U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

NOV 15 2011

MEMORANDUM FOR: JAMES L. TAYLOR
Chief Financial Officer

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: FY 2011 Independent Auditors' Report
Report Number: 22-12-002-13-001

Attached is the Independent Auditors' Report on the U.S. Department of Labor's (DOL) FY 2011 financial statements. We contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to audit the financial statements of the DOL as of and for the years ended September 30, 2011 and 2010. The contract required that the audit be conducted in accordance with generally accepted government auditing standards (GAGAS) and Office of Management and Budget (OMB) audit requirements. KPMG's opinion on DOL's financial statements is unqualified. KPMG's report on internal control over financial reporting identified certain deficiencies that are considered to be material weaknesses and other deficiencies that are considered to be significant deficiencies, as follows:

Material Weaknesses

1. Lack of Sufficient Controls over Financial Reporting
2. Lack of Sufficient Controls over Budgetary Accounting
3. Lack of Sufficient Security Controls over Key Financial and Support Systems

Significant Deficiencies

4. Improvements Needed in the Preparation and Review of Journal Entries
5. Weakness Noted over Payroll Accounting

KPMG disclosed material noncompliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA) as of September 30, 2011. DOL's financial management systems did not comply substantially with Federal financial management system requirements because of certain weaknesses in DOL's system access controls. In addition, KPMG identified material instances in which DOL did not comply with the United States Government Standard General Ledger at the transaction level.

KPMG is responsible for the attached auditors' report and the conclusions expressed in the report. However, in connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on DOL's financial statements; or conclusions about the effectiveness of internal control; or on whether DOL's financial management systems substantially complied with FFMIA; or conclusions on DOL's compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS and OMB audit requirements.

This report is for inclusion in the DOL's Agency Financial Report. We noted certain additional matters that did not rise to the level of a material weakness or significant deficiency that we will report to management separately.

In accordance with DLMS 8 – Chapter 500, paragraph 533, we request you provide a written response within 60 days indicating your agreement or disagreement with the report recommendations. If you agree with the recommendations, your response should identify planned corrective actions, officials responsible for such actions, and the dates by which the actions should be taken and full implementation achieved. If you disagree with the recommendations, your response should fully explain the reason(s) for the disagreement; and, as you deem appropriate, provide alternate corrective action.

If you have any questions, please contact Joseph Donovan, Jr. at (202) 693-5248.

We appreciate the cooperation of all DOL staff involved in this year's audit.

Attachment

cc: Karen Tekleberhan, Deputy Chief Financial Officer
T. Michael Kerr, Assistant Secretary for Administration and Management
Stanley C. Karczewski, Director for Financial Reporting and Compliance

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

Secretary and Acting Inspector General
U.S. Department of Labor:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Labor (DOL) as of September 30, 2011 and 2010; the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended; the statements of social insurance as of September 30, 2011, 2010, 2009, 2008, and 2007; and the statement of changes in social insurance amounts for the year ended September 30, 2011 (hereinafter referred to as "consolidated financial statements"). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year (FY) 2011 audit, we also considered DOL's internal control over financial reporting and tested DOL's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

We have also examined DOL's compliance with section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA) as of September 30, 2011.

SUMMARY

As stated in our opinion on the financial statements, we concluded that DOL's consolidated financial statements present fairly, in all material respects, the financial position of DOL as of September 30, 2011 and 2010; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance program as of September 30, 2011, 2010, 2009, 2008, and 2007; and the changes in social insurance amounts for the year ended September 30, 2011, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion on the financial statements, the statements of social insurance present the actuarial present value of DOL's future expenditures to be paid to or on behalf of participants, estimated future income to be received from excise taxes, and estimated expenditures for administrative costs during a projection period ending in 2040.

Also, as discussed in our opinion on the financial statements, in FY 2011, DOL adopted new accounting and reporting requirements for its social insurance program.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies, as defined in the Internal Control over Financial Reporting section of this report, as follows:

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Material Weaknesses

1. Lack of Sufficient Controls over Financial Reporting

2. Lack of Sufficient Controls over Budgetary Accounting

3. Lack of Sufficient Security Controls over Key Financial and Support Systems

Significant Deficiencies

4. Improvements Needed in the Preparation and Review of Journal Entries

5. Weaknesses Noted over Payroll Accounting

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the FFMIA, disclosed no instances of noncompliance and two other matters that are required to be reported under *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.

As stated in our opinion on DOL's compliance with section 803(a) of FFMIA, we concluded that DOL did not comply, in all material respects, with the requirements of section 803(a) of FFMIA as of September 30, 2011.

The following sections discuss our opinion on DOL's consolidated financial statements; our consideration of DOL's internal control over financial reporting; our tests of DOL's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; our opinion on compliance with FFMIA; and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Department of Labor as of September 30, 2011 and 2010; the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended; the statements of social insurance as of September 30, 2011, 2010, 2009, 2008, and 2007; and the statement of changes in social insurance amounts for the year ended September 30, 2011.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor as of September 30, 2011 and 2010; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance program as of September 30, 2011, 2010, 2009, 2008, and 2007; and the changes in its social insurance amounts for the year ended September 30, 2011, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1-W and 1-Y to the consolidated financial statements, the statements of social insurance present the actuarial present value of DOL's future expenditures to be paid to or on behalf of participants, estimated future income to be received from excise taxes, and estimated expenditures for administrative costs during a projection period ending in 2040. In preparing the statements of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statements. However, because of the large number of factors that affect the statements of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statements of social insurance and the actual results, and those differences may be material.

Also as discussed in Note 1-B to the consolidated financial statements, DOL changed its method of reporting its social insurance program to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*, effective October 1, 2010.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in the Message from the Secretary of Labor, Message from the Chief Financial Officer, and Other Accompanying Information section are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures, and accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our FY 2011 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Exhibit I to be material weaknesses.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit II to be significant deficiencies.

Exhibit IV presents the status of prior year significant deficiencies and material weaknesses.

We noted certain additional matters that we reported to management of DOL in a separate letter.

COMPLIANCE AND OTHER MATTERS

The results of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

Other Matters. DOL is currently reviewing two incidents regarding potential violations of the *Anti-deficiency Act.* As of the date of this report, no final noncompliance determination has been made for these incidents.

We noted certain additional matters that we reported to management of DOL in a separate letter.

OPINION ON COMPLIANCE WITH FFMIA

DOL represented that, in accordance with the provisions and requirements of FFMIA, the Secretary of Labor determined that DOL's financial management systems were in substantial compliance with FFMIA as of September 30, 2011.

We have examined the U.S. Department of Labor's compliance with section 803(a) of the *Federal Financial Management Improvement Act of 1996* as of September 30, 2011. Under section 803(a) of FFMIA, the U.S. Department of Labor's financial management systems are required to substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. We used OMB's *Implementation Guidance for the Federal Financial Management Improvement Act*, dated January 9, 2009, to determine compliance.

Our examination disclosed the following material noncompliance with FFMIA section 803(a) applicable to the U.S. Department of Labor as of September 30, 2011. DOL's financial management systems do not comply substantially with Federal financial management system requirements because of certain weaknesses in DOL's system access controls. In addition, we identified material instances in which DOL did not comply with the USSGL at the transaction level. These matters are further described in Exhibit III.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the U.S. Department of Labor did not substantially comply with FFMIA section 803(a) as of September 30, 2011.

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RESPONSIBILITIES

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to DOL.

Auditors' Responsibilities. Our responsibility is to express an opinion on the FY 2011 and 2010 consolidated financial statements of DOL based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our FY 2011 audit, we considered DOL's internal control over financial reporting by obtaining an understanding of DOL's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether DOL's FY 2011 consolidated financial statements are free of material misstatement, we performed tests of DOL's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DOL. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Our responsibility also included expressing an opinion on DOL's compliance with FFMIA section 803(a) requirements as of September 30, 2011, based on our examination. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence about DOL's compliance with the requirements of FFMIA section 803(a) and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on DOL's compliance with specified requirements.

DOL's response to the findings identified in our audit is presented in Exhibits I and II. We did not audit DOL's response and, accordingly, we express no opinion on it.

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

KPMG LLP

November 14, 2011

1. Lack of Sufficient Controls over Financial Reporting

The U.S. Department of Labor (DOL) experienced significant issues related to financial reporting in fiscal year (FY) 2010 as a result of the implementation of its new accounting and reporting system, the New Core Financial Management System (NCFMS). Although DOL has made substantial improvements in its financial reporting processes, we continued to identify certain control deficiencies in FY 2011 related to the reconciliation of data, financial processes, and other financial reporting controls. The specific issues identified in each of the aforementioned areas are discussed below.

Reconciliation of Data: DOL performs various reconciliations throughout the year over the data recorded in its general ledger. During our FY 2011 audit procedures, we identified several deficiencies in DOL's reconciliation controls related to Fund Balance with Treasury (FBWT), general ledger transactions, and grants data.

FBWT

During test work covering the period October 1, 2010, through March 31, 2011, we determined that the Office of the Chief Financial Officer (OCFO) did not perform the Government-wide Accounting System (GWA) Account Statement FBWT reconciliation and supervisor review processes properly, in a timely manner or at all. Specifically, the FBWT reconciliations and supervisor reviews for the selected months of October 2010 and March 2011 were not completed until December 28, 2010, and May 12, 2011, respectively, and the reconciliations for the selected months of December 2010 and February 2011 were not performed at all. Furthermore, the March FBWT reconciliation was designed to reconcile the amount of activity that occurred from October 1, 2010 through March 31, 2011, instead of ending balances as required by the U.S. Department of the Treasury (Treasury). We also noted that material differences identified in the March 2011 reconciliation were not adequately researched and resolved.

In addition, during the six month period ended March 31, 2011, *Statement of Differences* (FMS 6652) reconciliations and related supervisory reviews were not performed in a timely manner or at all. In reviewing a sample of FMS 6652 reconciliations, we specifically noted the following issues:

- The OCFO did not complete the December 2010 and March 2011 reconciliations and related reviews for two agency location codes (ALC) until May 2011;
- The Office of the Assistant Secretary for Administration and Management (OASAM) did not perform the December 2010 and March 2011 reconciliations for two ALCs; and
- OASAM and the Bureau of Labor Statistics did not reconcile all differences identified on the December 2010 and March 2011 FMS 6652 reports.

Furthermore, sufficient evidence was not maintained to support that certain differences identified on the FMS 6652 reports as of December 31, 2010, and March 31, 2011, had been properly researched and resolved. During our year-end testing, we determined that the differences identified on the FMS 6652 reports were materially resolved as of September 30, 2011.

Competing priorities related to the researching and correcting of differences identified on the FMS 6652 reports reduced the staff available to perform and maintain effective internal controls over the GWA FBWT reconciliation process and caused the OCFO and OASAM to choose to resolve the discrepancies instead of formally documenting the monthly FMS 6652 reconciliations in a timely manner. In addition, because of the year-end adjustments and actions needed to correct the FBWT balance as of September 30, 2010, the OCFO chose to reconcile the activity recorded in the FBWT accounts instead of the ending balances. Furthermore, the OCFO policies and procedures did not specifically define how the individual differences on the FMS 6652, the related causes, and the related corrective actions should be documented.

Differences that are not properly researched and resolved timely compromise the reliability of FBWT balances and other United States Standard General Ledger (USSGL) account balances contra to the FBWT account. This, in turn, compromises the overall integrity and status of DOL's financial reports.

General Ledger Transactions

The OCFO provided data extracts of detailed general ledger transactions from NCFMS for the six months ended March 31, 2011, and the quarter ended June 30, 2011, that did not initially reconcile to the NCFMS consolidated trial balance. Specifically, we identified a $329 million difference between the March 31, 2011, data extract and the NCFMS consolidated trial balance for one general ledger account. We also identified differences between the third quarter data extract and the NCFMS consolidated trial balance for numerous general ledger accounts. Several of these general ledger accounts had differences that ranged from $30 billion to $47 billion each. The OCFO was ultimately able to provide us revised data extracts for both periods that reconciled to the consolidated trial balance.

The errors occurred because the OCFO did not adequately review the data extracts prior to submitting them to us for audit. In addition, the OCFO did not have formal procedures in place to ensure that the population of detailed general ledger transactions extracted from its general ledger reconciled to the consolidated trial balance. Without sufficient procedures in place to generate an accurate population of detailed general ledger transactions, the OCFO may not be able to support the completeness, accuracy, and existence of its general ledger balances.

Grants Data

DOL did not perform quarterly reconciliations of the E-Grants system to NCFMS in a timely manner. The reconciliation for the first quarter of FY 2011 was not performed because the responsible agency, the Employment and Training Administration (ETA), was unaware of its duty to perform the quarterly reconciliation. This was caused by a lack of communication and a lack of written policies and procedures over the reconciliation of E-Grants to NCFMS. ETA did perform a reconciliation of E-Grants to NCFMS for the second quarter; however, material differences were identified that were not resolved until the fourth quarter.

In addition, we tested the Health and Human Services (HHS)-Payment Management System (PMS) Synch Report, which identifies differences between the authorized amount (obligation amount) and the advance amount (disbursement amount) reported in HHS-PMS and NCFMS, as of December 31, 2010. During our test work, we noted that ETA did not provide support evidencing that differences for four items were investigated and properly resolved. The differences were attributed to significant mapping issues between HHS-PMS and NCFMS for Office of Job Corps grants and were not investigated and resolved because related procedures had not been developed.

Without adequate reconciliation controls and resolution of differences, material errors could occur and not be detected or corrected, resulting in a misstatement of grant-related expenses, advances, payables, and undelivered orders.

We used the following criteria during our FY 2011 reconciliations testing:

Treasury Financial Manual, Part 2, Chapter 5100, *Reconciling Fund Balance With Treasury (FBWT)* 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."

Treasury's *FBWT Reconciliation Procedures, A Supplement to the Treasury Financial Manual, 1 TFM 2-5100 November 1999* (Reconciliation Procedures), states, "Federal agencies must reconcile the SGL 1010 account and any related subaccounts with the FMS 6652, 6653[1], 6654[1] and 6655[1] on a monthly basis (at minimum)." It further states, "Federal agencies must research and resolve differences reported on the monthly FMS 6652."

The Reconciliation Procedures also state 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." The Reconciliation Procedures goes on to state, "When resolving differences, agencies should maintain detailed reconciliation worksheets (see Appendix 1) that, if needed, can be reviewed by the agency's auditors or Treasury."

Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, states, "Reliability of financial reporting means that management can reasonably make the following assertions: All reported transactions actually occurred during the reporting period…" and, "Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports."

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (the 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 Standards also state, "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."

Financial Processes: During our review of the FY 2011 third quarter financial statements, we noted the following errors:

- Certain beginning balances reported in the Statement of Changes in Net Position (SCNP) and the Statement of Budgetary Resources (SBR) did not agree with the related ending balances reported in the FY 2010 audited financial statements issued in May 2011; differences ranged from $343 million to $1.9 billion.
- The balances reported for Permanently Not Available – All Other on the SBR and Unexpended Appropriations – Adjustments on the SCNP were overstated by $808 million.
- Certain balances reported in multiple places in the statements did not agree.

The errors above were primarily caused by certain adjustments (i.e., topside adjustments) made by the OCFO to the FY 2010 audited financial statements issued in May 2011 that were initially recorded outside of the general ledger and were not timely recorded in NCFMS during FY 2011. Management was aware that the October 1 beginning balances and certain ending balances reported in the general ledger were incorrect as of June 30, 2011, and planned to record correcting journal entries in the fourth quarter. However, they did not develop an alternative process to ensure that the third quarter financial statements were fairly stated, in all material respects.

The OCFO ultimately recorded the FY 2010 topside adjustments in September 2011; however, one of the adjustments was recorded incorrectly. The topside adjustments were recorded by management using memo accounts, which were required to be mapped to the appropriate consolidated financial statement line items to reflect the correct balances. Although management properly recorded the topside adjustments to the memo accounts, their review did not detect that one of the memo accounts was not properly mapped to the correct line

[1] The FMS 6653, 6654, and 6655 were superseded by the GWA Account Statement.

item on the SBR. This error, which was subsequently corrected by the OCFO, caused the FY 2011 balances of Appropriations Received and Permanently not Available – All Other to be initially overstated by $808 million.

The OCFO also had difficulty providing timely support that certain Unemployment Trust Fund (UTF) activities were accounted for and reported in accordance with U.S. generally accepted accounting principles (GAAP). Specifically, the OCFO was initially unable to (a) provide a sufficient rationale for why certain UTF receipts were reported as temporarily unavailable pursuant to public law or (b) support the presentation of UTF advances and payables on DOL's consolidated balance sheet, and they did not perform adequate research to resolve these issues in a timely manner. Although these matters were identified and presented to the OCFO in June 2011, the OCFO did not provide sufficient resolution for them until October 2011 because they did not have a formal process in place to ensure significant financial reporting issues were researched, properly resolved, and documented in a timely manner.

Furthermore, we determined that the OCFO did not finalize the draft *U.S. Department of Labor Manual Series* (DLMS) policies and procedures that require a comprehensive and detailed review of all financial information in the draft financial statements, nor did they document comprehensive policies and procedures related to the financial reporting process under NCFMS as of September 30, 2011. Because the OCFO was focused on reissuing its FY 2010 consolidated financial statements during the first half of FY 2011, the OCFO lacked the resources to draft comprehensive policies and procedures related to the NCFMS financial reporting process and to finalize the draft DLMS procedures.

The issues noted above increased the risk that DOL's consolidated financial statements could be misstated or not presented in conformity with GAAP.

We used the following criteria during our FY 2011 testing over DOL's financial processes:

The Standards state:

- "Internal control should provide reasonable assurance that the objectives of the agency are being achieved relative to reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use and compliance with applicable laws and regulations."
- "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions."
- "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."

OMB Circular No. A-136, *Financial Reporting Requirements*, states, "Reporting entities should ensure that information in the financial statements is presented in accordance with GAAP for Federal entities and the requirements of this Circular. Preparers of financial statements seeking additional guidance on matters involving the recognition, measurement, and disclosure requirements should refer to the specific FASAB standards governing those requirements." It further states, "Where the FASAB standards and interpretations or the instructions in this Circular do not provide guidance, agencies will follow the hierarchy of accounting principles described in Section II.4.2 Q&A and SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*."

Other Financial Reporting Controls: We also noted that DOL needed improvement in its other financial reporting controls. Specifically, we identified deficiencies in controls related to the UTF disbursements accrual; grants; and non-benefit, non-payroll expenses, as described below.

UTF Disbursements Accrual

During our FY 2011 testing of the UTF disbursements accrual methodology, we identified deficiencies in ETA's retrospective analysis of the estimate. ETA's analysis identified variances between the estimate and actual expenses as of December 31, 2010, and March 31, 2011, in the amounts of $1.4 billion and $500 million, respectively. However, ETA did not document management's conclusion as to whether or not these variances necessitated a revision to the disbursement accrual methodology. In addition, although ETA personnel assessed the impact of the variances on gross costs, they did not assess the impact on accrued benefits and advances, which are based in part on the disbursements accrual. Furthermore, ETA did not fully investigate and identify the cause of the variances.

In addition, a computational error of approximately $318 million in the first quarter disbursements accrual calculation was not detected in management's review of it. However, we did not identify any similar errors during our fourth quarter testing over the disbursements accrual.

ETA did not have formal policies and procedures in place for the preparation and review of the retrospective analysis of the UTF disbursement accrual. The computational error occurred and was not detected because of an oversight during supervisory review of the disbursements accrual. Additionally, no formal policies and procedures were in place to outline the necessary steps supervisors should perform to ensure adequate reviews of the accrual.

The lack of sufficient internal controls over the UTF disbursements accrual increased the risk that gross costs, accrued benefits, and advances could be misstated and not detected and corrected in a timely manner.

The Standards state, "Managers also need to compare actual performance to planned or expected results throughout the organization and analyze significant differences." It also states, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination."

OMB Circular No. A-123 states, "Reliability of financial reporting means that management can reasonably make the following assertions: All reported transactions actually occurred during the reporting period…" and, "Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports."

Grants

As part of our audit procedures over grant controls, we selected 55 grantees to determine if Federal Project Officer (FPO) desk reviews were being performed accurately and timely during the six months ended March 31, 2011. Our testing disclosed that a FPO desk review was not performed for 1 of the 55 grantees selected. In addition, 8 of the 54 FPO desk reviews tested were not completed timely within the required 75 calendar days of the quarter end. This occurred because sufficient supervisory review procedures related to the timely completion of quarterly FPO desk reviews were not developed and implemented. Policies and procedures related to FPO desk reviews were outdated, and although they included a deadline for performance of the FPO desk reviews, they did not include any guidance regarding monitoring their completion.

We also tested the March 31, 2011, Delinquent Reporting Analysis and noted that the analysis was reviewed by the Division of Financial and Systems Services (DFSS) Accounting Supervisor on May 6, 2011. However, ETA did not send notification of the delinquent cost reports to the responsible individuals for follow-up until after we requested support for the notification on June 20, 2011. The notification was delayed because of ETA oversight. Additionally, ETA's *Delinquent Filers Monitoring Procedures* did not include specific deadlines regarding when the notification of delinquent filers must be distributed and when the follow-up was to be completed.

Without adequate grantee monitoring controls, grantees may misreport (intentionally or unintentionally) grant expenses without the misstatement being detected by ETA or fail to report grant expenditure details. As a result, grant-related expenses, advances, payables, and undelivered orders could be misstated.

DOL *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."

Chapter 75 of Title 31, United States Code (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…"

The Standards state, "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."

<u>Non-Benefit, Non-Payroll Expenses</u>
We selected 550 non-benefit, non-payroll expenses recorded in the general ledger from October 1, 2010, through September 30, 2011, for testing. However, DOL was unable to provide supporting documentation or the documentation was not adequate for 33 of the items selected; 20 of which were related to adjustments recorded by DOL's shared service provider. Of the 517 items tested, we identified 54 errors. As a result, non-benefit, non-payroll expenses were overstated by $26 million, which we statistically extrapolated to an overstatement of $405 million as of September 30, 2011. We included these errors in the Summary of Audit Misstatements, which was attached to the FY 2011 management representation letter.

Additionally, we identified six exceptions related to grant expenses that were improperly classified as intra-governmental expenses instead of non-federal expenses. As a result of these exceptions, we analyzed grant expenses recorded in the general ledger from October 1, 2010, through September 30, 2011 and identified grant expenses in the amount of $117 million that were incorrectly classified as intra-governmental expenses. We included these errors in the Summary of Audit Misstatements, which was attached to the FY 2011 management representation letter.

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

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

Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*, states, "Costs and revenues arising from transactions with other Federal entities should be displayed separately from transactions with non-Federal entities."

USSGL Compliance: We identified the following transactions that were not compliant with the USSGL:

- A portion of the liability for estimated future benefits related to the Energy Employees Occupational Illness Compensation Program in the amount of $12.1 billion was incorrectly recorded in the general ledger as a Contingent Liability instead of an Actuarial Liability. This prior year error was inadvertently not corrected in the current year. The liability was presented correctly in the consolidated financial statements as of September 30, 2011.

- An expenditure transfers payable in the amount of $2 billion was incorrectly recorded in the general ledger as Other Liabilities with Related Budgetary Obligations. This issue occurred because the entry was not adequately reviewed by a DOL supervisor prior to it being recorded. However, the liability was reported correctly in the consolidated financial statements as of September 30, 2011.
- Grants payable in the amount of $792 million was incorrectly recorded in the general ledger as Accounts Payable instead of Other Liabilities. The OCFO made this decision for financial statement mapping purposes. The liability was presented correctly in the consolidated financial statements as of September 30, 2011.
- UTF borrowings transactions in the amount of $3 billion were not recorded in accordance with the OMB and Treasury guidance provided to DOL. This error occurred because the OCFO misapplied the guidance for returning funds to Treasury. This misclassification had no effect on the consolidated financial statements as of September 30, 2011.
- The increase of $1.6 billion in benefit overpayment receivables was incorrectly recorded in the general ledger as Benefit Expense instead of Other Expenses Not Requiring Budgetary Resources. This issue occurred because management had made a decision in prior years to record the change in benefit overpayments to the Benefits Expense general ledger account. This misclassification had no effect on the consolidated financial statements as of September 30, 2011.
- Transactions related to the Federal Employees Compensation Account (FECA) Existing Claims accrual in the amount of $360 million were incorrectly recorded as Benefit Expense instead of Future Funded Expenses. This issue occurred because management had previously made a decision in prior years to use the Benefit Expense account in lieu of the Future Funded Expenses account. The liability was presented correctly in the consolidated financial statements as of September 30, 2011.

The USSGL contains the chart of accounts that provides the basic accounting structure for Federal agencies' general ledger systems. It incorporates both proprietary and budgetary accounts. It also provides the accounting transactions for events occurring throughout the Federal Government. These transactions illustrate the proper proprietary and budgetary entries for each accounting event.

To address the issues noted above, the Chief Financial Officer should:

a) Develop and implement procedures to properly complete and document the monthly GWA FBWT reconciliations, including 1) reinstatement of the previous reconciliation process that reconciled the ending balances reported on the GWA Account Statements to the ending FBWT balances recorded in the general ledger and 2) documented research and resolution of identified differences;
b) Dedicate adequate resources to complete the monthly FBWT reconciliations and supervisor reviews timely;
c) Perform, document, and review timely the monthly FMS 6652 reconciliations to demonstrate that the differences identified on the FMS 6652 reports have been resolved;
d) Update policies and procedures to properly complete and document the monthly FMS 6652 reconciliations, including documented research and resolution of all identified differences;
e) Formalize procedures for generating data extracts of detailed general ledger transactions from NCFMS, and enhance the procedures for reviewing data extracts prior to submission for audit to ensure they reconcile to the consolidated trial balance;
f) Develop and implement a formal process for promptly researching and resolving significant financial reporting issues that are identified. In addition, resolution of each issue should be formally documented and retained to support the consolidated financial statements' compliance with GAAP;
g) Finalize draft DLMS policies and procedures requiring detailed review of all financial information in the financial statements, and ensure that OCFO personnel adhere to these policies. Financial statement review should include procedures for comparing financial data reported on the different statements to ensure accuracy and consistency; agreeing the financial data to the general ledger to ensure existence, completeness, and accuracy of financial data reported; and analyzing significant variances between current period and prior period financial information;

h) Formally document comprehensive policies and procedures related to the financial reporting process under NCFMS;
i) Develop and implement policies and procedures to address the minimum documentation requirements needed to support adjustments recorded by DOL's shared service provider, provide training to the agencies to address the minimum documentation requirements needed to sufficiently support recorded transactions, and develop and implement monitoring controls to ensure that individuals are performing sufficient reviews of expenses and related documentation before they are posted in NCFMS to ensure they are adequately supported;
j) Investigate the specific cause of the grant expense misclassification issue, and develop and implement appropriate corrective action; and
k) Record journal entries to correct the misclassified amounts identified above to their proper USSGL accounts in the general ledger, develop and implement procedures to properly record these transactions in the future, review significant transactions for USSGL compliance, and make any necessary corrections.

In addition, the Assistant Secretary for Administration and Management should perform, document, and review timely the monthly FMS 6652 reconciliations to demonstrate that the differences identified on the FMS 6652 reports have been resolved.

We also recommend the National Director for the Office of Job Corps continue working to resolve the mapping issues between HHS-PMS and NCFMS to allow the systems to communicate properly, and develop and implement procedures to investigate, resolve, and document differences identified through the quarterly HHS-PMS Synch Report.

Furthermore, we recommend that the Assistant Secretary for Employment and Training:
a) Develop and implement written policies and procedures regarding the quarterly reconciliation of E-Grants to NCFMS and resolution of identified differences, including an expected timeframe to ensure errors are detected and corrected to avoid a misstatement. Documentation should be maintained to support these activities;
b) Develop and implement comprehensive procedures for the preparation and review of the UTF disbursements accrual that address the minimum documentation needed to support management's conclusions and require individuals performing supervisory reviews to verify the accuracy of the accrual data and calculations and the adequacy of documentation maintained to substantiate management's conclusion;
c) Update written policies and procedures to include guidance on monitoring the timely completion of FPO desk reviews, which should include requirements for supervisors to periodically review a sample of active grantees to confirm that the FPO desk reviews are being completed timely. This review should be documented; and
d) Update the *Delinquent Filers Monitoring Procedures* to include 1) a control procedure designed to ensure that the quarterly notification of delinquent filers is distributed timely, 2) a deadline by which the notification of delinquent filers must be sent to the responsible individuals for follow-up, and 3) deadlines for required follow-up.

Management's Response: Although management generally concurs with the recommendations, we do not concur that the level of this deficiency continues to be at the material weakness level as of September 30, 2011. Management agreed with the auditors that in FY 2010 there was a material weakness in this area, however, with the significant improvements made during FY 2011, as noted by the auditors, this weakness no longer rises to the level of a material weakness.

During FY 2011 we have implemented corrective actions that have resulted in significant improvements and will initiate further corrective actions to address the auditors' recommendations. We have taken steps to ensure that procedures for reconciliations are properly updated and documented, including resolution of differences and required documentation. We will continue to strengthen our policies and procedures in all areas and will provide training to our staff as needed.

Regarding the reconciliations of Fund Balance with Treasury (FBWT), Statement of Differences (FMS 6652) reconciliations, general ledger transactions, and grants data, we agree with the auditors that not enough resources were dedicated to perform these reconciliations during the six month period ended March 31, 2011. Significant resources were devoted to these reconciliations in the second half of FY 2011 and significant progress was made and material differences were resolved. As noted by the auditors, "During our year-end testing, we determined that the differences identified on the FMS 6652 reports were materially resolved as of September 30, 2011." and that identified material differences in the grants reconciliation were resolved in the fourth quarter. We agree with the auditors that the data extracts of detailed general ledger transactions from NCFMS provided did not initially reconcile to the NCFMS consolidated trial balance. This was due to the way the extracts were generated and placed into the format required by the auditors and not due to the accuracy of the data in the general ledger. This issue was corrected and revised data extracts for both periods that reconciled to the consolidated trial balance were provided, as noted by the auditors. Subsequently, similar extracts we properly provided to the auditors on a timely basis for the periods ending August 31, 2011, September 30, 2011 and October 24, 2011.

Regarding the interim financial statements, the auditors noted that "During our review of the FY 2011 third quarter financial statements, we noted the following errors: Certain beginning balances reported in the Statement of Changes in Net Position (SCNP) and the Statement of Budgetary Resources (SBR) did not agree with the related ending balances reported in the FY 2010 audited financial statements issued in May 2011; differences ranged from $343 million to $1.9 billion. The balances reported for Permanently Not Available – All Other on the SBR and Unexpended Appropriations – Adjustments on the SCNP were overstated by $808 million." These differences relate to the adjustments made by DOL in preparing the FY 2010 financial statements issued in May 2011. DOL had made a specific management decision to record these adjustments during the fourth quarter of FY 2011 and this was communicated to the auditors. As such, the ending balances from the May 2011 submission of the FY 2010 financial statements would not tie to the beginning balances in the unaudited FY 2011 third quarter unaudited financial statements. DOL recorded the adjustments in a controlled manner during FY 2011 fourth quarter for proper presentation on the annual FY 2011 financial statements. In addition, the SCNP is not a required interim financial statement per Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and OMB does not require the SCNP to be submitted for quarterly reporting. As such the SCNP was not submitted to OMB or to anyone else outside of DOL.

Regarding the topside adjustments, the auditors noted that "Although management properly recorded the topside adjustments to the memo accounts, their review did not detect that one of the memo accounts was not properly mapped to the correct line item on the SBR. This error, which was subsequently corrected by the OCFO, caused the FY 2011 balances of Appropriations Received and Permanently not Available – All Other to be initially overstated by $808 million." The error to which the auditor refers to existed in a test environment and did not exist on the FY 2011 financial statements. Absent discussion with the auditors, we believe that this matter would have become apparent in the yearend evaluation of the composition of the SBR, which DOL had planned to do and communicated to the auditors.

Regarding the reconciliation of grants data and reconciliation of HHS-PMS to NCFMS for Office of Job Corps related activity, ETA will develop and implement written procedures regarding quarterly reconciliation of E-grants to NCFMS and resolution of identified differences. Beginning with the 1st quarter FY2012, ETA will investigate, resolve, and document obligation and disbursement differences using the quarterly HHS-PMS Sync report. The resolution of the OJC grant mapping issues between HHS/PMS and NCFMS continue. To date, OCFO and GCE have reduced the number/amount of incorrectly mapped items. Regarding the UTF disbursement accrual, ETA will develop a checklist for the initial review process. In terms of a quarterly retrospective review process, ETA will document the process and related results, including establishing a threshold to determine whether there are significant variances which warrant investigation and a supervisory review. ETA updated its Delinquent Filers Monitoring procedures to include timelines for notifying responsible individuals of the delinquent cost report. ETA will ensure that notification will include deadlines for required follow up.

Auditors' Response: Our consideration of internal control over financial reporting covers the entire fiscal year; as such, management's assessment of the severity of the identified deficiencies at year-end may differ from our assessment. We will conduct follow-up procedures in FY 2012 to determine whether corrective actions have been developed and implemented.

2. Lack of Sufficient Controls over Budgetary Accounting

DOL encountered significant issues in accounting for its budgetary resources and their related status during FY 2010. Although DOL made substantial improvements in its budgetary accounting during FY 2011, we continued to identify certain control deficiencies related to budgetary reconciliations, obligations and fund controls, and the status of budgetary resources. The specific issues identified in each of the aforementioned areas are discussed below.

Lack of Budgetary Reconciliations: During our FY 2011 testing, we noted that reconciliations of the *Apportionment and Reapportionment Schedules* (SF-132) to the *Report on Budget Execution and Budgetary Resources* (SF-133) were not prepared and reviewed by management for the first and second quarters of FY 2011. Additionally, the budgetary to proprietary account relationship analysis and the reconciliation of net outlays per the GWA Account Statement Expenditure Activity Report to the SBR were not performed at all for the first quarter and were not completed until July 8 and June 8, 2011, respectively, for the second quarter. Because of the aforementioned exceptions, we determined these controls were not operating effectively and, therefore, did not perform additional control testing over these reconciliations in the third and fourth quarters.

In addition, we performed testing over the reconciliation of the SBR to the SF-133s as of March 31, 2011. Based on our testing, we noted that the OCFO did not resolve differences ranging from $107.9 million to $3.7 billion between related line items reported on the SBR and the SF-133s as of June 30, 2011. These differences were materially reconciled in the fourth quarter.

Because of competing priorities related to the researching and correcting of balances reported on DOL's FY 2010 financial statements, the number of OCFO staff available to perform certain quarterly budgetary reconciliations was reduced during the first half of FY 2011.

Policies and procedures over budgetary reconciliations were not sufficient to address the minimum documentation requirements needed to substantiate that identified differences were properly researched and resolved and to outline the necessary steps to ensure supervisors were performing adequate reviews. When quarterly budgetary reconciliations are not properly performed, the risk increases that material misstatements will not be detected and corrected in a timely manner.

The Standards state, "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." It further 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."

OMB Circular No. A-136, section IV.3, states, "Agencies are required to submit an analysis of any material differences between the current quarter's unaudited SBR and the current quarter's department-wide SF 133, *Report on Budget Execution and Budgetary Resources.* Agencies should reconcile the two reports; however, agencies are only required to provide OMB with an explanation for any material differences between the SBR and SF 133 for comparable line items related to unobligated balance brought forward, gross budget authority, obligations incurred, actual offsetting collections, net outlays and distributed offsetting receipts."

OMB Circular No. A-136, section II.4.6.1, states, "Information on the SBR should be reconcilable to the budget execution information reported on the SF 133 *Report on Budget Execution and Budgetary Resources* and with information reported in the Budget of the United States Government to ensure the integrity of the numbers presented."

Obligations and Fund Control: The OCFO did not adequately monitor undelivered orders (UDOs) for the quarter ended December 31, 2010. Specifically, the OCFO did not obtain the results of the agencies' quarterly review of UDOs to determine whether any UDO balances needed to be deobligated in the general ledger. The OCFO did not have sufficient resources to implement policies and procedures to obtain the results of the agencies' review or to ensure expired and invalid UDOs were deobligated either by the agency or by the OCFO because of resource constraints and competing priorities related to the correction of NCFMS implementation issues. However, as of our March 31, 2011 control testing, we noted that the OCFO had implemented policies and procedures related to monitoring UDOs.

We selected a statistical sample of three UDO balances reported in NCFMS as of September 30, 2011 that had no activity during the fourth quarter for testing. Through our testing, we identified one invalid UDO that resulted in an overstatement of $60,994, which we statistically extrapolated to an overstatement of $379 million as of September 30, 2011. We included this error in the Summary of Audit Misstatements, which was attached to the FY 2011 management representation letter. This error occurred because of a determination that the UDO should not be deobligated that was not supported by appropriate documentation.

As of June 30, 2011, we compared the amount of obligations incurred reported on the SF-133s to the total amount available to obligate on the SF-132s. Based on our review, we determined that the reported amount of obligations incurred exceeded total funds available by $58.3 million, raising a question about compliance with the *Anti-deficiency Act*. Upon investigation, we determined that this was an accounting error, not an instance of noncompliance, caused by a batch entry that was intended to reduce obligations but caused obligations to increase instead. The automated fund controls in NCFMS did not prevent the entry from being posted even though it caused obligations to exceed the amount of funding available. The OCFO subsequently corrected the batch entry error and appropriately reduced obligations as of September 30, 2011.

During our control testing over the grant closeout process as of March 31, 2011, we noted that 4 of 55 grants tested were not closed out timely because of errors in the E-Grants system related to the acceptance of final ETA 9130s, a coding issue in E-Grants, and the improper recording of a grantee's refund check. Because of the aforementioned exceptions, we concluded this control was not operating effectively, and therefore, did not perform additional control testing. Without adequate controls to timely close out expired grants and deobligate any remaining funds, undelivered orders may be overstated.

U.S. Code Title 31 Section 1501, *Documentary Evidence Requirement for Government Obligations*, states, "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 for a purpose authorized by law; and (b) executed before the end of the period of availability for obligation of the appropriation or fund." 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."

OMB Circular No A-11, section 150.2, further states, "The purpose of your agency's fund control system is to: Restrict *both* obligations and expenditures (also known as outlays or disbursements) from each appropriation or fund account to *the lower of* the amount apportioned by OMB or the amount available for obligation or expenditure in the appropriation or fund account."

The Standards state, "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."

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

Status of Budgetary Resources*:* During our testing over appropriations received as of June 30, 2011, we noted that one of DOL's funds included $320 million in appropriations that were incorrectly recorded in NCFMS as Unapportioned Authority instead of Unobligated Funds Exempt from Apportionment. This error occurred because the NCFMS Budget Module was not configured to allow appropriations exempt from apportionment to be posted to the correct general ledger account. Although the OCFO developed a process to correct these transactions through a manual journal entry, this fund was inadvertently overlooked, and a correcting entry was not initially recorded. As a result, Unapportioned Authority was overstated and Unobligated Funds Exempt from Apportionment was understated by $320 million as of June 30, 2011. In addition, this error resulted in noncompliance with the USSGL at the transactional level. This error was corrected as of September 30, 2011.

USSGL Compliance: In addition to certain issues noted above, we identified the following budgetary transactions that were not recorded in compliance with the USSGL.

- Receipts temporarily precluded from obligation in the amount of $10 billion were incorrectly reported in the general ledger as Receipts Unavailable for Obligation upon Collection instead of Receipts and Appropriations Temporarily Precluded from Obligation as of September 30, 2011. This occurred because the OCFO did not correctly interpret the guidance in the Federal Trust Fund Accounting Guide related to receipts precluded from obligation.
- Budgetary and proprietary entries were not recorded simultaneously for economic events related to the enactment of an appropriation or budget authority. On average, the entries we identified were recorded 16 days apart, but we identified a few transactions that were recorded 30 days or more apart. The budget and proprietary entries were not recorded simultaneously because they were recorded by two separate agencies that did not coordinate accordingly.

We used the following criteria during our FY 2011 testing over the status of budgetary resources and USSGL compliance:

The USSGL contains the chart of accounts that provides the basic accounting structure for Federal agencies' general ledger systems. It incorporates both proprietary and budgetary accounts. It also provides the accounting transactions for events occurring throughout the Federal Government. These transactions illustrate the proper proprietary and budgetary entries for each accounting event.

The Standards state, "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."

To address the issues noted above, the Chief Financial Officer should:

a) Provide adequate resources to complete all necessary budgetary reconciliations timely;
b) Update policies and procedures over budgetary reconciliations 1) to address the minimum documentation requirements needed to substantiate that identified differences are properly researched and resolved, and 2) to outline the necessary steps to complete adequate supervisory reviews;
c) Provide training on the updated policies and procedures over budgetary reconciliations, including timing and frequency of reconciliation preparation;

d) Update the NCFMS configuration so that all recorded transactions are subject to the system's automated funds control;
e) Provide training to the agencies to address the minimum documentation requirements needed to sufficiently support the validity of UDOs;
f) Update the NCFMS Budget Module configuration to allow appropriations that are exempt from apportionment to be posted to the correct general ledger account. Until the NCFMS Budget Module is properly configured, procedures should be developed and implemented to periodically review funds with appropriations exempt from apportionment to ensure amounts improperly reported as Unapportioned Authority are properly reclassified to Unobligated Funds Exempt from Apportionment; and
g) Require that one agency be responsible for recording both the budgetary and proprietary journal entries for economic events, or if separate agencies continue to record the entries, develop and implement procedures that requires those agencies to coordinate appropriately to ensure almost simultaneous recording.

We recommend that the Assistant Secretary for Employment and Training:

a) Evaluate E-Grants to determine the cause of the continuing system errors related to the acceptance of ETA 9130s, and implement the appropriate corrective action;
b) Identify and correct the E-Grants coding issue that prevented timely and proper grant closeout; and
c) Develop and implement alternative procedures to properly post refunds to appropriate grants in NCFMS.

Management's Response: Although management generally concurs with the recommendations, we do not concur that the level of this deficiency continues to be at the material weakness level as of September 30, 2011. Management agreed with the auditors that in FY 2010 there was a material weakness in this area, however, with the significant improvements made during FY 2011, as noted by the auditors, this weakness no longer rises to the level of a material weakness.

During FY 2011 we have implemented corrective actions that have resulted in significant improvements and will initiate further corrective actions to address the auditors' recommendations. As noted below, we have taken steps to ensure that procedures for budgetary reconciliations and the performance of the reconciliations are given priority. We will continue to strengthen our policies and procedures in all areas and will provide training to our staff as needed.

Regarding the reconciliations of the Apportionment and Reapportionment Schedules (SF-132) to the Report on Budget Execution and Budgetary Resources (SF-133), it should be noted that U.S. Government agencies were operating under a Continuing Resolution during the first two quarters of FY 2011. As such, the majority of Treasury Appropriation Fund Symbols applicable to DOL had not yet been issued OMB-approved SF-132s for FY 2011, making budgetary resources reconciliations less pertinent and resources were used elsewhere. The reconciliations were properly performed as of June 30, 2011 and September 30, 2011.

The SBR to SF-133 reconciliation of data as of June 30, 2011 and September 30, 2011 were properly performed and all significant variances accounted for except for certain variances related to the Unemployment Insurance Trust Fund. We have worked with the appropriate Federal agency to resolve this issue and a revised SF 133 will be submitted by that agency. The issue noted by the auditors that appropriations that were incorrectly recorded in NCFMS as Unapportioned Authority instead of Unobligated Funds Exempt from Apportionment was resolved and the amounts are properly reflected in the financial statements.

With respect to the E-grants system errors, ETA's Closeout unit continues to work with the E-grants technical support staff by forwarding system errors encountered during the acceptance of 9130s. The E-grants personnel have evaluated the cause of the errors and made the necessary system changes to successfully reduce the number of overall errors of attempted 9130 acceptances to less than 5%. Errors continue to be identified and corrected on a case-by-case basis. The coding issue cited in the finding was an isolated incident and has been corrected and the grant subsequently closed. Lastly, to properly post refunds a template was developed to use when posting receipts that need to be attributed to a particular document number. This will ensure that disbursement balances are correctly stated in NCFMS and allow the grant closeout to be completed timely.

Auditors' Response: Our consideration of internal control over financial reporting covers the entire fiscal year; as such, management's assessment of the severity of the identified deficiencies at year-end may differ from our assessment. We will conduct follow-up procedures in FY 2012 to determine whether corrective actions have been developed and implemented.

3. Lack of Sufficient Security Controls over Key Financial and Support Systems

In FY 2011, DOL agencies completed corrective action to address certain previously-identified control deficiencies. However, based on our FY 2011 testing of significant DOL financial and support systems, located in four DOL agencies, we determined that security control deficiencies continued to be systemic across DOL agencies. In our testing, we identified new security control deficiencies in addition to the ones that were reported in prior years.

We have classified the deficiencies identified into the following four categories: account management, system access settings, system audit log reviews, and vulnerability management.

The first two categories summarize the identified deficiencies related to controls that are designed to help prevent unauthorized access to information technology (IT) systems. The specific deficiencies identified in these two categories were as follows:

Account Management

- User accounts were not timely removed for separated users. Certain separated users had active system accounts, and in some cases, separated users accessed systems after their separation dates;
- Shared accounts and multiple user accounts for the same user existed;
- Certain user accounts were granted more privileges than what was requested on their access request forms;
- Incidents were not timely reported;
- Developer and production roles were not separated;
- Application-level conflicting roles were not separated;
- Periodic user account reviews or re-certifications were not appropriately performed;
- Review of employees with access to data centers were not performed;
- Agencies did not maintain lists of users who could authorize new system access requests; and
- Account management controls were not performed, evidenced by incomplete or missing access requests, non-disclosure agreements, modification forms, and termination forms.

System Access Settings

- Unnecessary services were not disabled;
- Servers were not configured to the most appropriate settings;
- Inactive accounts were not disabled in a timely manner; and
- Password settings, lockout timeouts, and remote session timeouts did not comply with the Office of the Chief Information Officer Computer Security Handbook.

The account management control deficiencies increase the risk that current employees, separated employees, and/or contractors may obtain unauthorized or inappropriate access to financial systems and/or data. Such access could lead to unauthorized activities and/or inappropriate disclosures of sensitive data. Additionally, system access setting deficiencies may be exploited, in either a singular fashion or in combination, by a malicious user, which may affect the confidentiality, integrity, and/or availability of DOL systems and data.

System Audit Logs Review

The system audit logs review category represents controls designed to detect unauthorized access to IT systems. Although DOL has certain detective controls in place to mitigate the aforementioned risks, we also identified certain deficiencies in these controls, as follows:

- Certain system administrator activities were not properly logged; and
- Audit logs monitoring user and administrator activity, changes to security profiles, remote access logs, access to sensitive directories, and failed login attempts were not reviewed, or documentation of audit log reviews was not maintained.

The lack of system audit log reviews may allow for unauthorized or inappropriate activities to go undetected by management.

Vulnerability Management

Controls related to vulnerability management are designed to prevent weaknesses in IT systems from being exploited. Such controls include proactively monitoring system vulnerabilities, timely patching of related security issues, and configuring IT systems in compliance with baseline security requirements. During our FY 2011 vulnerability assessments, we identified the following deficiencies:

- Numerous critical and high risk application and operating system patches were not implemented;
- Numerous servers and workstations were not compliant with minimum security baselines; and
- Passwords did not meet the minimum security baseline requirements.

Vulnerabilities that are not remedied in a timely manner may result in information leaks or system threats. These vulnerabilities may also disrupt normal system processes, allow inappropriate access, prevent updates from being implemented, and jeopardize the integrity of financial information. Additionally, vulnerabilities that are not remedied or mitigated can present an opportunity to circumvent account management, system access settings, and audit logging controls.

Collectively, the aforementioned IT control deficiencies pose a significant risk to the integrity of DOL’s data, which could ultimately impact its ability to accurately and timely perform its financial reporting duties. The specific nature of these deficiencies, their causes, and the systems impacted by them has been communicated separately to management. These deficiencies, which were noted across all four agencies selected for testing, were a result of systemic issues in the implementation and monitoring of Departmental procedures and controls. DOL agencies have not invested the necessary level of effort and resources to ensure that IT policies and procedures are operating effectively.

To address the issues noted above, the Chief Information Officer should:

a) Coordinate efforts among the DOL agencies to develop procedures and controls to address access and vulnerability management control deficiencies in financial and support systems;
b) Monitor the agencies’ progress to ensure that procedures and controls are appropriately implemented and maintained; and
c) Ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address access and vulnerability management control deficiencies.

Management’s Response: The Office of the Assistant Secretary for Administration and Management (OASAM) does not concur with the FY 2011 KPMG Financial Statement Audit aggregated Enterprise-wide "material weakness" regarding lack of adequate controls over access to key financial and support systems. In management's view, the auditors did not provide the requisite linkage between the findings and risks or events that could realistically be expected to rise to the level of seriousness contemplated by the term "material weakness;" nor did the report adequately represent the operating environments of the systems audited in a holistic manner. The financial systems are physically and logically separated with appropriate supporting boundary controls. The segregated environments that host DOL financial applications provide supplemental controls aligned to the security best practice concept of defense in depth. Additionally, DOL policies, procedures and standards collectively provide compound safeguards and redundant security measures to ensure the integrity of DOL financial systems.

In general, it is management's view that the auditors' characterizations of risk levels are inflated. For example, an account which is disabled, but not deleted, does not represent a high risk as portrayed in the audit Notification of Findings. A disabled account does not permit unauthorized access to a system or inappropriate access to sensitive data. Additionally, security incidents that are reported and handled appropriately, but not reported within 1 hour of occurrence do not permit unauthorized access to a system. While these are weaknesses that should be addressed, and management will see that they are mitigated, they do not support the determination of a material weakness in that they do not contribute to the material misstatements of the Department's financial statement.

Management remains committed to safeguarding DOL financial systems and will ensure corrective actions are developed and implemented to address the identified issues. In FY 2012, management will communicate with DOL Agency Heads calling attention to their agency outstanding findings and recommendations, and ask that they give priority attention and sufficient resources to their agency's mitigation strategy as well as provide guidance on developing and prioritizing corrective actions. Management will continue to deploy policies, procedures and automated tools aimed at strengthening and providing continuous monitoring of the overall security posture of DOL's computer security program, including monitoring agency corrective action activities.

Auditors' Response: The details of our FY 2011 IT findings were provided to DOL management through the established Notification of Findings process. Although we did not identify any individual finding as a material weakness, we evaluated the combination of certain findings, in accordance with auditing standards generally accepted in the United States of America, to conclude that a material weakness does exist, taking into consideration that certain findings, when assessed in aggregate, identified deficiencies in both detective and preventive access controls related to one or more financial systems. Although management stated that they do not concur with our categorization of identified deficiencies as a material weakness, they plan on taking steps to address the deficiencies. We will conduct follow-up procedures in FY 2012 to determine whether corrective actions have been developed and implemented.

4. Improvements Needed in the Preparation and Review of Journal Entries

The U.S. Department of Labor (DOL) records manual journal entries throughout the year to account for certain accounting transactions and to make corrections to general ledger account balances, as necessary. During our fiscal year (FY) 2011 audit, we tested a sample of 170 journal entries recorded in the New Core Financial Management System (NCFMS) from October 1, 2010, through March 31, 2011. The supporting documentation provided for 51 of the journal entries selected was not adequate for us to determine whether the journal entries were recorded in the proper period, represented a valid economic event, or were recorded in accordance with the United States Standard General Ledger (USSGL).

Adequate supporting documentation was provided for the remaining 119 journal entries selected, and based on our testing, we identified the following exceptions:

- 8 instances where the amount recorded for the entry did not agree with the support provided or the support did not substantiate the underlying economic transaction;

- 4 instances where the support provided indicated that the entry was not recorded in the proper period;

- 8 instances where management initially recorded the entry incorrectly and did not identify the error immediately; and

- 26 instances where the entry was not recorded in accordance with the USSGL and applicable Federal accounting standards.

The exceptions above were caused by insufficient review by DOL supervisors of journal entries to ensure they were properly prepared and supported before posting to the general ledger. Furthermore, the Office of the Chief Financial Officer (OCFO) had not revised its policies and procedures to address the minimum documentation requirements needed to adequately support journal entries during the first two quarters of FY 2011. In addition, the OCFO did not have monitoring controls in place to ensure that supervisors or individuals other than the preparer were performing adequate reviews of journal entries and related documentation to ensure they were properly supported.

The OCFO updated its policies and procedures related to journal entries in June 2011. As a result, we noted improvements in the preparation and review of journal entries during our third and fourth quarter testing. Specifically, we received adequate supporting documentation for 147 of the 169 journal entries selected from NCFMS for the period April 1, 2011, through August 31, 2011. Adequate supporting documentation was not provided for the remaining 22 items. For the 147 journal entries tested, we identified two instances where the amount recorded for the entry did not agree with the support provided or the support did not substantiate the underlying economic transaction, and two instances where the support provided indicated that the entry was not recorded in proper period. In addition, we identified 23 instances where the journal entry was not recorded in accordance with the USSGL.

Without proper review and approval of transactions, the risk increases that a material error would not be prevented or detected and corrected in a timely manner. In addition, without adequate supporting documentation, management is unable to determine the appropriateness of transactions posted to the general ledger.

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

Furthermore, the Standards state 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."

To address the issues identified above, we recommend the Chief Financial Officer:
a) Provide training on the updated policies and procedures implemented in June 2011 to address the minimum documentation requirements needed to adequately support journal entries, and
b) Develop monitoring controls to ensure that supervisors or individuals other than the preparer are performing sufficient reviews of journal entries and related documentation before the entries are posted to ensure they are adequately supported and are in compliance with the USSGL and Federal accounting standards.

***Management's Response*:** Management generally concurs with the recommendations noted above and will initiate further appropriate corrective actions to address these recommendations. As noted by the auditors, the revised policies and procedures for preparation and review of journal entries implemented in June 2011 improved the quality of the entries. Management will reinforce the policies and procedures and further improve the Department's performance in this area. Although we believe that most of the journal entries were properly supported or the support was available in other DOL files/systems, we will continue to work to improve the supporting documentation for journal vouchers and the review thereof.

Auditors' Response: We will conduct follow-up procedures in FY 2012 to determine whether corrective actions have been developed and implemented.

5. Weaknesses Noted over Payroll Accounting

During FY 2011, DOL used the U.S. Department of Agriculture's (USDA) OCFO/National Finance Center (NFC) to process its payroll. For each pay period, DOL submitted to the NFC payroll information that included all DOL employees for the period, along with their hours worked, leave used and other payroll related information for the period. The NFC processed the payroll for DOL each period and made available for download a payroll register for each DOL Human Resources (HR) office. In prior years, we identified weaknesses in DOL's controls over payroll accounting related to the Payroll/Time and Attendance Reconciliation Reports and the reconciliation between the general ledger and the payroll reports provided by the NFC. We identified similar weaknesses in the payroll accounting controls during our current year audit procedures.

Specifically, we selected 23 Payroll/Time and Attendance Reconciliation Reports from various agencies for the period of October 1, 2010, through April 30, 2011, for testing. For the 23 reports tested, we identified the following exceptions:

- 9 instances where the HR offices did not provide the requested reports,
- 1 instance where the HR offices provided the report but did not provide sufficient documentation to support that the discrepancies identified on it were adequately researched and corrective actions were initiated,
- 2 instances where the HR offices provided reports which did not have evidence that a supervisor and/or HR certifier reviewed the reports, and
- 10 instances where the HR offices did not review the reports in a timely manner.

Because of the aforementioned exceptions, we concluded this control was not operating effectively, and therefore, did not perform additional control testing.

As a result, we noted insufficient evidence existed to determine that the preparation and review of payroll-related items, including time and attendance and gross pay, were completed properly and timely and identified issues were resolved. The OCFO policy and procedures issued in July 2009, requiring the responsible HR official to review the Payroll/Time and Attendance Reconciliation Reports and investigate issues identified, were not adequately enforced by the HR officials' supervisors.

We also determined that the OCFO monitoring control for the Payroll/Time and Attendance Reconciliation Reports was not routinely performed, and therefore, could not be tested. The OCFO's failure to adequately monitor compliance with the July 2009 policy and procedures was partially attributed to the decentralized HR organization within DOL. As a result of the organizational structure, the OCFO had difficulty obtaining the needed documentation to monitor that the Payroll/Time and Attendance Reconciliation Reports were being properly completed, in a timely fashion, and adequately reviewed.

Furthermore, the Payroll/Time and Attendance Reconciliation Reports continued to lack sufficient details, such as employer withholdings, to arrive at an employee's net pay and total benefits expense. These reports were not properly designed to contain the information needed to ensure that errors in all relevant payroll-related items were identified and resolved timely because the OCFO did not sufficiently consider all items that should have been addressed in the reconciliation.

In addition, the monthly reconciliations of the payroll register provided by the NFC and the NFC-prepared SF-224, *Statement of Transactions,* to the general ledger were not prepared and/or performed during the time period of October 2010 through January 2011. Competing priorities reduced the staff time available to perform and maintain effective internal controls over payroll and benefit expense. In February 2011, management began completing the FY 2011 reconciliations, dating back to October 2010. Also, we requested that the OCFO provide us the April, May and June 2011 reconciliations of the payroll registers from the NFC to the payroll expense recorded in the general ledger by July 20, 2011; however, they were not provided until September 15, 2011, and we were not provided evidence that they were completed prior to that time.

The lack of compensating reconciliation controls around the NFC compensation outputs increases the risk that payroll-related line items may be misstated due to errors in payroll processing by the NFC. In addition, DOL's failure to reconcile the NFC payroll registers to the general ledger further increases the risk that a payroll-related misstatement would not be detected by management.

Federal agencies that use external service providers, such as the NFC, should have controls in place to ensure the accuracy of processing outputs. As stated by the USDA Office of Inspector General (OIG) in its FY 2011 Report No. 11401-2-11, "The relative effectiveness and significance of specific controls at NFC and their effect on the assessments of control risk at customer agencies are dependent on their interaction with the controls and other factors present at individual customer agencies."

Office of Management and Budget Circular No. 123, *Management's Responsibility for Internal Control*, states, "Application control should be designed to ensure that transactions are properly authorized and processed accurately and that the data is valid and complete. Controls should be established at an application's interfaces to verify inputs and outputs, such as edit checks."

Additionally, per the Standards, "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."

To address the issues identified above, the Chief Financial Officer should:

a) Design the Payroll/Time and Attendance Reconciliation Reports to reflect the necessary payroll-related information to conduct an adequate reconciliation;

b) Complete periodic monitoring procedures to ensure that the July 2009 policy and procedures are implemented and complied with throughout DOL; and
c) Revise procedures related to the monthly payroll reconciliations to require the preparer and the reviewer to document the preparation and review dates, respectively, and to sign the reconciliations once they have completed their work.

We also recommend that the Director of the Human Resource Center ensure that the OCFO's July 2009 policy and procedures are properly and consistently implemented, by enforcing the requirements that all payroll-related reconciliations are documented, reviewed, and approved by an appropriate supervisor, and maintained.

Management's Response: Management concurs with the recommendations noted above and has initiated appropriate corrective actions to address these recommendations. Effective reconciliation controls, including timely preparation of proper reconciliations and resolution of differences, will enhance quarterly consolidated financial statements and minimize differences between DOL's general ledger and the NFC-processed payroll data. OCFO will improve the design of the Payroll/Time and Attendance Reconciliation Reports and will work with the Director, Human Resource Center, to improve monitoring controls and compliance with procedures to help ensure timely and consistent implementation of reconciliations and reviews agency-wide.

Auditors' Response: We will conduct follow-up procedures in FY 2012 to determine whether corrective actions have been developed and implemented.

1. Federal Financial Management Improvement Act of 1996 (FFMIA)

Under section 803(a) of FFMIA, the U.S. Department of Labor's (DOL) financial management systems are required to substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. DOL represented that in accordance with the provisions and requirements of FFMIA, the Secretary of Labor determined that DOL's financial management systems were substantial compliance with FFMIA as of September 30, 2011.

As a result of our FY 2011 testing, we concluded that DOL did not substantially comply with the requirements of section 803(a) of FFMIA. Specifically, we noted the following:

- Federal financial management systems requirements - Numerous information technology (IT) general and application control weaknesses related to computer security were identified as part of our IT testing in FY 2011. These weaknesses impact the IT environments and systems in several large DOL agencies. In addition, DOL was unable to demonstrate that sufficient corrective actions had been taken to resolve its FY 2010 *Federal Information Security Management Act* significant deficiency. See Material Weakness No. 3 in Exhibit I for further information.

- USSGL at the transaction level - Several material transactions, such as certain borrowing activity ($3 billion), receipts temporarily precluded from obligation ($10 billion), grants payable ($792 million), actuarial liabilities ($12 billion), benefit overpayment receivables ($1.6 billion), and other accruals ($360 million) were not recorded in accordance with the USSGL. See Material Weakness Nos. 1 and 2 in Exhibit I for further information.

We recommend that DOL follow the recommendations provided in Material Weakness Nos. 1, 2, and 3 in Exhibit I, and improve its process to ensure compliance with FFMIA section 803(a) requirements in FY 2012.

The following table provides the FY 2011 status of all recommendations included in the Independent Auditors' Report on the U.S. Department of Labor's FY 2010 Revised Consolidated Financial Statements, Report No. 22-11-015-13-001 (May 23, 2011).

Fiscal Year (FY) 2010 Finding	FY Finding Originated	FY 2010 Recommendations	FY 2011 Status
Internal Control			
1. Lack of Sufficient Controls over Financial Reporting – Material Weakness	2009 (as a Significant Deficiency)	**Recommendation (a):** The Chief Financial Officer (CFO) should ensure that routine reconciliation controls are implemented and performed.	Open (See Exhibit I, comment no. 1)
		Recommendation (b): The CFO should ensure that all necessary financial reports are developed and available to the agencies.	Closed
		Recommendation (c): The CFO should ensure that any remaining interface errors are promptly resolved.	Closed
		Recommendation (d): The CFO should fully document and implement all business processes and controls required for the accurate and timely operation of the New Core Financial Management System (NCFMS).	Open (See Exhibit I, comment no. 1)
		Recommendation (e): The CFO should promptly resolve the classification issues related to intragovernmental balances.	Closed
		Recommendation (f): The CFO should develop and implement policies and procedures to monitor the work of Office of the CFO (OCFO) contractors, including the designation of appropriately skilled and knowledgeable individuals from the OCFO to monitor each accounting process that is primarily performed by an OCFO contractor, to ensure the work is being properly performed.	Partially Open and Revised to Control Deficiency
		Recommendation (g): The CFO should ensure that someone other than the preparer is properly reviewing the grant accrual calculation and the Unemployment Trust Fund (UTF) accounts receivable journal entry prior to recording them in the general ledger.	Closed
		Recommendation (h): The CFO should review significant transactions for U.S. Standard General Ledger compliance and make any necessary corrections.	Open (See Exhibit I, comment no. 1)
		Recommendation (i): The CFO should review its Federal Managers' Financial Integrity Act (FMFIA) assessment process and implement enhancements to better identify material weaknesses in internal control and more timely complete its draft FMFIA assurance statement.	Open and Revised to Control Deficiency
		Recommendation (j): The CFO should ensure that the draft U. S. Department of Labor (DOL) Manual Series (DLMS) policies and procedures requiring detailed review of all financial information in the draft financial statements are comprehensive and finalized and that OCFO personnel	Open (See Exhibit I, comment no. 1)

Fiscal Year (FY) 2010 Finding	FY Finding Originated	FY 2010 Recommendations	FY 2011 Status
		adhere to these policies. Financial statement review should include procedures for comparing financial data reported on the different statements to ensure accuracy and consistency; agreeing the financial data to the general ledger to ensure existence, completeness, and accuracy of financial data reported; and analyzing significant variances between current period and prior period financial information.	
2. Lack of Sufficient Controls over Budgetary Accounting – Material Weakness	2009 (as a Significant Deficiency)	**Recommendation (a):** The CFO should ensure that policies and procedures over the *Apportionment and Reapportionment Schedules* (SF-132) and *Report on Budget Execution and Budgetary Resources* (SF-133) reconciliations are enhanced to address the minimum documentation requirements needed to substantiate that identified differences were properly researched and resolved.	Open (See Exhibit I, comment no. 2)
		Recommendation (b): The CFO should ensure that individuals performing supervisory reviews are required to check the reconciliations for appropriate supporting documentation.	Open (See Exhibit I, comment no. 2)
		Recommendation (c): The CFO should ensure that adequate resources are in place to complete all necessary reconciliations timely and to maintain adequate internal controls over financial reporting, both while NCFMS implementation issues are being resolved and for all periods thereafter.	Open (See Exhibit I, comment no. 2)
		Recommendation (d): The CFO should ensure that procedures are implemented to periodically obtain and review the results of the agencies' review of their unliquidated obligations and ensure expired and invalid undelivered orders are deobligated timely in the general ledger either by the agency or OCFO.	Closed
		Recommendation (e): The CFO should ensure that appropriate corrective actions are performed to ensure that the identifying information and balances for obligations are correct, and that the posting logic in NCFMS is properly configured.	Closed
		Recommendation (f): The CFO should ensure that preparers of budgetary entries are properly trained and possess the technical accounting proficiencies needed to properly record the entries.	Closed
		Recommendation (g): The CFO should ensure that one agency is responsible for recording both the budgetary and proprietary journal entries for economic events, or if separate agencies continue to record the entries, that those agencies are appropriately coordinating.	Open (See Exhibit I, comment no. 2)
		Recommendation (h): The CFO should ensure that	Closed

Fiscal Year (FY) 2010 Finding	FY Finding Originated	FY 2010 Recommendations	FY 2011 Status
		procedures are developed and implemented for multi-year and no-year funds to ensure that post-closing entries for unobligated balances are properly recorded at year end, and reapportionments are promptly recorded to the general ledger in the subsequent year.	
3. Improvements Needed in the Preparation and Review of Journal Entries – Material Weakness	2006 (as a Reportable Condition[2])	**Recommendation (a):** The CFO should evaluate the system errors that are preventing certain journal entries from being routed to the approver, and develop and implement appropriate corrective action.	Closed
		Recommendation (b): The CFO should enhance policies and procedures and provide related training to address the minimum documentation requirements needed to sufficiently support journal entries.	Partially Open (See Exhibit II, comment no. 4)
		Recommendation (c): The CFO should develop monitoring controls to ensure that supervisors or individuals other than the preparer are performing adequate reviews of journal entries and related documentation before the entries are posted to ensure they are properly supported.	Open (See Exhibit II, comment no. 4)
4. Lack of Adequate Controls over Access to Key Financial and Support Systems – Material Weakness	2001 (as a Reportable Condition[2])	**Recommendation (a):** The Chief Information Officer (CIO) should coordinate efforts among the DOL agencies to develop procedures and controls to address access control weaknesses in current financial management systems.	Open (See Exhibit I, comment no. 3)
		Recommendation (b): The CIO should monitor the agencies' progress to ensure that procedures and controls are appropriately implemented and maintained.	Open (See Exhibit I, comment no. 3)
		Recommendation (c): The CIO should ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address access control weaknesses.	Open (See Exhibit I, comment no. 3)
5. Weakness Noted over Payroll Accounting – Significant Deficiency	2006 (as a Reportable Condition[2])	**Recommendation (a):** The CFO should ensure that the Payroll/Time and Attendance Reconciliation Reports are properly designed to reflect the necessary payroll-related information to conduct an adequate reconciliation.	Open (See Exhibit II, comment no. 5)
		Recommendation (b): The CFO should ensure that proper monitoring is routinely completed by the OCFO to ensure that the July 2009 policy and procedures are implemented and complied with throughout DOL.	Open (See Exhibit II, comment no. 5)
		Recommendation (c): The Director of the Human	Open (See

[2] The term "reportable condition" was used through FY 2006 in accordance with Statement on Auditing Standards (SAS) No. 60. However, the term "reportable condition" was discontinued in FY 2007 as a result of the implementation of SAS No. 112 and replaced with the term "significant deficiency," which had a revised definition.

Fiscal Year (FY) 2010 Finding	FY Finding Originated	FY 2010 Recommendations	FY 2011 Status
		Resource Center should ensure that the OCFO July 2009 policy and procedures are properly and consistently implemented, by enforcing the requirements that all payroll-related reconciliations are documented, reviewed, and approved by an appropriate supervisor, and maintained.	Exhibit II, comment no. 5)
6. Untimely and Inaccurate Processing of Property, Plant, and Equipment (PP&E) Transactions – Significant Deficiency	2010 (as a Significant Deficiency)	**Recommendation (a):** The CFO should dedicate the appropriate resources to implement the documented process for identifying and recording PP&E additions and deletions in NCFMS to ensure that these transactions are accurately and timely recorded.	Partially Open and Revised to Control Deficiency
		Recommendation (b): The CFO should configure NCFMS to accurately calculate both accumulated depreciation balances and current year depreciation expense amounts.	Open and Revised to Control Deficiency
Compliance			
1. Federal Managers' Financial Integrity Act of 1982 (FMFIA)	2010 (as Non-compliance	We recommend that DOL follow the recommendation provided in Material Weakness No. 1 and improve its process to ensure compliance with the requirements of FMFIA in FY 2011	Open and Revised to Control Deficiency
2. Federal Financial Management Improvement Act of 1996	2010 (as Non-compliance	We recommend that DOL follow the recommendations provided in Material Weakness Nos. 1, 2, 3 and 4 and improve its processes to ensure compliance with FFMIA section 803(a) requirements in FY 2011.	Open (See Exhibit III)