CA-1036 every three years."

In addition, the Manual states, "The CE should record his or her actions on Form CA-674a, *Checklist for Cases on the Periodic Roll*. A review may be considered accomplished when any follow-up requests for required information have been made and the CE has initiated any action required on the basis that no reply to the requests has been received. For instance, after two requests for reports of earnings on Form CA-1032, the CE is expected to begin suspension proceedings. At this point, the review may be considered complete, even though further action must be taken in the claim."

Recommendation

We recommend that the Assistant Secretary for Employment Standards:

1. Continue to stress the importance of CE compliance with the Manual related to timely follow-up for information supporting claimants continuing eligibility, regardless of the severity of their condition or their age.

Management's Response

ESA concurs with this finding. DFEC leadership will emphasize the need to do this in management meetings and National Office Guidance.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2009 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

22. Process for Completing Background Checks Investigations

During our review of the DOL and the National Institute of Standards and Technology (NIST) guidance, we noted that background investigations must be initiated within 14 days of the employee's start date. The employee's servicing Human Resource (HR) office initiates the investigation, and as a rule, HR office customer assignments are as follows:

- The OIG employees receive HR services from the OIG HR office; and
- All senior executive service, senior level, and political appointees receive HR services from the Office of Executive Resources and Personnel Security (OERPS), except those who are in the OIG.

Additionally, HR services for employees who do not receive HR services from the OIG or the OERPS are provided as follows:

- Most employees who work in DOL's headquarters receive HR services from their agency's HR office;
- All employees who work in DOL's headquarters in a small agency that does not have an agency HR office receive HR services from the Office of Human Resources Consulting and Operations (OHRCO) in OASAM's Human Resource Center (HRC).
- All employees who are assigned to a field location outside of DOL's headquarters receive HR services from the OASAM HR office that services the geographic location where the employee works.

The *DOL Personnel Suitability and Security Handbook*, Chapter 2, *The EOD Process,* Section 1, *Purpose of Chapter & Overview,* part D, *When Investigations are required*, states, "DOL requires an investigation to be initiated before an individual first enters on duty with the Department, or at the most, within 14 calendar days of placement in the position."

During the FY 2008 audit, we performed test work over the evidence of background investigations for selected users with access to the following systems:

- OCFO DOLAR$
- ESA Automated Support Package (ASP)
- OASAM E-Procurement System (EPS)

We conducted this testing to determine whether evidence existed that DOL management was initiating background investigation for new personnel who obtained access to key DOL financial systems. We noted that for 4 of 8 selected OCFO employees, 2 of the 5 selected ESA employees, and 4 of the 6 selected OASAM employees, evidence that a background investigation was properly initiated within 14 days of their hire dates could not be provided.

The initiation and completion of background investigations provides management a key layer of assurance regarding the integrity of the individuals accessing DOL financial data. Without proper personnel security measures, such as background investigations for personnel working with the DOL financial data, the integrity of the information assets could be inappropriately manipulated.

Some agencies stated that they do not maintain evidence of completed background investigations on their employees. OERPS stated that DOL policy requires that servicing HR offices maintain evidence of completed background investigations in the Official Personnel Folder (OPF) in E-OPF.

Neither the agency nor the servicing HR office nor HRC takes a proactive role in coordinating with one another to ensure that program offices (including OCFO, OASAM, and ESA) are aware of their employees' background investigation requirements or status.

We noted that People Power can be used to identify when investigations have not been initiated timely. However, this information is only available after the requirement has not been met. Currently, no process or tracking mechanism is in place to ensure that HR offices are initiating background investigations within 14 days of placement in a position.

Recommendation

We recommend the Assistant Secretary for Administration and Management, as the policy owner:

1. Implement procedures to actively manage the background investigation process for all new hires. These procedures should ensure that E-OPF contains evidence that background investigations are initiated within 14 days of the individual's hire date as required by the DOL Personnel Suitability and Security Handbook.

Management's Response

Management agrees with the recommendations to actively manage the background investigation initiation process.

OASAM's Human Resources Center (HRC) has informed the Agency HR Offices of the findings and plans to monitor the process. Additionally, HRC has begun developing a standardized Background Investigation Initiation Report from Peoplepower that will be made available to all HR Offices for their use.

HRC proposes the following actions to proactively manage and improve accountability in the area of background investigation and ensure that investigations are initiated within 14 days:

1) HRC will develop and deliver training on Background Investigation Initiation for HR staff during third quarter of FY 09.

2) HRC will update and reissue the DOL Personnel Suitability and Security Handbook during the third quarter FY 09 to clarify roles and responsibilities related to initiation of background investigations and maintenance of records in EOPF.

3) HRC will develop a standardized Background Investigation Initiation Report from Peoplepower during the second quarter of FY 09 that will pull all new hires for the pay period and their background investigation status.

4) Beginning with the development of the standardized report listed above HRC will instruct HR offices to pull the Background Investigation Initiation Report each pay period. HR Officers will certify the report and retain in their files. The HRC will review the files during the accountability review.

5) HRC will include Initiation of Background Investigations to the HRC Accountability Reviews. HRC conducts a full review of each HR office every two years.

Based on the planned activities, management considers the report's recommendations resolved, with closure dependent on the completion of the scheduled activities.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2009 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

23. <u>Controls over the Maintenance of Procurement Supporting Documents</u>

For 2 of 137 procurement expense items tested totaling $3.2 million, the OCFO was not able to provide sufficient documentation to support the existence and accuracy of the expenses prior to the completion of the audit. As a result, the projected most likely overstatement of the FY 2008 procurement expense population of $2.3 billion is $162.9 million.

Per the GAO's Standards, "Controls over the design and use of records help provide reasonable assurance that expense transactions are recorded. Such controls include receiving reports, inspection documents, purchase orders, and other information such as vendor invoices, or other documents used to record delivered orders and related liabilities to provide assurance that all and only valid transactions are recorded."

GAO's Standards also state, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

The Code of Federal Regulations, Title 29 section 97.36 (i) (10), requires access to the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions. Retention of all required records is to be made for three years after final payments are made and all other pending matters are closed.

Recommendation

We recommend that the Chief Financial Officer:

1. Ensure that the OCFO maintain a complete set of supporting documentation for each transaction that is readily available for examination.

Management's Response

OCFO disagrees with the auditors' condition, conclusions, effect and recommendation. The policy of the OCFO is to ensure that all recorded transactions are adequately supported. Adequate support depends on the nature of the transactions.

One of the transactions cited by the auditors was a $3.3 million accrual related to the development of DOL's new general ledger system. OCFO believes that this transaction was adequately supported. Accrued payables are generally not supported by vendor invoices or receiving reports because these documents are not always available when payables are recorded. The accrual was supported by the payment schedule in contract DOLJ089427467. The auditors were advised of the source of the entry but declined to accept it as adequate support. The contract specifies a payment of $3,270,535 after the completion of Phases I and II which consisted of planning activities and requirement definition.

Guided by the conservatism principle, OCFO accrued the full cost of Phase Two rather than prorating the amount due. Phase Two began on July 7, 2008 and ended on

December 9, 2008. Upon further review, OCFO now believes that this accrual was overstated by approximately $1.4 million based on a pro-ration of the days elapsed from July 7, 2008 through September 30, 2008. Thus, the additional unsupported expenses of $163 million projected by the auditors are probably significantly overstated. However, since the auditors did not disclose the sampling parameters, or the number of transactions and dollar value of the universe, OCFO cannot properly respond to the findings.

Further, two errors in a sample of 137, or a sample error rate of 1.5%, produces an upper error range of 3% which is considerably below the 7% tolerable error rate for a low control risk assessment according to the AICPA audit sampling guide. Thus, high reliance can be placed on DOL's internal control.

In conclusion, OCFO believes that the conditions identified are isolated instances, are not indicative of control deficiencies and, therefore, a recommendation is not warranted.

Auditors' Conclusion

We disagree with the OCFO conclusion. The OCFO staff did not provide sufficient documentation by the end of the audit. Therefore, we consider our recommendation **unresolved** pending completion of corrective action plans with specified timeframes for implementation to address our recommendation.

Appendix A

ACRONYMS AND ABBREVIATIONS

ALC	Agency Location Code
ASP	Automated Support Package
BPD	Bureau of Public Debt
CAMO	Capitalized Asset Management Officer
CATARS	Capitalized Asset Tracking and Reporting System
CE	Claims Examiner
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIP	Construction in Progress
CITS	Closeout Inventory Tracking System
CRA	Construction, Rehabilitation and Acquisition
CY	Calendar Year
DBC	Departmental Budget Center
DFEC	Division of Federal Employees Compensation
DFSS	Division of Financial and System Services
DLMS	Department of Labor Manual Series
DOL	U. S. Department of Labor
DOLAR$	Department of Labor Accounting and Related Systems
EBSS	Enterprise Business Support System
ECP	Electronic Check Presentation
EPS	E-Procurement System
ESA	Employment Standards Administration
ETA	Employment and Training Administration
FAR	Federal Acquisition Regulations
FBWT	Fund Balance with Treasury
FECA	Federal Employees Compensation Act
FFMIA	Federal Financial Management Improvement Act
FMS	Financial Management Service
FPO	Federal Project Officer
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GCS	Grants Closeout System
GFRS	Governmentwide Financial Report System
G/L	General Ledger
GOTRs	Grant Officer Technical Representatives
GPRA	Government Performance and Results Act
GTS	Grants Tracking System
GWA	Governmentwide Account Statement
HHS/PMS	Health and Human Services/ Payment Management System
HR	Human Resource

HRC	Human Resource Center
IAC	Internal Accounting Code
IG	Inspector General
iFECS	Integrated Federal Employees Compensation System
ILAB	Bureau of International Labor Affairs
IMIS	Integrated Management Information System
IT	Information Technology
MD&A	Management's Discussion and Analysis
MSHA	Mine Safety and Health Administration
MSIS	MSHA Standardized Information System
NFR	Notification of Finding and Recommendation
NIST	National Institute of Standards and Technology
NTC	National Training Center
OASAM	Office of the Assistant Secretary for Administration and Management
OCFO	Office of the Chief Financial Officer
ODEP	Office of Disability Employment Policy
OERPS	Office of Executive Resources and Personnel Security
OFI	Office of Fiscal Integrity
OHRCO	Office of Human Resources Consulting and Operations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPF	Official Personnel Folder
OPS	Office of Procurement Services
OSHA	Occupational Safety and Health Administration
OWCP	Office of Workers' Compensation Programs
OWS	Office of Workforce Security
PAR	Performance and Accountability Report
PBGC	Pension Benefit Guaranty Corporation
PP&E	Property, Plant and Equipment
PRB	Procurement Review Board
RCC	Responsibility Center Code
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SNC	Statement of Net Cost
TAFS	Treasury Account Symbol
TFM	Treasury Financial Manual
UCAC	Unemployment Compensation Advisory Council
UDO	Undelivered Orders
UI	Unemployment Insurance
USSGL	U.S. Government Standard General Ledger
UTF	Unemployment Trust Fund
VETS	Veterans' Employment and Training Service