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, 2009

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

U.S. Department of Labor
Assistant Inspector General for Audit

Date Issued: **March 18, 2010**
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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, 2009. 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*, as amended. The objective of the audit was to express an opinion on the fair presentation of DOL's consolidated financial statements. Additionally, other objectives included 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 Acting Deputy 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, have been included in the Independent Auditors' Report found in DOL's *FY 2009 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
4. Lack of Sufficient Controls over Financial Statement Preparation

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

March 11, 2010

Mr. Elliot P. Lewis, Assistant Inspector General for Audit
Mr. Daniel Lacey, Acting Deputy Chief Financial Officer
U.S. Department of Labor
Washington, DC 20210

Mr. Lewis and Mr. Lacey:

We have audited the consolidated financial statements of the United States (U.S.) Department of Labor (DOL) for the year ended September 30, 2009, and have issued our report thereon dated November 15, 2009. 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. We have not considered internal control since the date of our report.

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 and have been communicated through the issued Notifications of Findings and Recommendations (NFRs), are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I. In addition, we summarized the status of our prior year comments in Exhibit II. 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 15, 2009.

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 and DOL's Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Comments and Recommendations

1. Improvements Needed in Financial Reporting

We reviewed the Management's Discussion and Analysis (MD&A) in the United States (U.S.) Department of Labor's (DOL) Fiscal Year (FY) 2009 *Performance and Accountability Report* (PAR) and noted that the program level audited net costs in the Statement of Net Cost (SNC) were not directly linked to the net costs of the strategic goals reported in the MD&A, in accordance with the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements.* In addition, we noted that the MD&A and the Performance Section were not consistent with financial information in the PAR, as the Pension Benefit Guaranty Corporation (PBGC) performance results were included in these sections; however, PBGC is properly excluded from DOL's consolidated financial statements. As a result, the PAR readers are unable to easily relate audited costs by program presented in the SNC to the strategic goals discussed in the MD&A, and inconsistency exists within the PAR with regard to the inclusion of PBGC in the MD&A and Performance Section and exclusion from the financial section.

The Office of the Chief Financial Officer (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. In addition, 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. In response to our prior year comment on PBGC, the Assistant Secretary for Administration and Management sent OMB a letter on August 28, 2009 requesting guidance on whether or not PBGC performance information should be included in DOL's PAR. However, a conclusion has not yet been communicated.

Section II.2.6 of OMB Circular No. A-136 states, "Entities should strive … to the extent possible, [to] indicate results 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 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."

Recommendations

We recommend that the Assistant Secretary for Administration and Management, who is responsible for the preparation of the MD&A and Performance Section of the PAR:

1. Develop and implement procedures to better link the SNC to DOL's strategic goals.

2. Follow-up with OMB to reach a conclusion on whether or not PBGC performance information should be reported in DOL's PAR.

Management's Response

In the FY 2008 PAR (see p.16), the net cost of DOL Strategic and Performance Goals were reconciled to the financial statements, as they were again in the FY 2009 PAR. While this reconciliation differs from the categories employed in Note 15A, we believe it meets the criteria stated above, as the aggregated totals have been reconciled.

The example provided in the Background section implies DOL should create another statement reconciling net costs of the Major programs identified in Note 1A.2 with the net costs of the associated Strategic Goals. The example cited is the inconsistency of net cost for Income Maintenance ($50.314 billion in Note 15A) and the net cost of Strategic Goals 4 ($48.957 billion in the Program and Performance net cost table in the MD& A on p.16).

The mapping of major programs to Strategic Goals is not executed on a one-to-one basis. For example, Strategic Goal 4 includes programs and costs that are not associated with Income Maintenance but Labor, Employment, and Pensions (EBSA, OWCP, and OLMS). Even if DOL were to produce a crosswalk between the two program types, there would still be additional matters to resolve, including DOL training programs operating under a Program Year vs. a Fiscal Year, which we currently reconcile in the aggregate, but not at the program level.

It should be noted that in FY 2010, the Department expects to substantially revise its strategic goals as it develops a new Department-wide strategic plan. The strategic plan will cover Fiscal Years (FY) 2010-2015 and highlight key programs and activities supporting strategic goals. The strategic planning process will take an entire fiscal year to complete and allows for Department-wide coordination, stakeholder consultation, and review by the Office of Management and Budget (OMB). As a result of this undertaking, the Department's strategic goals and alignment of programs to the goals will be revisited.

DOL has formally notified OMB of the finding and has requested guidance on the issue of inclusion of PBGC's performance information in the DOL PAR.

Auditors' Response

These recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

2. <u>Budgetary to Proprietary Analyses</u>

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

- The budgetary to proprietary analyses for the quarters selected for testing (specifically, FY 2009 second and fourth quarters) were not provided to us timely.
- The OCFO did not formally document the budgetary to proprietary analyses procedures and the expected timeframe for completion and review for each quarter.

These exceptions occurred because the OCFO did not want to provide the budgetary to proprietary analyses until all identified differences had been researched, resolved, and reviewed by a supervisor. In addition, the OCFO had not formally documented the relationship analyses procedures and the related timeframes because the OCFO was still in the process of refining the procedures and the expected timeframes.

As a result, the OCFO may not detect material differences between budgetary to proprietary accounts in a timely manner, increasing the risk of misstating quarterly financial information and the year-end financial statements.

U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (the 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."

Recommendations

We recommend that the Acting Deputy Chief Financial Officer:

1. Complete the implementation of comprehensive quarterly budgetary to proprietary relationship 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.
2. Formally document the relationship analyses procedures and the expected timeframe for completion and review for each quarter.

Management's Response

In FY 2009, OCFO significantly improved the quarterly budgetary to proprietary relationship analysis. OCFO developed an enhanced process, which in addition to creating an improved analytical methodology, provides for the production of a complete package that identifies the variances, documents their resolutions, requires the maintenance of the supporting documentation, and calls for supervisory review of the analysis.

In regards to the timeliness of the analysis, it should be noted that the second quarter variances were identified in April. However, the completion of the analysis was delayed due to management's decision to improve the overall process, including the resolution of variances. Furthermore, the year-end analysis was completed timely. While additional time was needed to research and explain variances, the analysis was provided to the auditors within 34 days of the end of the quarter.

Based upon the enhanced process, no later than June 30, 2010, OCFO will develop procedures, which include a timeframe for the completion and review of the analysis.

Auditors' Response

These recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

3. Budget Reporting Processes

During our audit procedures over the FY 2009 SF-132, *Apportionment and Reapportionment Schedule*, and SF-133, *Report on Budget Execution and Budgetary Resources*, we noted the following:

- The Departmental Budget Center (DBC) reported appropriated receipts in the amount of $63 million on Line 3D1A, *Offsetting Collections – Earned, Collected* instead of Line 3A1, *Budget Authority, Appropriation – Actual* of the SF-132 for Treasury Account Fund Symbol (TAFS) 16X5393, as required by OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget.*

- For TAFS 16X0186, DOL did not report obligations incurred for Category B in the 4th quarter SF-133 at the same level as apportioned funds reported in the SF-132, as required by OMB Circular No. A-11. DOL incorrectly reported in the SF-133 on line 8A, Category B, the sum of lines 8B1, *Recovery Act – Payments to EUCA/Extension Benefits,* and 8B2, *Recovery Act – Payments to ESAA/Extension Administration* reported on the SF-132.

The issues above occurred because the OCFO is not performing an adequate review of the SF-132s and SF-133s prior to submission to OMB and the U.S. Department of the Treasury (Treasury). As a result, the risk increases that inaccurate budgetary information could be reported to OMB and Treasury and in the consolidated financial statements.

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 […] 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."

OMB Circular No. A-11, Appendix F, 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."

In addition, OMB Circular No. A-11, Section 130, states, "If your SF-132 apportions funds on line 8B "Category B" at a certain level, then you must provide the same level of detail on the SF-133."

Recommendation

We recommend that the Assistant Secretary for Administration and Management provide DBC staff and supervisors with specific guidance on proper preparation and review of the SF-132s and SF-133s prior to submitting the forms to OMB and Treasury.

Management's Response

DBC management concurs with the Notification of Findings and Recommendation and has counseled staff and supervisors on the correct recording of this anticipated budgetary resource on the SF-132, Apportionment Request. With the correct recording of this budgetary resource on the SF-132 and within the accounting system (general ledger), the correction will automatically be reflected in the corresponding SF-133.

Auditors' Response

This recommendation is considered **resolved and open**. FY 2010 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

4. Recording of Budget Authority

During our substantive audit procedures over FY 2009 appropriations received and apportionments, we noted that:

- DOL did not record the budgetary and proprietary entries simultaneously for several budget authority events.

- For TAFS where the budgetary resources were approved under continuing resolution by OMB but the Treasury Warrants were not yet received, DOL reported the related activities as Fund Balance – Authority Warrants (Account 1012) instead of Fund Balance with Treasury (FBWT) under a Continuing Resolution (Account 1090).

- DBC incorrectly calculated the amount to record as appropriations received for TAFS 16090200 by subtracting temporarily not available amounts reported on the SF-132 from the sum of actual appropriation received and anticipated expenditure transfers in from trust funds.

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

In addition, DOL did not have a transaction code established to post entries to Account 1090 to record budgetary resources approved by OMB for which Treasury Warrants have not yet been received. Although recording budgetary resources that were approved under continuing resolution by OMB for which Treasury Warrants had not yet been received as Fund Balance – Authority Warrants (Account 1012) instead of FBWT under a Continuing Resolution (Account 1090) does not have an impact on the FBWT reported in DOL's financial statements, the recorded transactions are not in compliance with the U.S. Standard General Ledger (USSGL).

Furthermore, because DBC staff was not aware of the transaction code that should be used to record temporarily not available amounts, DBC staff netted the amounts for use in the appropriations received transaction code. Recording budgetary resources net of temporarily not available amounts reported on the SF-132 resulted in an understatement as of March 31, 2009 of Other Appropriations Realized (Account 4119) and Temporary Reduction – New Budget Authority (Account 4382) by $263 million and $306 million, respectively.

Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary Financial Accounting*, paragraph 71 states, "Unexpended Appropriations. Appropriations, until used, are not a financing resource. They should be recognized in capital as 'unexpended appropriations' (and among assets as 'fund balance with Treasury') when made available for apportionment even if a Treasury Warrant has not yet been received, or the amount has not yet been fully apportioned."

USSGL (August 2008 version), Section III, Account Transactions, transaction code *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

USSGL (August 2008 version), Section III Account Transactions, transaction code *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."

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

USSGL (August 2008 version), Section III Account Transactions, transaction code *A135*, states, "To record budget authority temporarily reduced by legislative action…."

Budgetary Entry
Debit 4450 Unapportioned Authority
Credit 4382 Temporary Reduction – New Budget Authority

USSGL (August 2008 version), Section III, Account Transactions, transaction code *A104* states, "To record the enactment of appropriations."

Budgetary Entry
Debit 4119 Other Appropriation Realized
Credit 4450 Unapportioned Authority

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

Recommendations

We recommend that the Acting Deputy Chief Financial Officer:

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

2. Establish a transaction code to record budgetary resources approved by OMB for which Treasury Warrants had not yet been received in compliance with the USSGL.

In addition, we recommend that the Assistant Secretary for Administration and Management:

3. Develop and implement procedures to consult with the OCFO for guidance on appropriate transaction codes to be used to record economic events when the information is not available for DBC staff.

Management's Response

OCFO agrees with the recommendations. As such, we set up new transaction codes which comply with the USSGL requirements. We are already implementing this change.

Auditors' Response

These recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

5. Grant Closeouts and Deobligation of Grant-related Undelivered Orders

Employment and Training Administration (ETA) grantees are required to submit Financial Status Reports (ETA 9130s) to ETA on a quarterly basis. Reports are due within 45 days after the end of the quarter. The E-Grants application allows ETA's grantees to directly submit required financial information via the internet. Once the grantee has submitted and certified the financial data, the data is reviewed and accepted by the responsible Federal Project Officer (FPO), and is automatically uploaded into the Department of Labor Accounting and Related Systems (DOLAR$), DOL's general ledger.

It is the responsibility of the FPO to monitor his/her grantees to ensure that the appropriate financial and performance reports are submitted in a timely manner. To aid in the monitoring process, the Department of Financial and Systems Services (DFSS) prepares a "Delinquent Reporting Analysis" to identify grantees that are delinquent in reporting their costs to ETA. For those grantees identified, DFSS staff notifies the assigned FPO, who is responsible for contacting the grantee to obtain the missing financial reports and/or to ascertain the reason for the delinquency before further action is taken.

The Delinquent Reporting Analysis identifies all open grants that do not have costs submitted for a particular quarter. Therefore, in addition to delinquently reporting grantees, the analysis shows grants for which financial reports have been submitted but not yet accepted by the FPO. The analysis also presents expired grants that have not yet completed the closeout process.

Currently, deobligation of grant undelivered orders (UDOs) is processed during the grant closeout phase. Grant closeout data is generated from E-Grants. This data indicates the beginning and end date for all grants. The beginning and end dates for new grant awards are entered directly into E-Grants by the grant office.

In addition, prior to FY 2008, Veteran's Employment and Training Service (VETS) grants were tracked and monitored through the VETS Operations and Programs Activity Report (VOPAR) system. VETS began implementing E-Grants in FY 2008 to track and monitor its grants and, beginning in FY 2009, all new VETS grants are now processed through E-Grants. VETS' grantees are required to submit Financial Status Reports (SF-269) to VETS on a quarterly basis. Reports are due within 45 days after the end of the quarter. In accordance with the Department of Labor Manual Series (DLMS) 2, Chapter 877, VETS grants are to be closed within 12 months of expiration.

During our testwork over FY 2009 grant controls and UDO balances, we noted the following:

- 2 of the 4 expired ETA grants tested had UDO balances that had not been deobligated as of the date of our testwork and more than 12 months had passed since the grant expired.

- 1 of the 4 expired ETA grants tested had a trade benefits program within a Workforce Investment Act (WIA) grant. The overall WIA grant was still valid, but the trade benefits program had expired. Even though the trade benefits program had expired, the unused funds for the program had not been deobligated as of the date of our testwork and more than 12 months had passed since the grant expired.

- 2 of 45 ETA grants tested were not closed out within 12 months of their expiration date.

- For 1 of the 239 ETA grant-related UDO balances tested, the grant had expired but had not been closed out within 12 months of its expiration date.

- For 2 of the 9 VETS grants tested, the grants had expired as of June 30, 2007, and June 30, 2008, respectively, and closeout had not been conducted.

The above instances in the first 2 bullets occurred because closeout delays led to a failure to deobligate unused grant funds for expired grants. ETA generally does not initiate deobligations outside of the closeout process. In addition, ETA has not formulated policies and procedures to identify grants with programs having varying expiration dates. Furthermore, ETA has not designated the appropriate personnel to initiate deobligations of program funds at expiration of the program when the grant is still active.

The exception noted above in the third bullet occurred because the ETA grants expired on March 31, 2008 but were not assigned to a Closeout Specialist until 11 months after expiration. This resulted in insufficient time for the closeout specialist to close the grant within 12 months of the grants' expiration date. Per discussion with personnel from the ETA closeout unit, the Grant Closeout System (GCS) sent the closeout unit a message notifying it of the upcoming expiration; however, the closeout unit rejected the notification. The closeout unit did not keep track of the grants that were rejected for closeout, and such grants were not discovered until a Closeout Specialist performed a review of all grants to "clean up" those that had expired.

In addition, the exception noted above in the fourth bullet relates to a grant that expired on June 30, 2007. Per discussion with the Closeout Specialist, the grantee is difficult to contact due to its location. This lack of communication has hindered the closeout process. Additionally, deobligation is not typically performed outside of the closeout process.

Lastly, the exceptions noted above related to VETS grants occurred because of the Office of the Assistant Secretary for Administration and Management's (OASAM) backlog of contracts and grants that have expired and should be closed out. OASAM has hired a contractor to assist with the closeout process; however, the backlog has not yet been cleared.

Without adequate controls to monitor the status of UDOs and deobligate remaining funds timely, UDOs may be overstated.

U.S. Code Title 31 Section 1501, *Documentary Evidence Requirement for Government Obligations*, "an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another person (including an agency) that is (a) in writing, in a way and form, and (b) for a purpose authorized by law and executed before the end of the period of availability." Section 1554, *Audit, control and reporting*, states "The head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed to support the certification required by section 1108(c) of this title."

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."

GAO's Standards also states, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

Furthermore, ETA's *Closeout Manual* provides the internally-developed closeout procedures and documentation on the timeframe for the assignment of grants scheduled to be closed, the receipt of closeout documents from the grantee, and the reconciliation of the closeout documents by the closeout specialist. The *Closeout Manual* indicates that in accordance with DLMS 2, Chapter 800, Section 877 "grants and agreements are to be closed within 12 months of the expiration or termination of the grant or agreement."

Recommendations

We recommend that the Assistant Secretary for Employment and Training improve the procedures for deobligating UDOs related to expired grants and programs. These procedures should include:

1. Closeout supervisors review of the Closeout Inventory Tracking System (CITS) with the closeout specialists periodically to (a) determine the status of grant closeouts in conjunction with and/or in addition to regular monthly meetings, (b) follow-up on any grants that have not been closed within the established time frames to ensure timely resolution, and (c) initiate deobligations of invalid UDO balances for grants experiencing closeout delays.

2. Identification of grants with programs having varying expiration dates, and designation of appropriate personnel to initiate deobligations for these programs at the time of the program's expiration.

3. Tracking and prompt resolution of rejected expiration notifications.

4. Review of all grants on a more frequent basis (e.g., quarterly) to (a) ensure that all grants nearing or past expiration are properly identified and assigned to a Closeout Specialist and (b) make appropriate deobligations when it is reasonably expected that the grantee will not be reporting any additional expenses even if the grant has not been fully closed out.

In addition, we recommend that the Assistant Secretary for the Veteran's Employment and Training Service, in coordination with the Assistant Secretary for Administration and Management, develop and implement specific procedures to complete the grant closeout process within 12 months of each grant's expiration in accordance with DLMS. These procedures should include:

5. Continuing "clean up" of all expired grants to bring all grant closeouts up to date.

6. Deobligating funds when it is reasonably expected that the grantee will not be reporting any additional expenses.

Management's Response

<u>ETA Response</u>

ETA's Division of Policy, Review, and Resolution (DPPR) existing procedures are more than adequate to address KPMG's recommendations. The closeout supervisor holds formal quarterly meetings with the Closeout Unit staff. In addition, monthly reviews are performed with the senior resolution specialist who carefully manages the CITS. These reviews include, but are not limited to, monitoring the monthly inventory of closeout cases, determining if closeout specialists are meeting internal deadline requirements, balancing workload among staff, and resolving other issues, as necessary. If closeout issues are identified, the closeout supervisor follows up with individual staff person(s) within 3-5 days to ensure immediate action has been taken to resolve the identified case closure or workload issue. In addition, the closeout supervisor follows up with staff concerning any issues that have arisen to impede the Closeout Unit's goal of meeting the federally regulated closeout deadline of 12 months. All issues are thoroughly investigated and documented for the file. Lastly, at times issues may arise, such as staffing problems, grantee communication problems due to location, or system malfunctions that will unfortunately cause untimely closeouts. These situations, although unavoidable, are addressed immediately.

The performance of partial fund de-obligations within active grants would require departure from standard Department-wide requirements reflected in the DLMS. ETA is required by Departmental policy to adhere to the DLMS standards and procedures. In addition, partial de-obligations would require closing and reopening the entire grant numerous times, violating internal control standards and ultimately resulting in an inefficient use of staff time and effort in both ETA and PROTECH offices. Additionally, ETA's policy concerning multiple source funded grants, with varying fund expiration dates, are set forth in Employment Training Order-3-05, which states "Upon notification that the agreement has expired and is ready for closeout, the Closeout Unit will begin the closeout process." Thus, the closeout unit cannot make any deobligation actions until after the entire grant expires.

In response to recommendation 3, ETA's Closeout unit is alerted, by the Grant Closeout System (GCS), within 60 days of a grant's expiration. During this time, the Closeout Unit consults with the program official and/or the grantee to determine whether the grant will in fact expire on its intended expiration date or be extended to a new expiration date. If it is found that the grant will indeed expire, it will be "verified" in the GCS and added to the closeout inventory. If the grant will be extended, it will be "rejected" in the GCS. The lead Resolution Specialist has developed a master list of the extended grants. The list has been maintained in Excel since March 2009. It is checked and updated monthly to ensure that the new expiration dates for previously rejected grants are identified and grants are assigned to the Specialist in a timely fashion. The master list of all the grants is easily retrieved, updated, and sorted by expiration date. As of its development, we have not experienced any missed expiration dates.

In consultation with OCFO, ETA will review the grant closeout monitoring and tracking procedures and make improvements as necessary.

<u>OASAM-OPS Response</u>

The Office of Procurement Services (OPS) is not allocated a position designated as a closeout specialist to perform the closeout function for grants. This function is included in the duties of the Grant Specialist and is part of a larger workload. To assist in performing this function, OASAM has provided funds for contractor support since July 2007.

In response to closing grants within 12 months of the expiration date, it is not always possible to close grants within 12 months due to pending issues that must be resolved prior to closeout. Depending on the amount of research involved, the process can take anywhere from 30 to 180 days. In July 2007, the contractor was provided a total of 129 VETs grants and 70 ODEP grants to close. Of the initial 129 VETs grants provided, the contractor was able to close a total of 101. There are 28 VETs and 70 ODEP grants remaining from the initial inventory provided in July 2007. The contractor is making significant progress in reducing the inventory backlog.

The closeout function is an on-going process and OASAM will continue to provide contractor support for this function during FY 2010. To support this effort, funds have been provided and communication with the contractor took place in September 2009. The Grant Officer provided the contractor an additional 232 grant files in October 2009 — 156 VETs, 56 ODEP, and 20 Women's Bureau (WB). The contractor currently has 330 grant files remaining in inventory consisting of 184 VETs, 126 ODEP, and 20 WB grants. The contractor has been directed to perform quick closeout procedures on those grants dated prior to 2004 since the funding has expired. Quick closeout procedures will allow grants with no funding to be closed administratively.

VETS Response

VETS does not agree with the finding on the grant close-out process. However, VETS has agreed to take the lead in notifying the OCFO-Division of Client Accounting Services (DCAS) of the de-obligation of funds from expiring grants, which it has done in the past and will notify the OASAM-Office of Procurement Services (OPS) of grants targeted for close-out. VETS is also contributing funds for contractor support in the close-out of grants, as the agency has for the past three years. An addendum to the current roles and responsibilities related to grant closeouts is reflected in the Agency's *Mission and Function Statement*.

Auditors' Response

The recommendation for OASAM is considered **resolved and open**. Although ETA and VETS stated that they do not concur with the characterization of our comments, ETA and VETS have taken steps to address our recommendations. Therefore, these recommendations are also considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

6. <u>Grant Monitoring</u>

Post-award grant monitoring is primarily the responsibility of ETA regional offices. The FPOs are responsible for monitoring their assigned grantees. The monitoring activities performed over the grantees include risk assessments, quarterly desk reviews, and on-site monitoring visits.

Within 30 days after receipt of the quarterly financial status and performance reports from the grantees, but no later than 75 calendar days after the end of the calendar quarter, the FPO performs a desk review. The desk review is a comprehensive review of the financial status and performance reports submitted by the grantee. The FPO's review and determinations are documented in the Grants e-Management System (GEMS).

During our testing of ETA's grant monitoring controls, we noted the following deficiencies:

- A desk review was not completed for 1 of the 25 financial status and performance reports tested. We note that the related grant is monitored by an FPO in the national office.

- A desk review was not completed timely for 5 of the 25 financial status and performance reports tested. Two of these desk reviews related to grants monitored by FPOs in the national office and should have been completed by March 16, 2009. However, the reviews were not completed until August 11 and August 14, 2009, respectively. The other three desk reviews are related to grants monitored by FPOs in the regional offices. These three reviews should have been completed by March 16, 2009; however, one of the reviews was not completed until April 16, 2009, and the other two were not completed until June 18, 2009.

- Adequate documentation supporting that the FPO had followed-up timely with the grantees on report delinquencies did not exist for 2 of the 23 delinquent grantees selected for testing.

The above exceptions occurred because ETA has no supervisory review procedures in place to ensure FPOs are completing and submitting the desk reviews in a timely manner. In addition, the national office FPO responsible for two of the untimely desk reviews stated that these reviews related to Native American grants that were not previously monitored through GEMS. FPOs were first required to submit the desk reviews for these grants in GEMS for the quarter ended December 31, 2008. Management indicated that submission was untimely as there was a delay caused by transferring grant information into GEMS. Management's first priority was to transfer all information into GEMS, and then catch up on the desk reviews. We were not able to obtain supporting documentation for this new guidance or that a review was performed outside of GEMS.

The regional FPO responsible for two of the untimely desk reviews stated that he completed the desk reviews in a timely manner but was unable to successfully submit the review in GEMS. However, he was unable to provide any supporting documentation for our review.

Furthermore, we noted that ETA did not consistently maintain adequate support for communications with grantees to resolve issues such as delinquent reporting. In addition, for grants monitored by the national office rather than a regional office, the appropriate responsible party may not have been aware of the required monitoring procedures or the funding stream to be able to monitor the related report.

Without adequate detective controls over the grant expense process, grantees may intentionally or unintentionally misreport grant expenses without being detected by DOL. Without adequate controls over the grant reporting process, grantees may be misusing grant funds without being detected by DOL. As a result, grant-related expenses, advances, payables, and UDOs 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."

Per ETA's *Delinquent Filers Monitoring Procedures*, "Each FPO is asked to contact the grantees and ensure that certified reports are submitted to ETA and are reviewed/accepted by the FPO through the cost reporting system."

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."

Furthermore, U.S. Code Title 31, Chapter 75 (commonly referred to as the "Single Audit Act"), states, "Each Federal agency shall, in accordance with guidance issued by the Director under section 7505, with regard to Federal awards provided by the agency – (1) monitor non-Federal entity use of Federal awards…"

Recommendations

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

1. Require supervisors to periodically review a sample of FPO desk reviews to confirm that the reviews are being completed timely. This review should be documented.

2. Develop an exception report in GEMS to note when desk reviews have not been performed by the FPO. The exception report should also highlight/track desk reviews that are close to or beyond 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. Reinforce procedures, especially in the national office, which require a detailed review of the "Delinquent Reporting Analysis" by the FPOs each quarter. In addition, develop and implement procedures for supervisors to perform a quarterly review of a sample of delinquent cost reports from the "Delinquent Reporting Analysis" to confirm that the FPOs are resolving delinquent reporting situations timely; this review should be documented.

4. Develop and implement procedures for FPOs, or other individuals contacting delinquent grantees, to maintain accurate and complete records of the communication and results.

Management's Response

ETA managers and supervisors of FPOs are responsible for reviewing the work of FPOs to ensure timeliness and compliance with internal controls as outlined in existing policies and procedures. However, to reinforce these procedures, beginning in FY 2009, ETA administrators and supervisor's performance standards requiring quarterly monitoring of FPO desk reviews. Additionally, ETA staff with grant management responsibilities are required to follow applicable guideline (see Employment and Training Order 1-08, the ETA Grants Management Desk Reference, and the ETA Core Monitoring Guide).

With respect to recommendation #2, ETA agrees and has instituted a reminder for Regional Administrators and National Office managers of FPOs immediately following the allowed review period following the end of each quarter (e.g. December 15, 2009, for the quarter ending 9/30/09), which will ask that an exception report be run to determine whether all desk reviews were accomplished timely.

ETA agrees with the auditor's recommendations related to quarterly reviews of the "Delinquent Analysis Report." ETA Administrators and supervisors of FPO's will reinforce existing procedures related to delinquent grantees to include documentation of follow up activities. Additionally, the Office of Accounting Services performs an independent review of the effectiveness of agency procedures through confirmation that grantee cost reports are being submitted timely and desk reviews are being done within required timeframes. The results of these reviews are provided to the applicable FPO for additional follow up.

Auditors' Response

These recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

7. <u>Maintenance of Certain Expense Supporting Documents</u>

During our substantive testing over grant expenses for the period October 1, 2008 through March 31, 2009, we noted that ETA was not able to provide supporting documentation for 4 of 132 sample items selected in a timely manner. We submitted our samples to ETA on May 21, 2009, and requested that supporting documentation be provided by June 2, 2009. However, ETA did not provide the supporting documentation for the four items until July 17, 2009.

The delay occurred because of ETA's inability to identify the appropriate personnel to provide the supporting documentation in a timely manner. If ETA is unable to provide supporting documentation in a timely manner, DOL may not be able to demonstrate timely that certain balances are accurately stated in its annual financial statements.

In addition, during our testing over payroll expenses for the period of October 1, 2008 through March 31, 2009, we noted that OASAM Human Resources Center (HRC) did not provide supporting documentation for 19 of 38 sample items in a timely manner. We submitted our initial request for documentation on May 27, 2009, with a due date of June 3, 2009. We received documentation on June 24, 2009. Subsequently, we submitted our follow-up questions regarding missing supporting documentation related to 19 sample items to the OCFO on July 21, 2009, and did not receive support for these 19 items until August 14, 2009. Therefore, it took 57 business days for the HRC to provide the information requested (May 27, 2009 to August 14, 2009).

The delay noted above related to payroll expense occurred because of miscommunication between the OCFO and the HRC. This miscommunication caused the appropriate personnel to not provide the supporting documentation within a reasonable amount of time. In addition, the decentralized nature of the human resource community within DOL makes it difficult to coordinate the collection of needed documentation. If HRC is unable to provide supporting documentation for audit samples in a timely manner, DOL may not be able to demonstrate timely that certain balances are accurately stated in its annual financial statements.

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 Employment and Training develop and implement procedures to identify the appropriate personnel to provide requested supporting documentation timely.

In addition, we recommend that the Director of the Human Resources Center reinforce audit response procedures to satisfy audit requests in a timely manner by:

1. Identifying the appropriate personnel to handle audit request timely.

2. Obtaining and providing supporting documentation to the auditors timely.

3. Providing answers to follow-up questions regarding audit samples timely.

4. Requiring designated supervisors to regularly monitor the progress of audit request responses.

Management's Response

ETA Response

ETA has existing procedures in place to receive, distribute, and respond to audit requests timely. Audit samples are received in ETA's Division of Financial Accountability and Reporting (DFAR) for initial review and distribution. The sample along with the auditor's request and deadline is submitted to the appropriate program and/or financial offices for completion. To address the auditor's recommendation, DFAR will request that the program and/or financial office review, within 1-2 business days, the auditor's request and identify potential issues (i.e. wrong office, current workload, data not yet available, etc.) in providing the documentation by the due date. Any potential issues will be communicated to the auditor and the OCFO. ETA will continue to monitor these procedures to ensure that they are effective in preventing untimely delays with future data requests.

OASAM-HRC Response

Our management response remains the same as it was in our response to NFR-09-14, dated September 14, 2009, which is as follows:

Action has been taken by OASAM-HRC management to ensure that responses to future requests for information are provided in a complete and timely manner. We concur that the delays in responding are due in part to the fact that requests for information are not being directed to the appropriate officials in HRC who possess the scope of authority to ensure that such requests are handled timely. Accordingly, HRC has advised the KPMG auditors and the OCFO representatives that all future requests for information be directed to the Director of HRC with a copy to the Executive Officer.

Directing requests to the aforementioned officials will ensure that the requests are being routed to the appropriate staff within HRC, the OASAM Regional Human Resources Offices (HROs), or the subagency National Office HROs as necessary, and that the responses to future requests will be coordinated and monitored to ensure timely response.

Auditors' Response

These recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

8. Accounting for Certain Job Corps Contracts

During our audit procedures over the September 30, 2009 UDO balances, we identified a UDO in the amount of $1 million with a period of performance that had ended on April 30, 2007. The contract was for the operation of a Job Corps center, and the contractor had not submitted a final cost report. The cost report was subsequently obtained by the Office of Job Corps (OJC) and reported that unexpended funds (i.e., the UDO balance) was actually $42.

In addition, during our final analytical procedures over the September 30, 2009 financial statements, we noted that the FY 2009 balance in "Other" advances increased approximately $77 million from the prior year. As a result, we analyzed the population of advances for Accounts 1411 and 1445 and noted that Job Corps contained the largest balances. The OCFO staff subsequently obtained the related cost reports for some of the UDOs and determined they had been fully expended. In addition, the OCFO estimated that UDOs for internal agency codes (IACs) with funding years of FY 2006 and prior should also be fully expended since the funding had expired.

Based on an OCFO analysis, the OCFO calculated an estimated error of approximately $85 million. Through our analysis of Accounts 1411 and 1445, we identified an additional $6 million of UDOs that related to FY 2006 and prior and should be considered invalid. As a result, we estimated that approximately $91 million of Job Corps UDOs and related advances were invalid (i.e., overstated) as of September 30, 2009. These errors were not corrected in the FY 2009 financial statements and were reported in the Summary of Audit Differences that was attached to the FY 2009 management representation letter.

The above issues occurred because OJC did not actively monitor the Job Corps centers receiving advance payments to ensure expenditure information was being reported and recorded in a timely manner.

GAO's Standards states that, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

Also, GAO's Standards provides examples of control activities, which include "reviews by management at the functional or activity level."

Recommendations

We recommend that the Interim National Director of the Office of Job Corps:

1. Review the detail of Job Corps advances at September 30, 2009, identify all invalid advances, and post adjustments necessary to properly state the advance balance no later than March 31, 2010.

2. Develop and implement policies and procedures to monitor Job Corps centers receiving advances and perform follow-up, as necessary, to ensure centers are reporting expenditures timely.

Management's Response

The Office of Job Corps concurs with the recommendation. The Office of Job Corps' Division of Budget and Acquisition (Division) routinely engages in a review of all advances in the regular course of business. The Division will ensure that any adjustments (arising out of "invalid adjustments") are promptly posted on or before March 31, 2010.

The Division has procedures on the process for advances within regards to the financial transfer of funding to the respective contractors. Please note that the national training contracts and the nonprofit operators are those in receipt of "advances." The Division will review its current policies and procedures (and draft new guidelines where applicable) to ensure that it continues to engage in the monthly monitoring of reported expenditures, and adjustments where indicated.

Auditors' Response

These recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

9. <u>Compliance with the Prompt Payment Act</u>

During our compliance testwork over the Prompt Payment Act, we noted that for 3 of the 58 invoices tested, payment was not made within 30 days:

- For one sample item, a $519 interest penalty required by the Prompt Payment Act due to a 14-day late payment was not paid.

- For one sample item, a $1,563 interest penalty required by the Prompt Payment Act due to a 43-day late payment was not paid.

- For one sample item, a $17 interest penalty required by the Prompt Payment Act due to a 2-day late payment was not paid

For each of these items, the regional offices entered the invoice into DOLAR$ on the date it was approved for disbursement by the finance manager instead of the actual date the invoice was received. In addition, no review process was in place to verify that the proper invoice received date was entered into DOLAR$ to trigger the proper payment due date in DOLAR$.

Without adequate internal controls over entering the proper invoice received date into DOLAR$, invoice payments may not be made in accordance with the Prompt Payment Act. In addition, interest penalties may be calculated incorrectly based on use of an improper invoice received date.

Prompt Payment Final Rule (5 CFR Part 1315) §1315.5 (f) states the following: “The period available to an agency to make timely payment of an invoice without incurring an interest penalty shall begin on the date of receipt of a proper invoice…Unless otherwise specified, the payment is due…30 days after the start of the payment period…if not specified in the contract, if discounts are not taken, and if accelerated payment methods are not used.”

§ 1315.10 of the Prompt Payment Final Rule explains that for late payments, “Interest will be calculated from the day after the payment due date through the payment date at the interest rate in effect on the day after the payment due date.”

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.”

Recommendations

We recommend that the Acting Deputy Chief Financial Officer direct the Division of Client Accounting Services (DCAS) to adopt the following improvements to its internal control structure:

1. Reinforce procedures with the regional offices that invoice received dates entered into DOLAR$ should reflect the date of receipt of a proper invoice by DOL.

2. Develop and implement a periodic review process to verify that proper invoice received dates are entered into DOLAR$.

Management's Response

<u>OASAM-Atlanta Regional Office</u>

The violation of the Prompt Payment Act initially was the result of the lack of obligation of sufficient funds to cover the amounts of the invoices. This resulted in the invoices being returned to the program office and resubmitted to the finance office for payment. Upon resubmission of the invoices for payment, the Accounting Technician incorrectly used the date the invoice was resubmitted to determine the payment due date.

Although the Accounting Technician responsible for the error has transferred to a new assignment, other Financial Management Division staff has been directed to review and certify in writing that they reviewed and understand 5 CFR 1315: Prompt Payment; Formally *OMB Circular A-125*.

Considering the internal controls associated with the implementation of the New Core Financial Management System (NCFMS), and the finance staff directed review of 5 CFR 1315: Prompt Payment; formerly *OMB Circular A-125,* future occurrences of such incidents should be eliminated.

<u>OASAM-San Francisco Regional Office</u>

The violation of the Prompt Payment Act was the result of one OASAM Accounting Technician's misreading of the date stamps on the invoice in question. The accounting Technician has been trained on interpreting the appropriate date to use on the invoices. In addition, refresher training on Prompt Payment Guidance will be provided to all OASAM San Francisco staff on a yearly basis. In addition, management will ensure that the proper procedures are followed.

We believe that the late payment in question was the result of an isolated error and not related to a breakdown in our process or policy on paying invoices in a timely manner.

Auditors' Response

These recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

10. Non-grant/Non-Unemployment Trust Fund Undelivered Orders

Under current policy, DCAS is required to send the Unliquidated Obligation Report to the agencies monthly, and the agencies are required to inform DCAS if any UDOs on that report require deobligation/adjustment. However, we noted that the DCAS did not send the Unliquidated Obligation Report to the agencies for the month of September 2009 to enable the agencies to perform their monthly review of their UDOs.

In addition, during our substantive testwork over non-grant/non-Unemployment Trust Fund (UTF) UDOs through September 30, 2009, we noted the following 28 instances of invalid UDOs, related to OCFO, the Office of Safety and Health Administration (OSHA), ETA, OWCP, and the Bureau of Labor Statistics (BLS), in our sample of 233 items:

- 25 sample items related to contracts that were expired for over 18 months and carried a UDO balance of $68 thousand.

- One sample item, in the amount of $17 thousand, related to a relocation travel authorization obligated in FY 2006.

- One sample item related to compensation bonuses for which an estimated $68 thousand was obligated; however, the actual amount disbursed was only $59 thousand. The remaining balance continued to be reported as a UDO.

- One sample item, in the amount of $50, related to a training course taken on November 19, 2008 for which the agency could not provide documentation to support the UDO's continued validity.

In our sample of seven non-grant/non-UTF items related to the validity of UDOs, we noted one item, in the amount of $350 thousand, for which no documentation was provided to support the UDO's continued validity at September 30, 2009.

In regards to the Unliquidated Obligation Report, the DCAS communicated they did not accumulate and send it to the agencies due to time constraints at year end. In addition, the 28 exceptions identified above were the result of agencies not adequately reviewing their Unliquidated Obligation Reports to identify expired UDOs in order to deobligate as necessary. Lastly, proper documentation was not maintained by the Office of Workers' Compensation Programs (OWCP) to support a UDO balance related to the Black Lung program.

Without adequate and timely review over UDO balances, these UDO balances may be misstated.

The Unliquidated Obligation Report policies and procedures states, "The Department is required to ensure all obligations are properly classified as accounts payable and or as undelivered orders and ensure that all accruals/estimates are posted accurately and that payments are made timely within the Prompt Pay timeframe. Per your agency's monthly Detailed Fund Report reviews and using the Unliquidated Obligations Reports as a summary tool, your agency is requested to provide the DCAS accounting team supervisor with any necessary adjustments on a monthly basis, preferably at least 5-6 days prior to the end of the month to allow us time to review your request and post the adjustments in DOLAR$."

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."

In addition, 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:

1. The Acting Deputy Chief Financial Officer direct DCAS to reinforce formal policies and procedures to distribute the Unliquidated Obligation Report the last week of each month.

2. The Acting Deputy Chief Financial Officer, the Acting Assistant Secretary for Occupational Safety and Health, the Assistant Secretary for Employment and Training, the Director of the Office of Workers' Compensation Programs, and the Commissioner of the Bureau of Labor Statistics reinforce formal policies for each agency to adequately and timely review the monthly Unliquidated Obligation Report to identify expired UDOs for deobligation as necessary.

3. The Director of the Office of Workers' Compensation Programs reinforce policies and procedures to maintain proper supporting documentation for all accounting transactions and balances.

Management's Response

BLS Response

The Bureau of Labor Statistics will reinforce requirements to complete adequate and timely reviews of unliquidated obligations and take appropriate actions as necessary.

ETA Response

In response to recommendation #2, ETA will perform monthly analysis of the UDO balances beginning in Quarter 2 of FY2010. ETA will request the UDO report from the OCFO within 5 business days after the end of the month. ETA will review and transmit the UDO report to the Cost Center managers for confirmation of invalid UDO balances within 20 days of receipt of the UDO report. ETA will de-obligate or adjust invalid UDO balances within 45 days after the end of each month.

OSHA Response

OSHA does not concur with the Notification of Finding and Recommendation.

OSHA reviews its Unliquidated Obligation Report in a timely manner. As a result of the upcoming implementation of NCFMS, OSHA financial staff has made increased efforts to review the balances so only relevant data will be migrated. The UDOs in question have been reviewed and deobligated as appropriate, after it was confirmed that there are no outstanding invoices.

Regarding the sample item for a $50 training authorization, the documentation required to support the validity of the UDO balance was delayed due to the vendor having moved and changing accounting systems. This documentation has now been received, and this training authorization is no longer open.

OWCP Response

The recommendation is too broadly stated. The finding has to do with one UDO while the recommendation implies a deficiency for all OWCP accounting transactions and balances. A recommendation that more accurately goes to the finding would specifically address documentation of UDOs. However, OWCP will issue guidance to reinforce the policies and procedures for the documentation of the validity of UDOs.

OCFO Response

Division of Client Accounting Services (DCAS)

OCFO/DCAS does not concur with this audit finding. There appears to be some confusion between the Detail Fund Report (D253) process, which is the responsibility of the OASAM budget office; and the unliquidated obligation report process, which is performed by OCFO/DCAS for our DM client agencies. The current quarterly unliquidated obligation review procedures OCFO/DCAS has in place were carried over from our former OASAM/OFMO organizational set up. The current unliquidated obligation procedures OCFO/DCAS follows were not applied throughout the Department but to DM client agencies only. OCFO/DCAS forwarded a copy of the Unliquidated Obligation report dated July 2, 2009, to our DM clients for obligation review. The report and an email detailing review requirements and de-obligation requirements was sent out to all DM client agencies on July 9, 2009. OCFO/DCAS also sent two reminder follow-up email correspondence to our DM client agencies on August 7, 2009, and September 8, 2009. OCFO/DCAS consistently provides our DM clients with appropriate tools to perform a thorough review of their unliquidated obligations each quarter and to take appropriate action when necessary to de-obligate unliquidated balances in a timely manner.

A copy of the September 30, 2009, unliquidated obligation report for the 4th quarter of FY 2009 was forwarded to the DM client agencies on November 9, 2009, for their review and action. We also forwarded our standard email correspondence, which included review procedures and also alerting our clients of their responsibility to clear unliquidated obligations.

Division of Financial Reporting (DFR)

In FY 2010, on a quarterly basis, the Division of Financial Reporting will request from the Agencies the results of their quarterly reviews of UDOs and monitor the de-obligation of unliquidated balances.

Auditors' Response

The recommendations for ETA, BLS, and OWCP are considered **resolved and open**. Although OSHA and OCFO/DCAS stated that they do not concur with the characterization of our comments, the OCFO/DFR has taken steps to address our recommendations. Therefore, these recommendations are also considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

11. Statement of Differences Reconciliation Process

Based on our testwork over the OASAM and OCFO Statement of Differences (FMS-6652) reconciliations over disbursements and deposits for the months of October 2008 and March 2009, we noted the following:

- For Agency Location Code (ALC) 16012014, the OCFO's October 2008 reconciliation document did not provide evidence of when the reviewer or supervisor reviewed the reconciliation for completeness, accuracy, and timeliness of preparation.

- For ALC 16012004, we noted the following issues with OASAM's Region IV October 2008 and March 2009 FMS-6652 reconciliations: (1) documentation to substantiate the performance of the FMS-6652 reconciliation was not provided in a timely manner (requested on June 5, 2009 and received on August 19, 2009) and (2) appropriate evidence to substantiate that someone other than the preparer reviewed the March FMS-6652 reconciliations for timeliness, accuracy, and completeness was not provided.

- For ALCs 16012006 and 16012009, we noted the following issues with OASAM's Region IX October 2008 FMS-6652 reconciliations: (1) support for the individual transactions that reconcile to the total net difference as of October 2008 were not provided; (2) the causes and subsequent corrective actions initiated for each individual transaction were not provided; and (3) the reconciliations were not performed in a timely manner.

The OCFO supervisor or reviewer did not document the date when he or she reviewed the reconciliation for timeliness, accuracy, and completeness. The OASAM exceptions occurred because the Region IV and IX accountants did not review and research the FMS-6652 report for deposits and disbursement on a monthly basis. In addition, OASAM management did not communicate to the Region IV and IX district offices the procedures to perform and document the FMS 6652 reconciliation and supervisory review. Thus, the accountant was not aware that differences existed during the month sampled until documentation was requested by the auditor. In addition, the OASAM manager or supervisor did not evidence the review by signing and dating the reconciliation upon completion of the review.

Reconciliations that are not prepared according to Treasury guidelines, or are not prepared at all, increase the potential risk that FBWT is misstated. In addition, differences that are not resolved timely decrease management's assurance that the FBWT ending balance is reliable. Also, without documentation of supervisory review, no evidence exists to support that an individual other than the preparer ensured that: (1) reconciliations were performed in a consistent and timely manner; (2) sufficient documentation (i.e., physical or electronic) exists to substantiate the performance of the FMS-6652 reconciliation and corrective actions; (3) complete reconciliations were performed; and (4) differences were adequately researched and resolved.

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 FBWT … These procedures pertain to Federal agencies that must report receipt and disbursement activity to Treasury." The Reconciliation Procedures further state, "As stated in section V.A., Periodic Review and Evaluation, Federal agencies must reconcile the SGL 1010 account and any related subaccounts with the FMS 6652, 6653, 6654 and 6655 on a monthly basis (at minimum)." As stated in section V.B., Differences, "Federal agencies must research and resolve monthly FMS-6652."

The Reconciliation Procedures also states that…"each financial system's policies and procedures should provide: (1) regular and routine reconciliation of G/L accounts; (2) thorough investigation of differences; (3) determination of specific causes of differences; and (4) initiation of corrective action. This includes having the ability to schedule coordinate cutoffs and systematically produce a trial balance of the G/L. These activities must be scheduled and conducted to facilitate rather than impede the reconciliation process."

In addition, TFM Chapter 5100, Section 5135, *Background*, states, "Agencies should document their reconciliations and make them available to agency management, auditors and Treasury, if requested." Section 5130.30 also states, "Treasury notifies agencies by letter and/or a monthly Statement of Differences (SOD) report when there are differences in reported amounts. Agencies must investigate all Treasury-reported differences. They must initiate and/or report any necessary adjustments to their FBWT account and/or Treasury account symbol. Agencies must reconcile these differences monthly."

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:

1. The Assistant Secretary for Administration and Management ensure that staff implement existing procedures to ensure FMS-6652 reconciliations are being performed timely.

2. The Assistant Secretary for Administration and Management and the Acting Deputy Chief Financial Officer ensure that staff implement existing procedures that require

the preparation and retention of supporting documentation evidencing timely completion and supervisory review of the FMS-6652 reconciliations, in order to substantiate that reconciliations were performed properly and that they were reviewed by personnel other than the preparer.

Management's Response

OASAM-San Francisco Response

We are undertaking an overhaul of our Statement of Difference (FMS-6652) processes. We will be taking swift action to implement the recommendations provided by the KPMG auditors. Our implementation plan will be four-fold: (1) Process documentation; (2) File management; (3) Staff training; (4) Supervisory review and sign-off of the monthly 224 report.

Implementation Plan

SF-224 Process Documentation-Completion Date: August 27, 2009

Attached is a flow chart of the 224 reconciliation process that we will be following. This flow chart will ensure that all finance staff have a clear picture of the process that they must follow.

File Management-Completion Date: September 30, 2009

The existing file management system in OASAM San Francisco will be reviewed to ensure that the document filing methodology is reflective of an accountable process.

Training-Completion Date: December 2, 2009

We are sending key financial staff to training offered by the US Treasury's Financial Management Service (FMS). The training will cover the following topics: Terms and concepts, Deposits and disbursements process used by most Federal Agencies, Submission deadlines Reporting by federal accounts (receipts, expenditure, and suspense), Document preparation (by sections/by line), Making corrective entries, Collection, disbursement and check cancellation source documents used to prepare the report (FMS 215, 5515, 1166, OPAC, 145) Spotting "red flags" and edit checks in reporting.

Supervisory Review and Sign-off Completion Date: August 31, 2009

As recommended in the NFR, we will begin ensuring that all monthly reconciliation reports are reviewed and signed/dated by the Supervisory Accountant or other higher level official.

We believe that the implementation of the stronger accounting practice combined with additional training and improved file management practices will bring all future 224 reconciliation into compliance with existing audit standards.

OASAM-Atlanta Response

For ALC 16012004, the two findings were (1) documentation to substantiate the performance of the FMS-6652 reconciliation was not provided in a timely manner (requested on June 5, 2009, and received on August 19, 2009); and (2) appropriate evidence to substantiate that someone other than the preparer review the March FMS-6652 reconciliations for timeliness, accuracy, and completeness was not provided.

The issue of timeliness was addressed previously with OCFO. There was confusion with the KPMG auditors in clarifying what information was being requested. Region IV responded to the original request and KPMG did not respond until August 12, 2009, that incorrect information was provided. On August 16, 2009, Region IV provided all requested information to the audit team. Thus, Region IV does not fully concur with this finding but will work in the future with the audit team to ensure all requests are understood and responded to accurately and timely.

The issue of Managerial review: Region IV concurs with the finding and agrees to implement existing procedures that require retention of supporting documentation evidencing timely completion and supervisory review of the FMS-6652 reconciliations, in order to substantiate that reconciliations were prepared properly and that they were reviewed by personnel other than the preparer.

Implementation of KPMG recommendation:

Effective immediately, beginning with the August 2009 Statement of Differences Reconciliation, Region IV has established a central file to retain documentation support of the Statement of Differences Reconciliation process.

Effective with the August 2009 accounting period, the Regional Finance Officer will sign the Statement of Difference as the Reviewer.

OCFO-DCAS Response

OCFO's standard reconciliation procedure is to download the month-end statement of differences on the first date available after final posting to Treasury, then compare the final balances to the Log that we use for reconciliation purposes with Treasury reports. This procedure very rarely results in any discrepancies being found because the SF-224 data is reconciled on a daily basis. Evidence was provided for the October 2008 reconciliation with the approval signature of the supervisor. Neither the TFM 2, 5100 nor the supplemental to TFM volume 1 (November 1999) require evidence of exactly when management reviews the reconciliation report. Nevertheless, a review process has been implemented, which requires the preparation and retention of supporting documentation evidencing timely completion and supervisory review of the reconciliation.

Auditors' Response

The recommendations for OASAM and OCFO/DFAS are considered **resolved and open**. Although OASAM-Atlanta stated that it does not fully concur with the characterization of our comment, OASAM-Atlanta has taken steps to address our recommendation. Therefore, this recommendation is also considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

12. Other Fund Balance with Treasury Reconciliations

Based on our testwork over the OCFO's quarterly FBWT reconciliation for the quarter ended December 31, 2008, we noted that the OCFO's reconciliation document did not contain evidence that a separate person other than the preparer reviewed the reconciliation for timeliness, accuracy, and completeness. According to OCFO management, the supervisory review process for this reconciliation did not require a positive confirmation by the reviewer. Only if issues were identified by the reviewer, the reconciliation would be sent back to the preparer for correction.

In addition, we noted that the preparation of the monthly Government Wide Account Statement (GWA) Expenditure Activity reconciliation for the month of October was not performed timely. According to the OCFO, this reconciliation was not prepared timely because of more pressing priorities related to year-end reporting.

Without documentation of supervisory review, no evidence exists to support that an individual other than the preparer ensured that: (1) reconciliations were performed in a consistent and timely manner; (2) sufficient documentation (i.e., physical or electronic) exists to substantiate the performance of the quarterly FBWT reconciliation and related corrective actions; (3) complete reconciliations were performed; and (4) differences were adequately researched and resolved. In addition, if reconciliations are not prepared and reviewed timely, there is an increased potential risk that the period-end of FBWT is misstated.

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 […] 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."

In addition, TFM Chapter 5100 states, "The procedures defined in this document provide step-by-step instructions on reconciling the FBWT…. These procedures pertain to Federal agencies that must report receipt and disbursement activity to Treasury." The Reconciliation Procedures further states, "As stated in section V. A. Periodic Review and Evaluation, Federal agencies must reconcile their SGL 1010 account and any related subaccounts with the FMS 6652 and GWA Expenditure and Receipts reports on a monthly basis (at minimum)."

Recommendations

We recommend that the Acting Deputy Chief Financial Officer:

1. Develop and implement procedures to retain supporting documentation evidencing supervisory review of the quarterly FBWT reconciliation, whether in electronic or hard copy format, to substantiate the reviews performed by personnel other than the preparer.

2. Implement procedures to ensure that the monthly GWA Account Expenditure Activity reconciliation is performed timely (i.e., before the end of the subsequent month) and supporting documentation is retained evidencing the timely performance of the reconciliation, whether in electronic or hard copy format.

Management's Response

The December 31, 2008 FBWT reconciliation was reviewed and approved by a supervisor in mid January 2009, though the review and approval was not formally documented. In general, FBWT reconciliations are reviewed and approved by a supervisor and evidence of the review and approval is retained.

The October 2008 GWA Account Statement reconciliation was actually performed before the end of subsequent month of November. However, due to efforts spent on resolving some cash variances, as part of this reconciliation, as well as year-end procedures with higher priorities that were being addressed during the same month, the reconciliation was not finalized and reviewed until December 12, 2008. In general, all monthly cash reconciliations are performed in a timely manner, before the end of subsequent month.

OCFO has implemented a GWA Reconciliation Schedule, which provides for the timely reconciliation and for supervisory review and approval of the reconciliation. The new procedures identify required dates for completing the reconciliation. For the months of October, November, and December, the reconciliation will be completed, reviewed, and approved on or before the 15th day of the second month following the reporting month. For all other months, the reconciliation will be completed, reviewed, and approved on or before the last day of the first month following the reporting month.

Auditors' Response

These recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

13. Untimely Clearing of the Capital Asset Tracking and Reporting System Holding File

When an invoice is received for goods or services, the invoice is entered into DOLAR$, using an accounting string, known as a footprint. This footprint consists of an object class code (OCC) which serves as an indicator to DOLAR$ to expense or capitalize the transaction. Transactions relating to an OCC indicating capitalization are then transferred to a holding file to be reviewed by the capitalized asset management officer (CAMO). The purpose of the review is to validate whether the transaction was properly capitalized and should be recorded in the property, plant, and equipment (PP&E) subsidiary ledger or should have been expensed. This is a new control that was implemented effective December 2008.

Each month, an accountant in the OCFO downloads a report of all the items that are in the holding file at the end of the month. The accountant creates a summary of items in the holding file for each agency. Each item is denoted as either being new or being carried over from the prior month. The accountant then forwards this summary report to the CAMO within each agency with a request to review and clear the items out of the holding file. If the transaction was improperly capitalized, the CAMO requests OCFO's approval to expense it.

The Capital Asset Tracking and Reporting System (CATARS) is DOL's PP&E subsidiary ledger. CATARS is used to track all of the Department's capitalized PP&E at the detail level. During testwork over the March 31, 2009 monthly review and clearing of items in the CATARS holding file, we noted that the ETA holding file had items carried forward since December 2008 that had not yet been cleared. We further noted that ETA's March holding file items were all cleared in June 2009 subsequent to the completion of our testwork.

The deficiency occurred because the OCFO does not have formal policies and procedures documenting the agencies' responsibility to review and clear items in the holding file in a timely manner. Without timely review and clearance of the CATARS holding files, PP&E and operating expenses reported in the year-end consolidated financial statements could be misstated.

Per GAO's Standards, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

GAO's Standards also 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."

Recommendations

We recommend that the Acting Deputy Chief Financial Officer:

1. Develop and implement formal policies and procedures requiring CAMOs to perform the review and clearing of CATARS holding file items timely (e.g., within 2 weeks after the end of the month). Documentation should be maintained to support these activities.

2. Monitor agencies' compliance with the developed policies and procedures.

Management's Response

KPMG recommends that the OCFO:

1. Develop and implement formal policies and procedures requiring CAMOs to perform the review and clearing of CATARS holding file items (e.g., within 2 weeks after the end of the month). Documentation should be maintained to support these activities.

OCFO has developed and implemented a policy and procedures requiring CAMOs to perform the review and clearing of CATARS holding file items. The OCFO policy is documented in a September 7, 2007, memorandum for Agency Administrative Officers and Agency Financial Managers. The memorandum states:

> "As a reminder, CAMOs are asked to adhere to these policies and procedures: . . .
>
> - Review and update the Holding File and the Construction-In-Progress (CIP) File on a weekly basis and daily in September."

An attachment to the memorandum also provides an Agency To-Do List. The first item on the attachment is: "1. Clean CATARS Holding File and CIP file on a weekly basis."

The substance of the memorandum and the attachment had previously been discussed and documentation provided to Agency CAMOs in February 2007 at training for Agency CAMOs on policies and procedures for the CATARS system.

Regarding documentation in support of these activities, on a monthly basis, the Accountant in the Financial Reports Division prepares an Agency Holding File Analysis spreadsheet based on the monthly CATARS Holding File Report in order to monitor Agencies' Holding File activity and e-mails the analysis to Agency CAMOs.

To clear the Holding File items, the CAMO will request a copy of the PO and invoice from Agency's APO or research the DOLAR$ entry to determine if it was miscoded. In response to OCFO's e-mail request, CAMOs will respond via e-mail or phone. OCFO has ensured that CAMOs understand the importance of clearing the Holding File on a timely basis.

Copies of the Agency Holding File Analysis reports and Agency e-mail responses have been provided to KPMG. OCFO will continue to monitor Agency Holding File activities, provide needed assistance and keep close contact with the CAMOs.

KPMG also recommends that OCFO monitor agencies' compliance with the developed policies and procedures. OCFO believes that the use of the Agency Holding File Analysis reports and monthly contacts and follow-up with the CAMOs is an appropriate method of monitoring Agencies' compliance with the policies and procedures requiring CAMOs to review and update the Holding File and the CIP File on a weekly basis and daily in September. For example, we believe that the ETA items outstanding in the Holding File as of March 31, 2009, were cleared by June 30, 2009, because of the OCFO follow-up via e-mail and telephone calls. Furthermore, OCFO maintains documentation regarding Agencies' progress in clearing the Holding File and documentation is available for the auditor's review. Nevertheless, OCFO will enhance our monitoring efforts.

Auditors' Response

Although the OCFO stated that it does not concur with the characterization of our comments, the OCFO has taken steps to address our recommendations. Therefore, these recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

14. <u>Property, Plant, and Equipment Additions</u>

During our testwork over a sample of 41 PP&E additions as of May 31, 2009, we noted the following:

- For 4 sample items related to internal use software in development, costs in the amount of $3 million were capitalized when DOL paid the vendors' invoices in FY 2009 and not when costs were incurred and services were provided in FY 2008.

- For 1 sample item related to construction in progress (CIP), no documentation was provided to support the capitalized cost of $8 thousand.

BLS and OSHA accounting practice is to capitalize costs incurred related to internal use software in development when the invoices are paid, not when the services are provided and cost is incurred. This practice was not in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, and SFFAS No. 10, *Accounting for Internal Use Software* and resulted in the $3 million understatement of FY 2009 beginning PP&E balances and FY 2009 expenses. In addition, OCFO prepared an analysis in FY 2009 and noted that PP&E balances as of September 30, 2009 were understated by $367 thousand as a result of the issue noted above. Also, DOL's capitalized cost related to the noted CIP item is not adequately supported and PP&E could be overstated by $8 thousand as a result.

Not recording capitalized cost in accordance with SFFAS No. 6 and SFFAS No. 10, increases the risk that misstatements of PP&E could be included in DOL's consolidated financial statements.

SFFAS No. 10, paragraph 15, states that, "Entities should capitalize the cost of software when such software meets the criteria for general property, plant, and equipment (PP&E). General PP&E is any property, plant, and equipment used in providing goods and services."

Also, SFFAS No. 6, paragraph 34, states that, "PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E."

GAO's Standards states that, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

GAO's Standards also states that, "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."

Furthermore, 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.

Recommendations

We recommend that:

1. The Commissioner for the Bureau of Labor Statistics and the Acting Assistant Secretary for the Office of Safety and Health Administration develop and implement procedures to properly record capitalized costs in accordance with SFFAS No. 6 and No.10.

2. The Acting Deputy Chief Financial Officer develop and implement procedures to monitor all DOL agencies' compliance with SFFAS No.6 and No.10.

3. The Assistant Secretary for Administration and Management ensure that the staff in OASAM maintain a complete set of supporting documentation for each transaction and that the supporting documentation is readily available for examination.

Management's Response

BLS Response

BLS concurs with the recommendation and has taken corrective action to revise and implement its procedures to record costs as construction-in-progress when services are provided or costs are incurred.

OSHA Response

OSHA disagrees with the recommendation. However, based on Departmental policy, the Agency will agree to change the current procedure to record construction-in-progress when services are provided or costs are incurred.

OCFO Response

While OCFO has developed and implemented multiple procedures to monitor agencies' compliance with SFFAS No. 6 and No. 10 regarding capitalization of and supporting documentation for PP&E additions, we agree that improvement is needed. Therefore, in FY 2010, we will revise our procedures as well as enhance our monitoring efforts. In addition, OCFO will continue to provide training and memoranda to help ensure Agencies' compliance with the capitalization and documentation requirements for PP&E additions.

OCFO also concurs with the third recommendation. Management will implement procedures to ensure that a complete set of appropriate supporting documentation is obtained and maintained on file in the Division of Client Accounting Services (DCAS) office for relevant PP & E transactions.

Auditors' Response

The recommendations for BLS and OSHA are considered **resolved and open**. Although OSHA stated that they do not concur with the characterization of our comments, OSHA and the OCFO have taken steps to address our recommendations. Therefore, these recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

15. Construction In Progress Transfers

During our testwork over transfers from CIP to the buildings asset account as of June 30, 2009, we noted that 6 of the 6 transfers selected for testing were not recorded timely. Therefore, depreciation did not begin in the month of substantial completion.

In addition, during our testwork over the September 30, 2009 CIP balances, we noted that the Red Rock and Potomac Job Corps facilities were substantially completed in July 2009 but were still reported in CIP at year-end. These projects should have been transferred to the buildings account upon substantial completion to begin depreciation.

The above instances occurred because OJC does not have policies and procedures in place to:

- Receive and/or review Certifications of Substantial Completion from the architect/engineer and construction contractor timely.

- Require the CAMO to enter the asset into DOLAR$ and CATARS using the date the asset has been deemed substantially complete as the depreciation start date.

- Review CIP balances periodically to determine whether items should be transferred to a depreciable asset account.

The untimely transfers identified during our June 30, 2009 testing resulted in an understatement of depreciation expense and accumulated depreciation of $149 thousand, which was not corrected, as of September 30, 2009.

The errors identified during our testing over the September 30, 2009 CIP balances resulted in an overstatement of CIP and an understatement of the buildings asset account in the amount of $21 million as of September 30, 2009. It also resulted in an understatement of depreciation expense and accumulated depreciation of $137 thousand as of September 30, 2009. These errors were not corrected in the FY 2009 consolidated financial statements.

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."

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states, "Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports."

Per the Job Corps *Standard Operating Procedures for Capitalized Asset Tracking and Reporting System*, "Items are transferred out of the CIP holding file to either assets or a responsible agency outside of DOL when the Office of Job Corps receives a properly completed and signed DL 1-55c and Substantial Completion (SC) Information Summary from a Job Corps center engineer. Those items which are transferred out of CIP status to assets will begin to accumulate depreciation when the transfer has been completed in CATARS."

SFFAS No. 6 states, "PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E."

Recommendations

We recommend that the Interim National Director for the Office of Job Corps implement policies and procedures requiring:

1. All parties reviewing the substantial completion document to complete their review within a specified timeframe (e.g., within 5 business days of receiving the document).

2. The CAMO entering the asset into CATARS and DOLAR$ to use the date of substantial completion as the depreciation start date.

3. The periodic review of CIP balances to identify any items that should be transferred to a depreciable asset account. This review should be documented.

Management's Response

The Office of Job Corps concurs with the recommendation and will ensure that all parties reviewing the substantial completion documentation complete the review within five (5) business days of receipt of all documentation, the assets are properly entered into the New Core Financial Management System utilizing the date of substantial completion as the depreciation state date, and engage in a quarterly periodic review of CIP balances so as to identify items which can be transferred to a depreciable asset account. All reviews will be properly documented.

Auditors' Response

These recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

16. Review of Software in Development Balances

The Accountable Property Officer (APO), CAMO, and IT Project Manager work collaboratively to prepare a quarterly Certification for Internal-Use Software Projects under Development (Certification). This Certification discloses the project name, the current year costs expensed and capitalized, and the software implementation date. The agencies are required to provide sufficient documentation to support the capitalized costs. Management within each agency reviews the Certifications to determine if all costs associated with the software in development were properly expensed or accumulated in the construction in progress module. A senior accountant in the OCFO collects the Certifications from each agency. The senior accountant reviews the Certifications for completeness and reconciles the capitalized costs from CATARS to DOLAR$. The OCFO informs the appropriate CAMO of any discrepancies noted so that the CAMO can record an adjusting entry to reclassify the costs.

During our testing over software in development balances at September 30, 2009, we noted that 3 of 13 items tested were improperly classified as software in development. One item related to maintenance on a system that was already in use, another project (SCSEP Phase 7) was no longer expected to be put into use, and one balance was designated as "removed." The latter balance was deemed to not be capitalizable by the CAMO and was to be expensed; however, this balance was not removed from software in development as of September 30, 2009.

The above exceptions occurred because the Certification is only required for software projects that have current year costs, and the OCFO does not have follow-up procedures in place to ensure that all prior year costs reported in software in development are properly classified.

Because of the three exceptions noted above, software in development was overstated and expenses were understated by $2.7 million as of September 30, 2009. These errors were not corrected in the FY 2009 consolidated financial statements.

GAO's Standards states that, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

GAO's Standards also states that, "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."

SFFAS No. 10, states that, "For each module or component of a software project, amortization should begin when that module or component has been successfully tested. If the use of a module is dependent on completion of another module(s), the amortization of that module should begin when both that module and the other module(s) have successfully completed testing." It also states, "In instances where the managers of a federal entity conclude that it is no longer more likely than not that developmental software (or a module thereof) will be completed and placed in service, the related book value accumulated for the software (or the balance in a work in process account, if applicable) should be reduced to reflect the expected NRV, if any, and the loss recognized." Lastly, SFFAS No. 10 states, "Costs incurred after final acceptance testing has been successfully completed should be expensed."

Recommendation

We recommend that the Acting Deputy Chief Financial Officer enhance the Certification process by having agencies certify that software costs incurred in prior years continue to be valid capitalized costs for projects still in development or that those costs should be removed from software in development.

Management's Response

The OCFO does not concur with the recommendation. The OCFO believes that sufficient policies and procedures have been implemented to ensure that projects reported in software in development are properly classified. Nevertheless, the OCFO will more closely monitor the certification process.

On March 6, 2009, the OCFO issued policies, procedures and guidance to Agencies for capitalizing and reporting the costs of internal use software in development. Section 3.2.1.3 of the procedures state that when a "… CAMO finds an item in the CATARS holding file that should not be treated as a capitalized cost, then the CAMO must ensure that a correction is made in DOLAR$, so that the cost is treated as an expense and not capitalized as an asset. After the correction is made in DOLAR$, the correction will be transmitted to CATARS, and the negative amount will appear to offset the positive amount in the CATARS holding file."

The items referred to in the finding are not material and are deemed to be isolated instances.

The 18 line items, totaling $1,608,827, had been identified by the OASAM CAMO as costs no longer capitalizable and had been referred to the OCFO Financial Reporting Division for research and review. The approval to remove the items from the CIP database was given on November 3, 2009. The CAMO took immediate action to remove the items from the CIP database on November 3, 2009.

The two ETA projects, with capitalized costs totaling $961,495, had been identified as software in development when the related costs were capitalized and transferred to CIP. In FY 2009, the funding for one of the projects was suspended and the project was abandoned. In the other case, the project manager subsequently determined that the capitalized costs did not qualify as enhancements to an existing system. The capitalized costs for both projects will be reversed as soon as the new core financial system is fully operational.

Auditors' Response

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 2010 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

17. Property, Plant, and Equipment Disposals

During our testwork over asset disposals as of September 30, 2009, we noted that a Capitalized Asset Management System (CAMS) Transaction Form/Survey Report (DL 1-55C) was not completed for 2 of the 11 disposals tested to support that they had been properly authorized.

The OJC did not have a review process in place to verify the appropriate authorization of asset disposals after the CAMO entered them into CATARS and DOLAR$. Unauthorized disposals may result in a misstatement of PP&E and/or misappropriation of assets.

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."

The Accountable Property Officer (APO) Handbook states, "Submission of DL 1-55C – CATARS Transaction Form/Survey Report, Purchase Order and Invoices to CAMO. APOs are responsible for completing the DL 1-55C and submitting it to the CAMO to document the: (1) acquisition (2) transfer (3) retirement and disposal of capitalized assets."

Recommendation

We recommend that the Interim National Director of the Office of Job Corps implement policies and procedures to perform a periodic review of asset disposals recorded during the fiscal year to ensure they are properly authorized.

Management's Response

Job Corps agrees with the recommendation. The Interim National Director of the Office of Job Corps will implement policies and procedures to perform a periodic review of asset disposals recorded during the fiscal year to ensure they are properly authorized.

Auditors' Response

This recommendation is considered **resolved and open**. FY 2010 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

18. <u>Improvements Needed in Property, Plant, and Equipment Reconciliation Controls</u>

To ensure that PP&E activities reported in DOLAR$ and CATARS are complete and accurate, the DOL agencies, including the OCFO, perform the following two reconciliations:

- The CAMO for each agency reconciles the ending PP&E balances reported in CATARS to the ending PP&E balances reported in DOLAR$ on a quarterly basis. The CAMOs send the prepared reconciliation to an accountant in the OCFO Office of Fiscal Integrity (OFI). The OCFO accountant compares the reconciliation prepared by the DOL agencies to a reconciliation she prepared independently for accuracy. The OCFO accountant compiles each agency's reconciliation into a "CATARS Reconciliation Report" to show the reconciliation between each general ledger account by agency. This reconciliation is reviewed by the Acting Director, OFI – OCFO.

- In addition, the OCFO performs a reconciliation of CATARS to DOLAR$ for each IAC by fiscal year on a quarterly basis during the preparation of the PP&E rollforward. This rollforward and reconciliation are also reviewed by the Acting Director, OFI – OCFO.

During our testwork over the December 31, 2008 PP&E reconciliation of CATARS to DOLAR$, we noted the following:

- The "CATARS Reconciliation Report" did not include a reconciliation of PP&E for the OJC, which accounts for approximately 87% of the PP&E balance. In addition, no detail explanation was documented for differences identified.

- The OCFO staff did not prepare the December 31, 2008 quarterly reconciliation by IAC in a timely manner. The quarterly reconciliation was not prepared until April 2009.

These issues were caused because the OCFO accountant responsible for compiling the agency quarterly reconciliations did not receive the reconciliation from OJC. Although the OCFO accountant performs an independent reconciliation by agency, the OCFO accountant was not able to verify the data without receipt of the reconciliation from OJC; therefore, the OCFO accountant did not include this information in the "CATARS Reconciliation Report." Further, the OCFO delayed the completion of the quarterly reconciliation by IAC because the OCFO staff was in the process of transferring the financial activity related to OJC to a new IAC. Existing documented policies and procedures do not require that this reconciliation be completed by a certain time.

Without timely and adequate reconciliation between DOLAR$ and CATARS, the PP&E balance reported in the consolidated financial statements could be misstated.

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."

In addition, per the Memorandum for Agency Administrative Officers, "Management of Capitalized Assets," dated February 22, 2007, the OCFO "request(s) agencies to complete a quarterly review and reconciliation between CATARS and the DOLAR$ general ledger. A copy of the CATARS/DOLAR$ reconciliation should be emailed to…OFI within 10 work days following the end of the quarter."

Recommendations

We recommend that the Acting Deputy Chief Financial Officer:

1. Reinforce policies and procedures requiring all agencies to provide completed CATARS to DOLAR$ reconciliations to the OCFO within 10 work days following the end of the quarter, including explanation of the identified reconciling items.

2. Amend the existing documented policies and procedures to include procedures that require the OCFO staff to complete the quarterly DOLAR$ to CATARS reconciliation by IAC timely.

Management's Response

Management does not concur with the statement of condition, and therefore believes that the recommendations are not warranted.

The majority of DOL agencies complete the CATARS and DOLAR$ reconciliations within the required ten10 days of the end of each quarter, with the exception of ETA and Job Corps. These reconciliations are normally completed later because they are prepared at a more detailed level and consequently take much longer to perform.

OCFO staff did include the Job Corps balances in the December 31, 2008, reconciliation, which was completed by January 20, 2009. However, the Job Corps balances were not verified against the detail reconciliation, which was completed on February 4, 2009. There were no differences between the OCFO reconciliation and detail reconciliation.

The CATARS Reconciliation Report is no longer used, it has been replaced by the monthly DOLAR$ to CATARS Rollforward Reconciliation. OCFO is in the process of designing new procedures, which will include a timeframe for completing the reconciliation.

Auditors' Response

Although the OCFO stated that it does not concur with the characterization of our comments, the OCFO has taken steps to address our recommendations. Therefore, these recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

19. <u>Periodic Accountability Reviews</u>

The OWCP conducts Accountability Reviews at the various DOL District Offices annually. The purpose of the reviews is to ensure that the District Offices are in compliance with the Division of Federal Employees Compensation Program's Procedure Manual (The Manual). During our audit, we noted that the Accountability Review report summarizing the results of the review conducted in the San Francisco District Office during the period from February 2, 2009 through February 6, 2009 was not approved by the ESA National Office until June 2009.

The National Office did not complete its review of the report within the required 30 days because of the time it took to conclude on the findings with the District Office and for the District Office to submit its corrective action plan to address the findings identified.

Not completing the review within 30 days resulted in noncompliance with section 4-0300-7 of the Manual, which states, "The review team, district office, and regional and National Office management complete all post-review activities within 30 days of the close-out conference, including developing corrective action plans if this was not done during the course of the review. If agreement has been reached with the regional director during the post close-out meeting […] on proposed corrective actions, there is no need for further action on the part of the team leader. The district office manager and regional director complete and submit Form AR-10 (Corrective Action Progress Report: Exhibit 2) as required (see the Manual, Chapter 4-400, Quarterly Review & Analysis). All the information needed to complete the form is available in the Accountability Review report."

Recommendation

We recommend that the Director of the Office of Workers' Compensation Programs implement procedures to ensure that the review of all Accountability Review reports is completed in accordance with the Manual.

Management's Response

The Office of Workers' Compensation Programs will review the factors affecting the timeliness for approval of Accountability Review Reports and update the Procedure Manual as appropriate. The Accountability Reviews are an important assessment of the accuracy and quality of the programs. To maximize the utility of the Accountability Reviews, it is important that the process provide both adequate and timely information. We have substantially revamped the FECA accountability review process for FY 2010, to include a much more comprehensive process for identifying and following up on corrective actions. The new process will review all 12 district offices each year on a subset of the evaluation indicators, thereby allowing for corrective action plans at the national as well as district office levels.

Auditors' Response

This recommendation is considered **resolved and open**. FY 2010 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

20. Controls over the Integrated Federal Employees Compensation System

For the period of October 1, 2008 through March 31, 2009, we tested a sample of 123 claimaints and noted the following exceptions:

- For 4 of 123 files tested, we noted that there was no current medical evidence on file.

- For 3 of 123 files tested, we noted that there was no current CA-1032, *Request for Information on Earnings, Dual Benefits, Dependents and Third Party Settlements*, or CA-12, *Claim for Continuation of Compensation,* informing the Claims Examiner (CE) of the claimant's current earnings, dependent status, or third party settlements on file.

- For 3 of 123 files tested, we noted that the compensation rate reflected in the Integrated Federal Employees Compensation System (iFECS) did not accurately reflect the information in the claimant's most current CA-1032 with respect to dependent status. For one of the 3 exceptions noted, the CE made an incorrect change in iFECS in April 2009.

The above instances occurred because the CEs did not perform a sufficient, detailed, and timely review of the claimants' files identified above to ensure that the medical evidence, CA-1032, and CA-12 forms on file were current and that the compensation rate used was accurate.

The exceptions related to lack of medical evidence and lack of current CA-1032s and CA-12s resulted in non-compliance with the Manual, and could result in an overstatement of benefit expense. The exceptions related to the use of an incorrect compensation rate resulted in an overstatement of FY 2009 benefit expense of $1,481 as of March 31, 2009.

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 each three years. Medical reviews should be accomplished in accordance with the case status …."

Also, Section 2-0812-11 of the Manual states, "Information received in response to requests for information on earnings and dependents may require the CE to adjust the compensation rate, and the claimant's failure to supply requested information may result in suspension or forfeiture of compensation." Additionally, Section 2-0812-11-b, states that, "Entitlement to augmented compensation may be suspended (i.e., compensation may be reduced from 3/4 to 2/3) if the Office does not receive a timely response to a request for information concerning eligible dependents."

Furthermore, 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 Director of the Office of Workers' Compensation Programs continue to stress the importance of CE compliance with the Manual related to timely claim file review, follow-up on obtaining the information supporting claimants' continuing eligibility (medical evidence and CA-1032 or CA-12), and updates to the claimants' pay rate based on the information provided in the CA-1032.

Management's Response

Management concurs with the recommendation and will continue to stress the importance of periodic case review to the claims examiner staff. The Program also feels that the recently updated training modules will continue to improve claims performance in this area. Lastly, any identified training needs will be promptly added to the current materials if necessary.

Auditors' Response

This recommendation is considered **resolved and open**. FY 2010 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

21. <u>Improvements Needed in Controls over Fiscal Year-End Estimates Related to the Federal Employees' Compensation Act</u>

During our FY 2009 testwork over the Federal Employees' Compensation Act (FECA) Special Benefit Fund, we noted the following related to the FECA accrued benefits and FECA allowance for doubtful accounts receivable due from the public:

- ESA estimates the fiscal year-end accrued benefit expense for the FECA supplemental and medical benefits due to claimants as the average of three rolls' payments (approximately 15 business days). However, ESA could not provide support of how the average of three rolls was determined or a look-back analysis to support the accuracy of the prior year's estimate using this factor.

- ESA estimates the FECA allowance for doubtful accounts receivable due from the public as 50% of the outstanding accounts receivable balance. However, ESA could not provide support for the rate being used or a look-back analysis to support the accuracy of the estimate.

The lack of support for these estimates was due to the fact that the methodology for these estimates was developed many years ago and management could not locate the documents supporting the assumptions used. In addition, no policies and procedures currently require ESA to perform a look-back analysis for fiscal year-end estimates.

Without controls in place to assess the accuracy of prior year's estimates, the FECA benefit expense and net accounts receivable reported at fiscal year-end could be misstated.

GAO's Standards states that "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."

Recommendation

We recommend that the Director of the Office of Workers' Compensation Programs revise existing policies and procedures to require management to develop and implement a methodology for estimating the FECA year-end accrual and allowance for doubtful accounts receivable that is supported by a documented analysis of historical trends. This analysis should be updated annually to take into consideration actual results and changes in the industry.

Management's Response

Analysis of these processes undertaken at the end of the last audit cycle tended to support the current methodology, as the preliminary figures closely matched the current estimates. However, management concurs in that further support and documentation of the estimates is needed. The Program will undertake to more formally document these estimates and provide a detailed methodology by September 30, 2010.

Auditors' Response

This recommendation is considered **resolved and open**. FY 2010 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

22. Reconciliation of Child Agency Data Reported in the DOL Trial Balance

During our testing over the parent/child process in FY 2009, we noted the quarterly reconciliation of the March 31, 2009 Civilian Conservation Centers (CCC) cost reports (Forms 2110F) was not prepared in a timely manner. Although requested on June 1, 2009, we did not receive the reconciliation until August 12, 2009, and no evidence was provided to indicate the actual date it was prepared.

In addition, the reconciliation was performed between the Forms 2110F and the child agency trial balances rather than the Forms 2110F and the DOL trial balance.

The issues identified above occurred because during FY 2009 responsibilities of OCFO contractors who had performed the reconciliation in FY 2008 changed. Therefore, OJC ultimately performed the reconciliation. The untimely and inaccurate completion of the March 31, 2009 reconciliation was a result of a lack of communication between the OCFO and the OJC. In addition, neither OJC nor OCFO have formulated any formal policies and procedures to perform the quarterly reconciliation.

Failure to reconcile child agency data reported in the DOL financial statements in a timely manner may result in inaccurate financial reporting.

Per OMB Circular No. A-123, "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..."

OMB Circular No. A-123 further states, "Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner."

Furthermore, 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."

Recommendations

We recommend that the Acting Deputy Chief Financial Officer and the Interim National Director of Job Corps determine the appropriate personnel to perform the reconciliation between the Forms 2110F and the child agency amounts reported in the DOL trial balance. Once determined, we recommend that the appropriate office make the following improvements to its internal control structure:

1. Formalize policies and procedures in writing related to the reconciliation of child agency data reported in the DOL trial balance to the Forms 2110F and ensure they are properly communicated to all appropriate individuals.

2. Require in the procedures that the reconciliation be completed and reviewed prior to the end of the subsequent quarter (e.g., the June 30 reconciliation should be completed before September 30).

3. Require in the procedures that a supervisor review the reconciliation for timeliness and accuracy. This review should be documented by the reviewer signing and dating the reconciliation.

Management's Response

The Office of Job Corps concurs with the recommendation in part. We currently reconcile all of the child agency's cost data as represented on their 2110Fs. However, as previously stated, the Office of Job Corps does not have an accounting office and thus is incapable of reconciling to the trial balance. With the imminent transfer to the Employment and Training Administration, which has a Department of Labor recognized accounting office, this issue should be resolved. We have already been in contact with ETA to begin the reconciliation process using the ETA accounting contractor. The Office of Job Corps currently has procedures in place to assist in the reconciliation of child agency data. Staff assigned to the Budget Office are fully cognizant of said procedures and strictly adhere to them. We will incorporate into the formalized policies and procedures that reconciliations (for the period ending June 30th) will be completed and reviewed prior to September 30th. Our review procedure will incorporate the reviewer's signature and date of the review.

Since last year's finding, the Office of Job Corps has worked closely with the Office of the Chief Financial Officer to develop methods to insure the accurate reconciliation of child agency data. We have also consulted with the child agency and reiterated the need to have data submitted timely to the Office of Job Corps. We have provided training and assistance to the child agency, which has resulted in the submission of more timely and accurate financial data. We will continue to work closely with both the Office of the Chief Financial Officer and the child agency to ensure timely and accurate reconciliation.

Auditors' Response

These recommendations are considered **resolved and open**. FY 2010 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

23. Accounting for the State Unemployment Insurance and Employment Services Operations Activities

On a monthly basis, the UTF transfers funds to the State Unemployment Insurance and Employment Services Operations (SUIESO) program. Typically, TAFS that receive expenditure transfers from the UTF do not receive an annual appropriation and are fully funded by receivables of expenditure transfers and actual collections. Under these circumstances, these TAFS should not be recognizing the use of expended appropriations for expenses incurred. However, certain transactions posted in DOLAR$ related to transfers erroneously impact expended and unexpended appropriations balances. To ensure that these balances are correctly reported at fiscal year end, the OCFO uses an internally-developed program to generate a manual journal entry to reverse the erroneous components of the transfer entries.

During our FY 2009 testwork, we noted 5 of 15 TAFS tested where certain transactions posted in DOLAR$ related to expenditure transfers erroneously impacted expended and unexpended appropriations balances. However, the internally-developed program used by the OCFO did not properly reverse the erroneous components of these transfer entries.

OCFO supervisors did not identify this error since management considers the journal entries related to this internally-developed program to be part of an automated process that is not subject to the Department-wide policies and procedures that require manual journal entries to be reviewed by a supervisor or someone other than the preparer before they are posted to DOLAR$. As a result, the balances of expended appropriations and unexpended appropriations at fiscal year-end were misstated by approximately $51 million. We included this uncorrected audit difference in our Summary of Audit Differences that was attached to the FY 2009 management representation letter.

Per the 2009 USSGL Account Transactions, entry number A498, accounts 5700 and 3107 should not be impacted by the receipt of an expenditure transfer from a trust fund to a general fund.

GAO's Standards states, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

Recommendation

We recommend that the Acting Deputy Chief Financial Officer amend the current Department-wide policies and procedures in place to require that all manual journal entries generated by internally-developed programs are reviewed and approved by a supervisor or someone other than the preparer before they are posted to the general ledger.

Management's Response

As noted in the NFR, OCFO developed a program to generate journal entries to reverse the erroneous components of SUEISO transfers. In addition, SUEISO transactions are reviewed to determine their effect on unexpended appropriation balances and cumulative results. The exceptions noted were isolated instances and their effect is not material.

Furthermore, the posting and approval of journal entries will be electronically segregated under the new core financial management system (NCFMS). Only designated individuals will be able to post journal entries. The journal entries will not take effect until electronically approved by designated supervisory personnel. The documents supporting the journal entries will be scanned into NCFMS, thereby providing the information necessary for an effective review and approval process.

Auditors' Response

This recommendation is considered **resolved and open**. FY 2010 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

24. <u>Reestablishment of the Unemployment Compensation Advisory Council</u>

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."

The last meeting of the Unemployment Compensation Advisory Council (UCAC) 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, 2008, and 2009 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.

Furthermore, ETA does not believe that the UCAC is the most effective way to evaluate the unemployment compensation program. As a result, ETA has taken the course to have Congress change the requirement outlined in the legislation to read as follows:

> "Section 10 amends section 908 of the Social Security Act pertaining to the Advisory Council on Unemployment Compensation. Current law requires that the Secretary of Labor convene a new Council every four years. The amendments provide that the Secretary may periodically convene a Council and provides the Secretary the authority to define the scope of any such Council."

Recommendation

We recommend that the Assistant Secretary for Employment and Training continue to pursue having the Social Security Act amended.

Management's Response

ETA continues to pursue an amendment to the Social Security Act that would require the Secretary of the Department of Labor to establish an advisory council periodically instead of every four years. Such an amendment has been included in the Unemployment Compensation Program Integrity Act of 2005, 2006, and 2008 but has not been acted upon by Congress. Consistent with the recommendation, ETA will continue to work to advance an amendment to the Social Security Act. A proposal was submitted to OMB as part of the FY 2010 UI Integrity legislative package which was not cleared. A similar proposal will be included as part of the FY 2011 legislative package and submitted to OMB and upon approval, will be sent to Congress.

Auditors' Response

This recommendation is considered **resolved and open**. FY 2010 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

25. <u>Process for Completing Background Checks Investigations</u>

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:

- Office of Inspector General (OIG) employees receive HR services from the OIG HR office.

- 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:

- All employees who work in the agency headquarters office receive HR services from the agency's HR office.

- All employees who work in the Department's headquarters office 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 HRC.

- All employees who are assigned to a field location outside the Washington, DC office receive HR services from the OASAM HR office that services the geographic location where the employee works.

We performed testwork over background investigations and noted that for the following FY 2009 new hires selected for testing evidence that a background investigation was properly initiated within 14 days of their hire date could not be provided:

- 2 of 2 OCFO Federal employees,

- 4 of 18 ESA Federal employees,

- 2 of 10 OASAM Federal employees, and

- 1 of 3 ETA Federal employees.

OASAM management stated that they have been working on performing corrective actions to address this finding Department-wide as a result of our related FY 2008 comment. However, some of the corrective actions can involve a lengthy process, and therefore, OASAM has not had the ability to fully implement these corrective actions.

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 compromised.

The *DOL Personnel Suitability and Security Handbook*, Chapter 2, *The Entrance On Duty 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."

The *DOL Computer Security Handbook*, Version 3.0, Volume 13, Section II, *Personnel Security Procedures*, states that "The Department and agency shall screen individuals requiring access to Department and/or agency information and information systems before authorizing access."

NIST Special Publication 800-12, *An Introduction to Computer Security, The NIST Handbook,* states that background screening helps determine whether a particular individual is suitable for a given position. Within the Federal Government, the most basic screening technique involves a check for a criminal history, checking FBI fingerprint records, and other federal indices.

Recommendation

We recommend the Assistant Secretary of Administration and Management, as the policy owner, continue to implement procedures to actively manage the background investigation process for all new hires. These procedures should ensure that the electronic-Office of Personnel Folder 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

Our management response remains the same as it was in our response to NFR-09-24, dated October 24, 2009, which is as follows:

> Management agrees to take additional steps to ensure that background investigations are initiated within the required 14-day time frame. Such steps will be implemented immediately, and include the following:
>
> (1) The Director of Human Resources, OASAM, will issue a memorandum to all DOL Human Resources Officers (HROs) and Administrative Officers reinforcing their responsibilities for ensuring that background investigations are initiated as necessary within 14 days following a new hire's entry on duty date, and requiring each HRO to submit reports to the OASAM Human Resources Center (HRC) on a regular basis certifying that they have reviewed the Background Initiation Report and confirmed that all required background investigations have been initiated.
>
> (2) HRC will incorporate review of background investigation initiation into its human resources accountability reviews, which are conducted on a two-year cycle to ensure that DOL human resources offices are conducting their activities in accordance with all applicable regulatory requirements.

Auditors' Response

This recommendation is considered **resolved and open**. FY 2010 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

Status of Prior Year Comments

The status of comments reported in the Management Advisory Comment (MAC) report dated March 18, 2009, addressed to the Assistant Inspector General for Audit and the Acting Deputy Chief Financial Officer, U.S. Department of Labor, is summarized in the table below. For each comment, we provided the current year status.

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
01	2008	Consolidated Financial Statements and Closing Package Review Process	We recommended that the Chief Financial Officer: 1. Ensure that the Office of the Chief Financial Officer (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. 2. Update U.S. Department of Labor Manual Series (DLMS) include guidance for the U.S. Department of Labor (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.	Open (See Independent Auditors' Report comment no. 4)
02	2006	Certain Improvements needed in Financial Reporting	We recommended that the Chief Financial Officer: 1. Develop and implement procedures to better	Open (See Exhibit I comment no. 1)

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
			link the Statement of Net Cost (SNC) to DOL's strategic mission. 2. Formally consult with the Office of Management and Budget (OMB) to determine whether or not the Pension Benefit Guaranty Corporation (PBGC) performance information should be reported in DOL's PAR.	
03	2006	Budgetary Reconciliations and Analyses	We recommended 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. Also, 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 Treasury Account Fund Symbols (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 Statement of Budgetary Resources (SBR) to President's Budget reconciliation and explain material differences identified in compliance with OMB requirements. In	Open (See Exhibit I comment no. 2 and Independent Auditors' Report comment no. 4)

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
			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	

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
			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.	
04	2008	Budget Apportionment Process	We recommended that: 1. The Assistant Secretary for Administration and Management provide Departmental Budget Center (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.	Open (See Exhibit I comment no. 3)
05	2007	Recording Upward Adjustments Transactions	We recommended 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	Closed

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
			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.	
06	2008	Recording Budget Authority	We recommended 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.	Open (See Exhibit I comment no. 4)
07	2007	Grant Monitoring Controls	We recommended that the Assistant Secretary for Employment and Training ensure the following improvements are made to the Employment and Training Administration's (ETA) internal control structure: 1. Update ETA policy to improve documentation requirements for desk reviews and circulate the	Open (See Exhibit I comment no. 6)

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
			policy to ensure all FPOs are aware of the timeliness requirement of the desk reviews. 2. For the grants monitored in Grants eManagement System (GEMS), develop a report in GEMS to note when desk reviews have not been performed by the Federal Project Officer (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.	
08	2006	Grant Closeouts	We recommended 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 Closeout Inventory Tracking System (CITS) with the Closeout Specialists	Open (See Exhibit I comment no. 5)

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
			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 recommended that the Assistant Secretary for Administration and Management ensure that the Office of the Assistant Secretary	

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
			for Administration and Management (OASAM) grant officers for the Office of Disability Employment Policy (ODEP) and the Bureau of International Labor Affairs (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 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 Health and Human Services/ Payment Management System (HHS/PMS), the Department of Labor Accounting and Related Systems (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 Treasury.	

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
09	2008	Grant Accrual Review Controls	We recommended 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.	Closed
10	2008	Statement of Differences (FMS-6652) Reconciliation Process	We recommended that the Assistant Secretary for Administration and Management implement the following monthly reconciliation and review procedures over the Statement of Differences (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	Open (See Exhibit I comment no. 11)

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			documentation that address the issues noted in the bullets above. In addition, we recommended 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.	
11	2008	Supervisory Review of the Monthly Reconciliation of State Deposits	We recommended that the Assistant Secretary for Employment and Training direct the Office of Workforce Security (OWS) management to document and implement procedures over the 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	Closed

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
			3. Documenting (physically or electronically) the completion of supervisory review.	
12	2006	Improper Cutoff of Collections Related to Custodial Revenue	We recommended that the Chief Financial Officer 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.	Closed
13	2006	Interest Receivable Calculation and Accural Related to Custodial Receivables	We recommended 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.	Closed

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			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.	
14	2008	Recording Refunds and Collection Fees Related to Custodial Activities	We recommended 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.	Closed
15	2008	Reconciliations between MSHA Standardized Information System (MSIS) and DOLAR$	We recommended that the Assistant Secretary for Mine Safety and Health: 1. Revise the Mine Safety and Health Administration's (MSHA) 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	Closed

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
			reported in MSIS as the source documentation for deposits to be recorded into DOLAR$.	
16	2008	Controls over Internal-Use Software	We recommended 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 the Capitalized Asset Tracking and Reporting System (CATARS) to the internal-use software assets and amounts reported by the agencies.	Open (See Exhibit I comment no. 16)
17	2007	Accounting for Costs on Certain Job Corps Contracts	We recommended that the National Director of the Office of Job Corps: 1. Develop and implement written policies and procedures to properly record NTC contractor activities in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, including identification of source documents necessary to support the recording	Closed

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			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.	
18	1997	Reestablishment of the Unemployment Compensation Advisory Council (UCAC)	We recommended 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.	Open (See Exhibit I comment no.24)
19	2007	Monitoring Controls over Child Agency Financial Data	We recommended 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 Fund Balance With Treasury (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 Civilian Conservation Centers (CCC) cost reports to the amounts reported in the child entities' trial balances.	Open (See Exhibit I comment no.22)

2008 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2008 MAC	Recommendation(s) Reported in the FY 2008 MAC	FY 2009 Status of Comment Reported in the FY 2008 MAC
20	2008	Accounting for the Federal Employees' Compensation Act (FECA) Activities	We recommended that the Chief Financial Officer formally consult with Treasury to determine the appropriate accounting treatment for all Federal Employees Compensation Act (FECA)-related activities and revise current procedures and transaction codes accordingly.	Closed
21	2008	Controls over the Integrated Federal Employees Compensation System (iFECS)	We recommended that the Assistant Secretary for Employment Standards continue to stress the importance of Claims Examiner (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.	Open (See Exhibit I comment no. 20)
22	2008	Process for Completing Background Checks Investigations	We recommended that the Assistant Secretary for Administration and Management, as the policy owner, implement procedures to actively manage the background investigation process for all new hires. These procedures should ensure that the electronic-Office of Personnel Folder (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*.	Open (See Exhibit I comment no. 25)
23	2008	Controls over the Maintenance of Procurement Supporting Documents	We recommended that the Chief Financial Officer ensure that the OCFO maintain a complete set of supporting documentation for each transaction that is readily available for examination.	Closed

Appendix A

ACRONYMS AND ABBREVIATIONS

ALC	Agency Location Code
APO	Accountable Property Officer
BLS	Bureau of Labor Statistics
CAMO	Capitalized Asset Management Officer
CAMS	Capitalized Asset Management System
CATARS	Capitalized Asset Tracking and Reporting System
CCC	Civilian Conservation Centers
CE	Claims Examiner
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIP	Construction in Progress
CITS	Closeout Inventory Tracking System
DBC	Departmental Budget Center
DCAS	Division of Client Accounting Services
DFAR	Division of Financial Accountability and Reporting
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
DPPR	Division of Policy, Review, and Resolution
EBSA	Employee Benefits Security Administration
E-OPF	Electronic-Office of Personnel Folder
ESA	Employment Standards Administration
ETA	Employment and Training Administration
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
GEMS	Grants e-Management System
G/L	General Ledger
GPRA	Government Performance and Results Act
GTS	Grants Tracking System
GWA	Government Wide Account Statement
HHS/PMS	Health and Human Services/ Payment Management System
HR	Human Resource

HRC	Human Resources Center
HRO	Human Resources Officers
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
NCFMS	New Core Financial Management System
NOFR	Notice 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
OCC	Object Class Code
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
OJC	Office of Job Corps
OLMS	Office of Labor-Management Standards
OMB	Office of Management and Budget
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
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SBR	Statement of Budgetary Resources
SC	Substantial Completion
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SNC	Statement of Net Cost
SUIESO	State Unemployment Insurance and Employment Services Operations
TAFS	Treasury Account Fund 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
WB	Women's Bureau