U.S. Department of Labor
Office of Inspector General—Office of Audit

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MANAGEMENT ADVISORY COMMENTS IDENTIFIED IN AN AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

Elliot P. Lewis

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

Date Issued: **June 4, 2013**
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Executive Summary

KPMG LLP (KPMG), under contract to the United States Department of Labor (DOL or the Department) Office of Inspector General (OIG), audited the DOL's consolidated financial statements as of and for the year ended September 30, 2012. The audit was conducted in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The objective of the audit was to express an opinion on the fair presentation of DOL's consolidated financial statements. Additionally, other objectives included expressing an opinion on DOL's compliance with requirements of Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (Public Law 104-278), based on an examination.

In planning and performing the audit, DOL's internal control over financial reporting and DOL's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the fiscal year (FY) 2012 consolidated financial statements were considered in order to determine auditing procedures for the purpose of expressing an opinion on the consolidated financial statements. The objective of the audit was not to provide assurance on DOL's internal control over financial reporting or on compliance with laws, regulations, contracts, and grant agreements; accordingly, such opinions were not provided. However, certain matters were noted involving internal control and its operation that were considered to be significant deficiencies. In addition, certain other matters were noted that were considered to be management advisory comments.

This report was prepared to provide information to management that could assist in the development of corrective actions for the management advisory comments identified in the audit. Separate reports were issued by the OIG to each applicable Agency Head with comments pertaining to the testing procedures performed over the Department's general and application controls related to certain information technology (IT) systems that support the consolidated financial statements.

Details of the significant deficiencies listed below have been included in the Independent Auditors' Report found in DOL's *FY 2012 Agency Financial Report*.

<u>Significant Deficiencies</u>

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

2. Lack of Sufficient Controls over Grants

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

Management Advisory Comments

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

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

November 16, 2012

Mr. Elliot P. Lewis, Assistant Inspector General for Audit
Mr. James L. Taylor, Chief Financial Officer
U.S. Department of Labor
Washington, D.C. 20210

Mr. Lewis and Mr. Taylor:

We have audited the consolidated financial statements of the United States Department of Labor (DOL) for the fiscal year (FY) ended September 30, 2012, and have issued our report thereon dated November 16, 2012. In planning and performing our audit of the consolidated financial statements of DOL, in accordance with auditing standards generally accepted in the United States of America, we considered DOL's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control. We have not considered internal control since the date of our report.

During our audit, we noted certain matters involving internal control and other operational matters that do not relate to information technology (IT) and are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management and have been communicated through the issued Notifications of Findings and Recommendations, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I. These comments are in addition to the significant deficiencies presented in our *Independent Auditors' Report*, dated November 16, 2012, included in DOL's *FY 2012 Agency Financial Report*. We summarized the status of all prior year comments in Exhibit II. Comments involving internal control and other operational matters noted that relate to IT will be presented in separate letters from the DOL Office of Inspector General (OIG) to the appropriate Agency Heads.

KPMG

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

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

DOL's response to the comments identified in this report is presented in Exhibit I. We did not audit DOL's response and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of DOL's management and the DOL OIG, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Comments and Recommendations

1. Unsupported and/or Incorrect Expenses

We selected 343 non-benefit, non-payroll expense transactions recorded in the New Core Financial Management System (NCFMS) for the year ended September 30, 2012, for testing. Based on our procedures, we identified the following errors:

- 15 transactions were recorded in the improper period;
- 12 transactions did not have sufficient supporting documentation; and
- 1 transaction was incorrectly recorded twice.

The expenses and reversals recorded in the improper period were primarily because of management correcting errors related to prior years. Management recorded these adjustments as current year expenses instead of adjusting beginning balances because they determined the expenses were immaterial; however, management did not document this assessment. In addition, the recording of incorrect or unsupported expense transactions was caused by insufficient review of related documentation to ensure the amounts were correct and the transactions were supported before posting them to the general ledger.

The 28 errors identified above resulted in a $27.1 million known net misstatement of total non-benefit, non-payroll expenses as of September 30, 2012. Based on our sample results, we projected a most likely overstatement of $189.3 million, with 86 percent confidence that the errors ranged from an overstatement of $88 thousand to an overstatement of $378.5 million.

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (Standards) states:

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

In addition, the Standards also states:

> Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the

initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

Recommendations

We recommend the Chief Financial Officer:

1. Develop and implement monitoring controls to ensure that individuals are performing sufficient reviews of expenses and related documentation before expenses are posted to ensure they are adequately supported; and
2. Develop and implement a process to identify and accumulate prior period errors that management determined to be immaterial and corrected through the current year activity. Management's materiality assessment should be documented.

Management's Response

OCFO management believes that it has sufficient expense oversight and monitoring procedures in place and proper documentation requirements. Management periodically reviews existing procedures for reviews of expenses and related documentation to ensure they are adequately supported. Management will emphasize these procedures as needed.

In the normal course of business there are adjustments to amounts recorded or that should have been recorded in a prior period. However, those amounts in fiscal year (FY) 2012 were clearly not material. Management does review for significant transactions that relate to prior periods or those that need to be reported to Treasury.

Management will review this process to determine if it should be formalized including materiality thresholds. The review will be completed and procedures changed if required.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

2. Insufficient Supporting Documentation for Certain Undelivered Orders (UDO)

During the FY 2012 substantive test work over UDOs, we selected 237 UDO-related document IDs recorded in NCFMS as of June 30, 2012, for testing. Based on our procedures, we identified 28 errors that resulted in a known understatement of UDOs in the amount of $16.9 million. In summary, we identified the following:

- 19 UDOs did not have sufficient supporting documentation;
- 7 UDOs had periods of performance that expired and should have been deobligated as of June 30, 2012; and
- 2 UDOs were invalid as the related funds had been cancelled.

In addition, we selected 230 transactions from the UDO activity for the period July 1 through September 30, 2012, for testing. Our procedures identified 8 errors related to UDO activity with insufficient supporting documentation, which resulted in a known understatement in the amount of $5.6 million.

As of September 30, 2012, the above errors resulted in a $22.4 million total known net misstatement of UDO balances. Based on our sample results, we projected a most likely overstatement of $114.8 million, with 86 percent confidence that the errors ranged between an overstatement of $451 million and an understatement of $221.4 million.

We also selected a statistical sample of three UDO balances reported in NCFMS as of September 30, 2012, that had no activity during the fourth quarter for testing. In the sample, we identified one invalid UDO related to the Office of Job Corps, which was a duplicate entry in NCFMS that had not been corrected as of September 30, 2012. This error resulted in a known overstatement of $1.3 million. Based on our sample results, we projected a most likely overstatement of $314.1 million, with 86 percent confidence that the errors ranged between an overstatement $769.1 million and an understatement of $140.9 million.

The existence of unsupported UDO balances and activity was caused by insufficient review of related documentation to ensure the amounts were correct and the transactions were supported before posting the transactions to the general ledger.
The invalid UDOs were a result of insufficient monitoring controls to ensure that these balances were properly and timely deobligated. Furthermore, the duplicate entry occurred because of an error during the general ledger migration to NCFMS in FY 2010 in which the document type was initially incorrect upon migration; a second entry was subsequently recorded in NCFMS with the correct document type without reversing the original entry.

U.S. Code (USC) Title 31 (31 USC), 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.

In addition, 31 USC, 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.

GAO's Standards states:

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

The Standards also states:

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

Recommendations

Given the pervasive nature of the exceptions identified, we again recommend the Chief Financial Officer work with other Department of Labor (DOL) agencies to provide training to address:

1. The minimum procedures that should be performed to complete an adequate supervisory review of transactions prior to entry in the general ledger;
2. The minimum procedures that should be performed to monitor obligation balances for validity; and
3. The minimum documentation requirements needed to sufficiently support recorded transactions.

In addition, the Chief Financial Officer should perform of an analysis of UDOs to identify remaining errors that resulted from the migration to NCFMS, and make corrections as necessary.

Management's Response

OCFO will continue to work with DOL agencies to ensure that: 1) supervisory reviews of transactions are completed; 2) documentation needed to support recorded transactions is maintained; and 3) procedures to monitor obligation balances are performed. OCFO will continue to provide technical assistance and training to DOL agencies as needed.

In FY 2013, OCFO and DOL agencies will continue to research and resolve migrated balances until the remaining balances are considered not to be significant to warrant further work.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

3. <u>Insufficient Monitoring of UDOs</u>

The Office of the Chief Financial Officer's (OCFO) Division of Financial Reporting (DFR) performs its monitoring of UDOs on a monthly basis. As a result, we selected the month of January 2012 to test the design and implementation of this control; however, we noted that the OCFO-DFR did not provide the unliquidated obligations report representing UDOs open as of December 31, 2011, to the responsible agencies to determine whether any UDO balances needed to be deobligated.

This situation was primarily caused by the fact that the December 2011 monitoring of UDOs was not completed timely. As such, the OCFO-DFR decided to bypass its January 2012 monitoring, as the timeline to commence the monitoring control for February 2012 was approaching. Additionally, the OCFO did not have formal policies and procedures in place requiring OCFO-DFR to perform a monthly monitoring control over UDOs, and management indicated that it was ultimately the agencies' responsibility to review their obligations. Without effective controls to monitor the status of UDOs and deobligate remaining funds timely, UDOs may be overstated.

31 USC, Section 1501, 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.

In addition, 31 USC, Section 1554, 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.

GAO's Standards states:

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

Also, Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, states:

> Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Management shall consistently apply the internal control standards to meet each of the internal control objectives and to assess internal control effectiveness.

Recommendations

We recommend the Chief Financial Officer develop and implement formal policies and procedures to:

1. Periodically obtain and review the results of the agencies' review of their UDOs, and
2. Confirm that agencies have deobligated expired and invalid UDOs timely in the general ledger or deobligate them on the agencies' behalf.

Management's Response

OCFO management believes that it has sufficient UDO oversight and monitoring procedures in place and will continue to periodically obtain and review the results of the agencies' review of their unliquidated obligations, as well as continue with ongoing efforts to confirm and ensure the deobligation of expired and invalid UDOs timely in the general ledger.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

4. <u>Unsupported Non-federal Accounts Payable</u>

During our FY 2012 audit procedures over non-federal accounts payable, we selected a statistical sample of three items with credit balances for testing and determined that two of the items dated back to FY 2009 and were not supported by documentation. These two errors resulted in a known overstatement of $38,654 as of September 30, 2012. Based on our sample results, we projected a most likely overstatement of approximately $377.4 million, with 86 percent confidence that the errors ranged from an overstatement of $105.2 million to an overstatement of $649.7 million.

In addition, during our review of the NCFMS transaction detail for non-federal accounts payable, we identified abnormal debit balances (i.e., understatements) totaling $256.8 million.

The errors noted above date back to the implementation of NCFMS in FY 2010, and the OCFO had not performed a comprehensive analysis over non-federal accounts payable balance to identify all unsupported transactions and record a correcting journal entry. The OCFO determined that the non-federal accounts payable balance was not material to the financial statements as a whole and therefore did not perform such an analysis because of competing priorities.

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.

GAO's Standards states:

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

Recommendation

We recommend the Chief Financial Officer perform a comprehensive analysis over non-federal accounts payable to identify transactions that are not supported and record correcting entries both in the subsidiary ledger and the general ledger, as appropriate.

Management's Response

Management will complete a review of significant account balances and make adjustments as needed. ETA completed a significant portion of their review in FY 2012. This review will be completed in August 2013.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

5. Unsupported Cost Allocation Percentages

During audit procedures over DOL's financial reporting process for FY 2012, DOL did not provide evidence to support the basis of the following cost allocations:

- Certain expenses that were deemed agency specific for the Employment and Training Administration (ETA) and Veterans' Employment and Training Service (VETS) among multiple programs on the Statement of Net Cost (SNC), and
- Certain program administration and salary expense amounts, such as legal services, information technology (IT) support, executive direction, administration and management, and federal contract compliance, that were cross-cutting in nature to multiple programs on the SNC and multiple agencies within Note 15, Consolidated Statement of Net Cost by Major Program Agency, to the consolidated financial statements.

OCFO personnel utilized allocation percentages that were developed in prior years, but they were unable to locate the support behind such percentages. Additionally, OCFO personnel did not perform a current year analysis to determine whether prior year percentages continued to be appropriate.

Without proper evidence to support various cost allocations among programs and agencies, DOL may misstate the presentation of the SNC and the disclosure in Note 15.

Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting*, Paragraph 91(b), states:

> Costs of support services that a responsibility segment receives from other segments or entities. The support costs should be first directly traced or assigned to various segments that receive the support services. They should then be assigned to outputs.

SFFAS No. 4, Paragraph 122, states:

> Some responsibility segments of an entity may provide supporting services or deliver intermediate products to other segments within the same entity. The costs of the supporting services and intermediate products should be assigned to the segments that receive the services and products.

Additionally, SFFAS No. 4, Paragraph 134, states:

> These supporting costs can be allocated to segments and outputs on a prorated basis. The cost allocations may involve two steps. The first step allocates the costs of support services to segments, and the second step allocates those costs to the outputs of each segment.

OMB Circular No. A-136, *Financial Reporting Requirements*, Section II.4.4.1, states:

> The SNC should show the reporting entity's net cost of operations, as a whole, by the major programs related to the major goal(s) and output(s) described in the entity's strategic and performance plans…. The program structure should report full costs and related exchange revenue for each program as defined by the entity.

Finally, GAO's Standards states:

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

Recommendations

We recommend the Chief Financial Officer enhance policies and procedures to require:

1. The performance of an annual analysis of cost allocations among programs and agencies; and
2. The maintenance of documentation supporting this analysis and related revisions made, if necessary, to the cost allocation methodology.

Management's Response

OCFO will perform a review to determine if an update to the allocation percentages is needed and prepare supporting documentation of the percentages and the related cost allocation methodology to be utilized. This work should be completed by July 31, 2013.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

6. Insufficient Controls over Certain Budgetary Transactions

We selected a sample of 26 budgetary and proprietary transactions related to appropriations that were recorded in NCFMS as of June 30, 2012, for testing. The Departmental Budget Center (DBC) was responsible for processing the budgetary entries and the OCFO was responsible for processing the proprietary entries for these transactions. Based on our procedures, we determined the following:

- Both the budgetary and proprietary entries for 11 of the 26 transactions tested were prepared and approved by the same individual through the NCFMS budget module.
- The proprietary entries for 10 of the 26 transactions tested were prepared and approved by the same individual through the NCFMS budget module.

The OCFO and DBC utilized DOL's shared service provider to process 19 of the 21 exceptions noted above as batches through the NCFMS budget module because of the significant number of underlying transactions. DOL did not have policies and procedures in place that required batch transactions processed by the shared service provider to be approved in NCFMS by a separate individual to evidence that the transactions were recorded appropriately.

In addition, 2 of the 21 exceptions were prepared and approved by the same OCFO employee because the individual's privileges in NCFMS were not configured correctly.

The individual's NCFMS privileges were subsequently corrected after this matter was brought to management's attention.

Without the proper independent review of budget transactions and proper segregation of duties, the risk increases that a material error would not be prevented or detected and corrected in a timely manner.

GAO's Standards states:

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

Recommendations

We recommend the Chief Financial Officer:

1. Develop and implement policies and procedures requiring batch transactions processed by the shared service provider to be approved in NCFMS by a separate individual to ensure the transactions were properly posted; and
2. Periodically review the privileges of NCFMS approvers to ensure their privileges are configured appropriately.

Management's Response

Management believes that the current procedures are appropriate, but will review such procedures as recommended by the auditors. This should be completed by June 30, 2013. Approval privileges are reviewed annually through the recertification process.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

7. <u>Insufficient Review of the Budgetary to Proprietary Reconciliation</u>

During our test work performed over the FY 2012 quarterly budgetary to proprietary reconciliations, we selected two quarters to determine whether the reconciliations were performed timely and material differences were properly explained and documented. In the reconciliation performed as of September 30, 2012, we identified material variances totaling approximately $458 million related to various funds in Tie-Point 19 – Net Position Analysis Unexpended Appropriation which had not been properly explained and documented. The OCFO did not document the explanations for the Tie-Point 19 material variances because management believed they were addressed in other Tie-Point explanations.

If material variances in the budgetary to proprietary reconciliations are not properly explained and documented, errors may not be detected and corrected in a timely manner, causing misstatements in budgetary accounts and imbalances in budgetary to proprietary relationships.

GAO's Standards states:

> Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance 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.

It addition, the Standards states:

> Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:
>
> - Effectiveness and efficiency of operations including the use of the entity's resources.
> - Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use.
> - Compliance with applicable laws and regulations.

Recommendation

We recommend the Chief Financial Officer update the budgetary to proprietary reconciliation procedures to require that explanations for all material Tie-Point material variances be documented.

Management's Response

Management agrees with the recommendation and will update the procedures to require that explanations for all material Tie-Point variances be documented. The reason there was no specific documentation in Tie Point (TP) 19 is that TP 19 is a comprehensive TP that encompasses differences related to other TPs. TP 2 (Budgetary

Cash to Proprietary Cash), TP 5 (Advances to UDO Prepaid) and TP 17 (Proprietary Appropriations Received to Budgetary Appropriations Received) account for almost all of the United States Standard General Ledger (USSGL) accounts used in TP 19. The $458 million is primarily driven by the $546 million difference between two funds (direct and reimbursable) within Treasury Appropriation Fund (TAF) 16X1521. This difference was identified in TP 2 analysis at the fund level (which encompasses USSGL accounts included in TP 19; direct funds only). Although the difference appears in TP 19 at the TAF level, this difference does not have any Financial Statement impact.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

8. <u>Non-Compliance with the United States Standard General Ledger (USSGL) at the Transactional Level</u>

During FY 2012, OCFO personnel recorded certain journal entries to correct the misclassified amounts identified in the prior year to their proper USSGL accounts in the general ledger. In addition, they implemented policies and procedures to record certain of these transactions properly in the current year. They also reviewed certain significant transactions for USSGL compliance and made corrections as necessary. However, during test work over significant process areas, we identified the following instances of non-compliance with the USSGL related to transactions greater than $50 million:

- An increase of $616 million in Unemployment Trust Fund (UTF) overpayment receivables was incorrectly recorded in the general ledger with a credit to Benefit Expense (account 6400) instead of Other Expenses Not Requiring Budgetary Resources (account 6790). DOL had not corrected this error as of September 30, 2012.
- An expenditure transfers payable (account 2155) in the UTF in the amount of $235 million was incorrectly recorded in the general ledger as Other Liabilities with Related Budgetary Obligations (account 2190) as of December 31, 2011. This error was subsequently corrected prior to September 30, 2012.
- Based on testing a sample of 26 appropriation transactions, we determined that the proprietary entries were not posted simultaneously with the corresponding budgetary entries for 18 of the 26 transactions selected. On average, the entries we identified were recorded approximately 20 days apart; however, we identified 3 transactions that were recorded 50 days or more apart.

Regarding the first two issues above, DOL management carried forward certain incorrect procedures from its legacy general ledger system to its new general ledger system, and while management acknowledges that changes are required, competing priorities prevented the completion of all necessary corrections of misclassified amounts during FY 2012.

The budgetary and proprietary appropriation entries were not recorded simultaneously because they were recorded by two separate agencies. The DBC recorded the budgetary appropriation when the approved Apportionment Schedule was received, and the OCFO recorded the proprietary entry once the Appropriation Warrant was processed by the U.S. Department of the Treasury (Treasury).

As such, DOL was not fully compliant with the USSGL at the transactional level, as required by the *Federal Financial Management Improvement Act of 1996* (FFMIA). In addition, not recording the proprietary and budgetary entries simultaneously to recognize appropriations received could result in (a) potential abnormal balances in Fund Balance with Treasury (FBWT) upon disbursements for current year annual and multi-year funds and (b) imbalances in budgetary/proprietary relationships.

Public Law 104–208, Section 803(a), *Implementation of Federal Financial Management Improvements*, states:

> Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level.

Furthermore, OMB Circular No. A-127, *Financial Management Systems*, Section 8.C(3), states:

> Financial events shall be recorded applying the requirements of the USSGL. Application of the USSGL at the transaction level means that each time an approved transaction is recorded in the system, it will generate appropriate general ledger accounts for posting the transaction according to the rules defined in the USSGL guidance.

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*, Paragraph 71, states:

> Appropriations, until used, are not a financing source. They should be recognized in capital as "unexpended appropriations" (and among assets as "funds with Treasury") when made available for apportionment, even if a Treasury Warrant has not yet been received, or the amount has not been fully apportioned.

Furthermore, GAO's Standards states:

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

Recommendations

We recommend the Chief Financial Officer:

1. Record journal entries to correct the misclassified amounts identified above to their proper USSGL accounts in the general ledger;
2. Develop and implement procedures to properly record these transactions in the future; and
3. Assign one agency to 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 require those agencies to coordinate appropriately to ensure almost simultaneous recording.

Management's Response

Re: Unemployment Trust Fund overpayment receivables

DOL concurs and will use SGL 6790 to record UTF benefit overpayments. Use of SGL 6400 had no effect on the financial statement classifications.

Re: expenditure transfers payable in the UTF

DOL concurs. This transaction was corrected in the second quarter of FY 2012.

The timing difference between the recording of the appropriation and recording the warrant is due to established departmental procedures and not due to the fact that it is recorded by two different offices. The enactment of the appropriation is recorded when the Apportionment Schedule is received. The recording of the warrant is delayed until the actual warrant is processed by Treasury.

We will reach out to Treasury to get their perspective/guidance as to how transactions, where the warrant is received after the apportionment, should be recorded. Recording the warrant prior to receipt would create differences with Treasury which we want to avoid since it would cause problems in submitting the FACTS II report. For FACTS II we would need to reverse the entry that recorded the warrant. This review should be completed by June 30, 2013.

Auditors' Response

Management indicated that actions have or will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

9. Deficiencies Noted in the Preparation of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) Draft Assurance Statement

During FY 2012, we noted certain improvements in DOL's FMFIA process. For example, the draft of the FY 2012 FMFIA assurance statement was provided to us approximately 15 days earlier than in FY 2011. Also, the FY 2012 financial management quarterly certifications, which serve as management's assurance to the Secretary that DOL was in compliance with FMFIA and FFMIA, were timely prepared and submitted to the OCFO by the agency head, administrative officer, and financial officer of each DOL agency.

However, we continued to identify certain deficiencies in the FMFIA process. Specifically:

- The final FMFIA assurance statement was unqualified with no significant deficiencies. This assessment was significantly different from our audit results, which included three significant deficiencies related to grants management, journal entries, and key financial and support systems. DOL's internal control assessment was as of June 30, 2012, in contrast to the financial statement audit, which assessed internal controls for the entire year. This timing difference could lead to discrepancies in severity determinations. However, management has a history of disagreement with independent evaluations of its internal controls, as evidenced by the persistent nature of certain independent findings, including:

    - Lack of Adequate Controls over Access to Key Financial and Support Systems (reported since FY 2001)
    - Weaknesses over Journal Vouchers (reported since FY 2006)

  Additionally, management's FY 2012 IT testing was limited to a consideration of deficiencies reported in all Statement on Standards for Attestation Engagements (SSAE) No. 16 reports relevant to DOL that were performed by third parties, and internal testing of prior year internally-identified deficiencies that were identified as remediated.

- Although the OCFO improved its documentation of the final internal control assessments and related rationale, the OCFO did not timely deliver the FY 2012

Summary of Aggregated Deficiencies (SAD), which was used to track and assess DOL's internally-identified control weaknesses, significant deficiencies, and material weaknesses, as applicable. We requested that the OCFO deliver the SAD on October 10, 2012; however, the OCFO delivered the SAD related to financial deficiencies on October 17, 2012, and the SAD related to IT deficiencies on October 19, 2012.

- While the draft assurance statement was provided more timely in the current year than in the prior year, it was still provided one day after the agreed-upon due date.

The conditions above related to timeliness occurred because the internal deadlines established by the OCFO did not require the internal control assessment team to submit the draft assurance statement and SAD earlier than October 16, 2012, even though the internal controls assessment was performed as of June 30.

As a result of the aforementioned issues, DOL's FMFIA assessment process may not be operating at a sufficiently detailed level to identify, evaluate, correct, and report all significant deficiencies and material weaknesses, which could result in non-compliance with the FMFIA. Furthermore, the issues related to timeliness could result in delays in the year-end financial statement audit and reporting process.

FMFIA, Paragraph 3, states:

> …By December 31 of each succeeding year, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement – that the agency's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1)…

Per OMB Circular No. A-123, Section IV.A:

> Sources of information include:…Audits of financial statements conducted pursuant to the Chief Financial Officers Act, as amended, including: information revealed in preparing the financial statements; the auditor's reports on the financial statements, internal controls, and compliance with laws and regulations; and any other material prepared relating to the statements….Reviews of systems and applications conducted pursuant to the Computer Security Act of 1987.

OMB Circular No. A-123, Section IV.A, also states:

> Agency managers and employees should identify deficiencies in management controls from the sources of information described above. A deficiency should be reported if it is or should be of interest to the next

> level of management. Agency employees and managers generally report deficiencies to the next supervisory level, which allows the chain of command structure to determine the relative importance of each deficiency.

Department of Labor Manual Series 6, Chapter 112, Section B14, *Financial Management Responsibilities*, states:

> …The CFO is responsible for preparing accurate and timely reports, including financial statements with performance measures, and reports prescribed under the Federal Managers' Financial Integrity Act, the CFOA, and Amendments to the Inspector General Act.

Recommendations

We recommend the Chief Financial Officer:

1. Enhance documentation of DOL's final internal control assessment and related rationale;
2. Enhance documentation of DOL's consideration of relevant external audit results;
3. Enhance the FMFIA process to include additional testing of controls for DOL IT systems not covered by SSAE No. 16 reports to ensure all significant deficiencies and material weaknesses are identified; and
4. Revise the OCFO internal financial reporting timeline to include a separate deliverable for a preliminary draft FMFIA assurance statement and SADs due annually in September.

Management's Response

Management believes the FMFIA Assurance Statement preparation process was thorough and timely and in accordance with FMFIA and external reporting requirements.

The fact that DOL and the auditors did not agree on the significance of the deficiencies does not represent a weakness in the preparation of the FMFIA Assurance Statement.

Management will consider the auditors recommendations in performing the assessment in FY 2013 and attempt to move up the completion date of the work.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

10. Weaknesses Identified in the Review of Payroll Suspense Reports

We tested the resolution process for personnel and payroll actions that were requested by DOL but were not processed by the U.S. Department of Agriculture's National Finance Center (NFC), DOL's third-party payroll service provider. Such items are summarized in a suspense report each pay period for each Human Resources (HR) office. We selected a sample of 15 payroll suspense reports during the period October 1, 2011, through June 30, 2012, and identified the following weaknesses in the review of payroll suspense reports:

- 4 instances where corrective actions on identified errors were not completed in a timely manner (i.e., by the second pay period after initial identification), and
- 1 instance where the HR office did not have sufficient and appropriate documentation to support that errors were adequately researched and corrective actions were initiated and completed in a timely manner.

Additionally, none of the FY 2011 recommendations related to payroll suspense reports were implemented as of September 30, 2012.

These exceptions occurred because the Office of the Assistant Secretary for Administration and Management's (OASAM) *Standard Operating Procedure Guidelines for HR Payroll Suspense Process* did not specifically state the minimum documentation requirements for the review of suspense reports and the clearing of items listed on the suspense reports.

Furthermore, OASAM's failure to adequately monitor compliance with the *Standard Operating Procedure Guidelines for HR Payroll Suspense Process* was partially attributed to the decentralized HR organization within DOL. As a result of the organizational structure, OASAM had difficulty obtaining the needed documentation to monitor that suspense reports were being properly researched and resolved in a timely manner, and adequately reviewed.

These conditions increase the risk that the suspense reports are not reviewed daily and related errors are not appropriately corrected in a timely manner, which may result in misstatements in payroll-related accounts.

GAO's Standards states:

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

In addition, OASAM's *Standard Operating Procedures Guidelines for HR Payroll Suspense Process* states:

> Each day the HR specialist will work actions in the PeoplePower application. If actions fail, the status will be Suspense; the actions should be reviewed and researched to determine the appropriate correction/change necessary to allow the action to pass the edits.

Recommendations

We recommend the Assistant Secretary for Administration and Management update the *Standard Operating Procedures Guidelines for the HR Payroll Suspense Process* to include: (a) minimum documentation requirements to support the review of suspense reports and the clearing of items listed on the suspense reports, and (b) requirements related to the time period and method of retention of such documentation.

We also recommend the Director of Human Resources, Human Resource Center, OASAM, monitor compliance with the *Standard Operating Procedures Guidelines for the HR Payroll Suspense Process*.

Management's Response

OASAM updated the Standard Operating Procedures (SOP) Guidelines for the HR Suspense Process to include minimum documentation requirements to support the review of suspense reports and the clearing of items listed on the suspense reports and also include requirements related to the time period and method of retention of such documentation and posted the SOP on LaborNet.

The Director of Human Resources, Human Resource Center, OASAM, will monitor compliance with the Standard Operating Procedures Guidelines for the HR Suspense Process.

Auditors' Response

Management indicated that actions have and will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

11. Improvements Needed over the Review and Reconciliation of Payroll-related Information Provided by the NFC

Based on our testing of a sample of 27 Payroll/Time and Attendance Reconciliation Reports (Reconciliation Reports) for pay cycles during the period October 1, 2011, through March 31, 2012, we noted the following deficiencies:

- 22 Reconciliation Reports were not evidenced as being prepared timely (i.e., bi-weekly). Four were evidenced as prepared between 30 and 60 days after the end of the pay period, and 18 were evidenced as prepared greater than 60 days after the end of the pay period. Of these 22 Reconciliation Reports, 13 were evidenced as prepared after the audit request date.
- One Reconciliation Report review certification form did not indicate evidence of supervisor review.

These exceptions occurred because the OCFO policy and procedures issued in July 2009, requiring the responsible HR official to review the Reconciliation Reports and investigate issues identified, were not adequately enforced by the supervisors of those HR officials. In addition, for one of our sample items, the HR official failed to gain the necessary supervisory signature on the reconciliation, which was an oversight.

Additionally, we determined that the OCFO did not routinely perform a monitoring control related to Reconciliation Reports during FY 2012; therefore, we were unable to test it. This 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 Reconciliation Reports were properly completed, in a timely manner, and adequately reviewed. On April 24, 2012, the OASAM Human Resource Center (HRC) issued Internal Control Directive (ICD) No. HRC-3 (ICD HRC-3), which revised the requirements for reviewing, researching, certifying, and reporting items identified on the Reconciliation Reports and superseded the requirements set forth in the OCFO policy and procedures issued in July 2009.

Furthermore, DOL was unable to provide any policies and procedures related to reconciling deductions data, such as but not limited to employer withholdings, provided by NFC on a bi-weekly basis to DOL's records to arrive at an employee's net pay and total benefits expense. DOL did not develop and implement such policies and procedures because management believed other internal controls were sufficiently designed and operating effectively to mitigate related risks.

Untimely and incomplete reconciliation controls around the NFC compensation outputs and the lack of related monitoring controls increase the risk that payroll-related items may be misstated because of errors in payroll processing by NFC. Such payroll-related items include accrued leave liabilities, various employee and employer withholdings liabilities, benefit expenses, and operating expenses.

GAO's Standards states:

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular

management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

DOL's ICD HRC-3 states, "Payroll time and attendance reconciliations are to be prepared bi-weekly."

ICD HRC-3 also states:

> Human Resource officers are responsible for ensuring that the annotated Payroll Time and Attendance report is fully and contemporaneously completed relative to each bi-weekly Payroll/T&A Report, and that such form is certified by both the human resources staff member who conducted the review and his/her supervisor.

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 United States Department of Agriculture's Office of Inspector General in its FY 2012 Report No. 11401-0004-11, *Statement on Standards for Attestation Engagements No. 16 Report on Controls at the National Finance Center*:

> NFC provides services with the understanding that the user entity implements certain controls…While NFC's processing control activities and procedures are designed to ensure system, application and data security and integrity, it is the user's entity's responsibility to establish, implement, and maintain their internal controls to ensure that input submitted to NFC is complete, valid, and authorized. Additionally, NFC sends certain data and reports to its user entities as a control for their review. NFC's user entities also have the responsibility to notify NFC, through their Client Management Representative, of their discovery of any unauthorized or improper transactions. Accordingly, all users of NFC services should establish their own internal controls or procedures to complement those of NFC.

Additionally, the *Memorandum for Human Resource Officers Administrative Officers, Reconciling Payroll Data between the Department of Labor and the National Finance Center, Payroll/Time and Attendance Reconciliation Report*, issued in July 2009, states:

> The servicing office for each Personnel Office Identifier Code is required to review the discrepancies and complete the Payroll/Time & Attendance Reconciliation & Review form no later than close of business on the second Friday following the official pay date for each pay period…The servicing office for each POI is required to resolve the discrepancies by the end of the following pay period.

Recommendations

We recommend the Director of Human Resources, HRC, OASAM:

1. Continue implementation and monitoring of ICD HRC-3 and its requirements for reviewing, researching, certifying, and reporting items identified on the Reconciliation Reports.
2. Develop, implement, and monitor policies and procedures for reconciling deductions data provided by NFC on a bi-weekly basis to DOL's records to arrive at an employee's net pay and total benefits expense.

Management's Response

OASAM HRC will continue implementation and monitoring of HRC ICD No. HRC-3 and its requirements for reviewing, researching, certifying, and reporting items identified on the Reconciliation Reports.

OASAM HRC will ensure that the procedures for reconciling and monitoring deduction data are being followed and properly documented.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

12. Improvements Needed in the Reconciliation of FBWT

During FY 2012, the OCFO made some progress in addressing FY 2011 recommendations related to the reconciliation of FBWT. Specifically, the OCFO developed a "FBWT Reconciliation Preparation and Review Checklist" and reconciliation template to address the prior year recommendations related to the reinstatement of a proper reconciliation process and maintenance of sufficient documentation to support the research and resolution of identified differences. In addition, the OCFO began implementing a quality control process for reviewing the monthly Government-wide Accounting (GWA) Reconciliations prepared by other agencies to ensure that FBWT is not materially misstated.

However, based on the examination of 25 GWA Account Statement reconciliations and the related supervisory reviews for January 2012, we noted that improvement was still needed in the FBWT reconciliation process. Specifically, we identified the following:

- The January 2012 GWA Account Statement reconciliations for the Treasury Account Fund Symbols (TAFS) identified below did not contain sufficient supporting documentation to evidence the investigation and determination of specific causes of all differences and initiation of corrective actions. In addition, all differences were not resolved timely (i.e., within three months):

- 16121200 Salaries and Expenses, Mine Safety and Health Administration
- 16X0169 Special Benefits for Disabled Coal Miners, Employment Standards Administration
- 16120172 Program Administration, Employment and Training Administration
- 16X8042 Unemployment Trust Fund
- 16120400 Salaries and Expenses, Occupational Safety and Health Administration

- Prior month differences of $52,000 and $2.4 million for TAFS 16080174 and 16100174, Training and Employment Services, respectively, were unresolved since September 30, 2011.

- The January 2012 GWA Account Statement reconciliation for TAFS 16120326, Federal Unemployment Benefits and Allowances, and TAFS 16X1524, Administrative Expenses, Energy Employees Occupational Illness Compensation Fund, were not reviewed until July 2012 and April 2012, respectively, which was not considered timely.

These issues occurred because the OCFO had not fully implemented an effective quality review process to ensure that other DOL agencies were maintaining sufficient documentation to support the research and resolution of differences identified in the monthly GWA Account Statement reconciliations. In addition, the OCFO's policies and procedures did not specify the time period in which prior month outstanding differences must be resolved or the date by which the review of the monthly reconciliations should be completed.

Differences that are not properly researched and resolved timely could potentially compromise the reliability of FBWT balances, other USSGL account balances contra to the USSGL 1010 account, and Treasury's published financial reports.

Treasury Financial Manual, March 2012, (TFM) Volume 1, Part 2, Chapter 5100, states:

> Monthly, they (agencies) must reconcile the USSGL account 1010 balances for each fund symbol with FMS's records … Agencies should document their reconciliations and make them available to auditors and Treasury if requested. Agencies also should ensure that all adjustments are researched and traceable to supporting documents.

Treasury's *FBWT Reconciliation Procedures, A Supplement to the Treasury Financial Manual, 1 TFM 2-5100 March 2012* (Reconciliation Procedures), states, "Federal agencies must … resolve all differences between the balances reported on their G/L FBWT accounts and balances reported on the GWA Account Statement."

The Reconciliation Procedures also states that Federal agencies should not "…permit prior month differences to remain outstanding for more than 3 months…"

Furthermore, the Reconciliation Procedures states that:

> …each financial system's policies and procedures should provide for regular and routine reconciliation of G/L accounts, thorough investigation of differences, determination of specific causes of differences, and initiation of corrective action.

GAO's Standards states:

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

In addition, the Standards states:

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

Recommendations

We recommend the Chief Financial Officer:

1. Enhance and fully implement the new quality control process for reviewing monthly GWA Account Statement reconciliations prepared by other DOL agencies to ensure that sufficient documentation to support the research and resolution of individual differences is maintained; and

2. Enhance DOL's GWA Account Statement reconciliation policies and procedures to specify that: (a) all differences identified in the reconciliation process be resolved within three months, and (b) monthly reconciliations be prepared and reviewed within a certain timeframe that allows for timely identification and resolution of differences (e.g., within 30 days of month-end).

Management's Response

The findings and recommendations noted by the auditor were based on a review of the January 2012 reconciliations and do not fully recognize the progress made during the remainder of FY 2012. Significant progress has been made in resolving prior period differences.

Management will continue to review and revise the policies and procedures as needed to improve the effectiveness and timeliness of the reconciliations.

Auditors' Response

Management indicated that actions have and will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

13. <u>Improvements Needed in the Monthly Statement of Differences (FMS 6652) Process</u>

During FY 2012, we noted that DOL made some progress in implementing prior year recommendations. For example, DOL resolved all prior reporting period differences individually greater than $3 million reported on the FMS 6652 reports as of January 31, 2012. Furthermore, the absolute value of cumulative differences reported on the FMS 6652 reports for DOL as of January 31, 2012, was approximately $16.8 million, which was an improvement from the prior year. In addition, the OCFO developed and implemented protocols to ensure that personnel within the Division of Central Accounting Operations (DCAO) were responsive to audit requests.

However, based on our testing of a sample of 14 FMS 6652 reconciliations and the related supervisory reviews for the month of January 2012, and an examination of all outstanding prior reporting period differences included on the FMS 6652 reports as of January 31, 2012, we noted that improvement was still needed in the FMS 6652 reconciliation process. Our examination revealed the following deficiencies:

- Seventeen agency location codes (ALC) within the Bureau of Labor Statistics (BLS), Office of Workers' Compensation Programs (OWCP), Wage and Hour Division (WHD), ETA, OASAM, OCFO, and the Office of Federal Contract Compliance Programs (OFCCP) reported differences that were not resolved timely (i.e., within three months) as of January 31, 2012. These differences totaled an absolute dollar amount of $9 million and related to prior months ranging from October 2009 to August 2011.

- OASAM did not perform sufficient FMS 6652 reconciliations and related supervisory reviews for January 2012. Specifically:

  - The reconciliations for ALCs 16012014, 16012001, and 16012004 did not include sufficient evidence to support that the cause was identified and appropriate corrective action was initiated for each individual difference. In addition, certain individual differences identified on the related FMS 6652 reports for the month of January 2012 were not reconciled.
  - The reconciliations for ALCs 16012014, 16012001, and 16012004 did not include a signature and/or date to evidence that the reconciliation was timely prepared and reviewed by someone other than the preparer.
  - Approximately 37 percent, or $830,000, of the differences identified on the FMS 6652 reports for ALCs 16012014, 16012001, 16012004, and 16012005 for the month of January 2012 were not resolved in a timely manner (i.e., within three months).

- BLS did not perform sufficient FMS 6652 reconciliations and related supervisory reviews for the month of January 2012. Specifically:
  - The reconciliation for ALC 16012011 did not include sufficient evidence to support that the cause was identified and appropriate corrective action was initiated for each individual difference. In addition, certain individual differences identified on the related FMS 6652 reports for the month of January 2012 were not reconciled. Further, approximately 47 percent, or $11,000, of these differences were not resolved in a timely manner.
  - The reconciliation for ALC 16012011 did not include a signature and/or date to evidence that the reconciliation was timely prepared and reviewed by someone other than the preparer.

- ETA did not maintain sufficient evidence to support that the cause was identified and appropriate corrective action was initiated for each individual difference identified on the FMS 6652 reconciliations for ALCs 16010003 and 16012016 for the month of January 2012. Further, approximately 96 percent, or $1.2 million, of these differences were not resolved in a timely manner.

- OCFO did not maintain sufficient evidence to support that the cause was identified and appropriate corrective action was initiated for each individual difference identified on the FMS 6652 reconciliation for ALC 16012018 for the month of January 2012. Further, approximately 55 percent, or $35,000, of the difference was not resolved in a timely manner.

- OFCCP did not complete a formal FMS 6652 reconciliation and review for ALC 16010010 for the month of January 2012.

The issues relating to outstanding differences from prior reporting periods were caused by BLS, OWCP, WHD, ETA, OASAM, OCFO, and OFCCP prioritizing the research and resolution of significant current period differences reported on the monthly FMS 6652 rather than prior period differences; however, what constitutes a “significant” difference was not formalized and communicated across DOL. Additionally, department-wide policies and procedures did not specify or enforce the requirement that all differences be resolved within three months.

Furthermore, OASAM, BLS, ETA, OCFO, and OFCCP management did not implement an effective process for documenting the reconciliation and supervisory review of individual differences on the FMS 6652 for the current and prior months, the related causes, and the related corrective actions for each difference. Also, the OCFO had not enhanced its policies and procedures to properly complete the monthly FMS 6652 reconciliations, including documented research and resolution of all identified differences in current and prior months.

Differences that are not properly researched and resolved timely could potentially compromise the reliability of FBWT balances, other USSGL account balances contra to the USSGL 1010 account, and the Treasury's published financial reports.

The Reconciliation Procedures states, "…agencies must research and resolve *all* differences..."

The Reconciliation Procedures also states:

> Federal agencies must research and resolve differences reported on the monthly FMS 6652…CAB sends agencies' CFOs a scorecard letter that provides a certain rating (scoring) on the accuracy and timeliness of an agency's reconciling efforts should an agency have differences older than 3 months.

Furthermore, the Reconciliation Procedures states:

> …each financial system's policies and procedures should provide for regular and routine reconciliation of G/L accounts, thorough investigation of differences, determination of specific causes of differences, and initiation of corrective action.

TFM, Volume 1, Part 2, Chapter 5100, states:

> …agencies should reconcile FBWT accounts at least monthly. They should have written standard operating procedures to direct and document the correct reconciliation process … Agencies should document their reconciliations and make them available to auditors and Treasury if requested. Agencies also should ensure that all adjustments are researched and traceable to supporting documents.

TFM, Chapter 5100, further states that "…an authorized agency official should review and sign the monthly agency reconciliation documents."

GAO's Standards states:

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

GAO's Standards also states:

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

Recommendations

We recommend:

1. The Commissioner of the Bureau of Labor Statistics, the Acting Director of the Office of Workers' Compensation Programs, the Acting Administrator of the Wage and Hour Division, the Assistant Secretary for Employment and Training, the Assistant Secretary for Administration and Management, the Chief Financial Officer, and the Director of the Office of Federal Contract Compliance Programs dedicate appropriate resources to resolve all prior period differences, consulting with Treasury personnel as needed.

2. The Assistant Secretary for Administration and Management, the Commissioner of the Bureau of Labor Statistics, the Assistant Secretary for Employment and Training, the Chief Financial Officer, and the Director of the Office of Federal Contract Compliance Programs implement procedures to perform, document, and review timely the monthly FMS 6652 reconciliations to demonstrate that the differences identified on the Statement of Differences reports have been identified and investigated, and that appropriate corrective actions have been initiated; and

3. The Chief Financial Officer enhance department-wide policies and procedures over the FMS 6652 reconciliation process to: (a) require the proper completion of the monthly reconciliations, including documented research and resolution of all identified differences in current and prior months; (b) require the resolution of all FMS 6652 differences within three months; and (c) specify a threshold for identifying

significant differences in the monthly FMS 6652 reports that will be prioritized for resolution. OCFO management should periodically review the threshold for reasonableness.

Management's Response

OCFO has dedicated the adequate resources to resolve prior year differences and has been aggressively assisting the agencies with their reconciliation processes. This is demonstrated in the accomplishments achieved during FY12 Q2 & Q3. Since January 2012 DOL has accomplished the following:

- ALC 16012013 (WHD) and 16010010 (OFCCP):
  Both ALCs have been completely reconciled and cleared.

- ALC 16010013 (OCFO):
  Currently there is no SOD outstanding over three months.

- ALC 16012018 (OCFO):
  As of January 2012 we had SOD outstanding from April 2010.
  We were able to clear April, May and June 2010. We expect that by September 2012 we will be able to clear all outstanding SOD over three months old.

- ALC 16012005 (OASAM):
  As of January 2012 we had SOD outstanding from April 2011.
  Currently we were able to clear April 2011 through November 2011.

- ALC 16012001 (OASAM):
  This ALC has been fully reconciled and we expect to resolve all items by the end of the current year.

- ALC 16010003 – Disbursements (ETA):
  As of January 2012 we had SOD outstanding from January 2010, currently have been able to clear through July 2011.

- ALC 16012016-Disbursements (ETA):
  As of January 2012 we had SOD outstanding from December 2009. Currently we were able to clear through January 2011.

In FY 2012, OCFO developed and implemented the following procedures and tools to assist with the SF224/SOD reconciliation: published a monthly schedule for the SF224 process, implemented weekly preliminary SF224 reviews, developed a standard reconciliation template for completion by the agencies, and developed an OCFO internal checklist to facilitate and document our monthly review. In addition, OCFO has mandated that the monthly reconciliation include a dated supervisor signature.

During the first quarter of FY13, OCFO published the *Department Wide Reconciliation Procedures Guide* which consolidated the guidance to perform the reconciliations. In addition, OCFO has communicated to Agency management both goals and progress toward achieving Green ratings on the Quarterly Treasury Scorecard.

OCFO will continue to address the timeliness of the resolution of the Statement of Differences. As stated in our response to NFR-12-05, it is our belief that significant improvement has been accomplished.

<u>BLS Response</u>

Recommendation 1: BLS has increased its efforts to clear prior period differences and in the past year has made good progress. BLS will continue to make this a top priority to clear the remaining prior period differences by June 30, 2013.

Recommendation 2: BLS has implemented procedures to perform, document, and review timely the monthly FMS 6652 reconciliations. The reconciliations identify all differences at a detailed level including the Treasury IPAC reference and the DOL document and invoice numbers. Management and staff meet regularly to determine, plan, and execute corrective actions and monitor progress.

Auditors' Response

Management indicated that actions have and will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

14. <u>Untimely Review of Intra-governmental Reconciliation of Office of Personnel Management (OPM) Employee Benefits</u>

During our FY 2012 audit procedures, we selected two quarterly reconciliations to substantiate that intra-governmental balances related to OPM employee benefits were reconciled to DOL's accounting records. DOL's informal policy is to complete and perform the supervisory review within 30 days of the date the amounts are officially available from OPM. For the first quarter, the supervisory review was completed 6 days after the review was required to be completed.

The OCFO did not have formally documented procedures in place that required a supervisor or someone other than the preparer to review the quarterly intra-governmental confirmation and reconciliation to ensure timely and accurate completion.

Not completing the OPM-related intra-governmental quarterly reconciliation, including supervisory review, in a timely manner increases the risk that employee benefit expenses are improperly classified and material misstatements are not detected and corrected in a timely manner.

Treasury's *Federal Intra-governmental Transactions Accounting Policies Guide* (Intra-governmental Policies), Section 7 Agency Responsibilities, states, "Each agency is responsible for … Reconciling the Intra-governmental data in its accounting records to the supporting documentation based on FMS IRAS Reports."

Also, the Intra-governmental Policies, Section 11.9, Intra-governmental Fiduciary Confirmation System (IFCS), states, "Agencies must use the IFCS to reconcile and confirm balances and activity with their trading partners on a quarterly basis."

Furthermore, OMB Circular No. A-136, Section V.1, states:

> Intra-governmental balances and transactions are a key component in the consolidation of the financial information submitted by Federal entities and in the overall compilation process of the FR. Intra-governmental balances include transactions between Federal entities such as services or goods sold, transfers of assets or budget authority, investments or borrowings with the Department of the Treasury, and benefit-related transactions with the Department of Labor and the Office of Personnel Management. Therefore, agencies are required to reconcile Intra-governmental balances and transactions at least quarterly.

Finally, GAO's 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.

Recommendation

We recommend the Chief Financial Officer develop and implement procedures for supervisory review of the intra-governmental quarterly confirmation and reconciliation prior to submission to Treasury. These procedures should indicate the date by which the review is to be completed and require that the reviewer physically or electronically document his or her review and approval and the date of review.

Management's Response

OCFO management will develop and implement procedures for the timely documentation and review of the intra-governmental quarterly submission to Treasury. The procedures will be implemented by April 30, 2013.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

15. Improvements Needed in Property, Plant, & Equipment (PP&E) Controls

During FY 2012, the OCFO made progress in addressing prior year recommendations. Specifically, the OCFO identified and trained alternate personnel to perform the financial reporting functions assigned to the PP&E contractors in the contractors' absence and hired additional federal employees to perform work previously assigned to contractors. In addition, the OCFO appropriately reclassified certain consulting fees from general ledger account 1720 Construction-in-Process (CIP) to general ledger account 6100 – Operating Expense, and disposed of all Working Capital Fund PP&E at the end of FY 2011.

However, we continued to note certain control weaknesses in the processing of PP&E transactions. Specifically, during our test work of a sample of ten CIP additions for the period October 1, 2011, through June 30, 2012, we identified one addition that was recorded at the incorrect amount. The error was ultimately identified and corrected by DOL nine months after the transaction was originally recorded.

Additionally, DOL did not configure NCFMS to record PP&E additions and deletions and to accurately calculate current year depreciation and accumulated depreciation. Further, the OCFO did not formally document the policies and procedures necessary to monitor the work of its contractors.

The CIP addition was recorded at the incorrect amount because the OCFO did not have sufficient review procedures related to CIP to ensure that all asset transactions were properly capitalized in the general ledger. Also, because of competing priorities and limited resources, DOL did not configure the NCFMS PP&E module. Further, because the OCFO had implemented a process to monitor the work of its contractors, management did not believe that formal documented policies and procedures were necessary.

Inadequate controls over the PP&E process, including insufficient management review procedures and a lack of automated controls, increase the risk that PP&E balances may contain a material misstatement. Based on the error identified, the CIP balance was overstated by $3.4 million as of June 30, 2012.

Per Paragraph 26 of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, "All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use."

GAO's Standards states, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions."

The Standards also states:

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

Additionally, per OMB Circular No. A-123:

> Within the organizational structure, management must clearly: define areas of authority and responsibility; appropriately delegate the authority and responsibility throughout the agency; establish a suitable hierarchy for reporting; support appropriate human capital policies for hiring, training, evaluating, counseling, advancing, compensating, and disciplining personnel; and uphold the need for personnel to possess and maintain the proper knowledge and skills to perform their assigned duties as well as understand the importance of maintaining effective internal control within the organization.

Recommendations

We recommend the Chief Financial Officer:

1. Complete efforts to configure NCFMS so it can be used to record PP&E additions and deletions and to accurately calculate current year depreciation and accumulated depreciation;

2. Develop and implement review procedures over the CIP detail quarterly to ensure that all items are appropriately capitalized; and

3. Formally document the policies and procedures necessary to monitor the work of OCFO contractors.

Management's Response

DOL is in the process of configuring NCFMS to be used to record PP&E additions and deletions, depreciation expense, and accumulated depreciation. The completion date has not been established and will depend on available resources and other priorities.

Starting with 4th quarter 2012, ETA's Accounting Operations implemented additional procedures to review the CIP detail quarterly to ensure that all items are appropriately capitalized. Work performed by contractors is currently being reviewed by Federal staff. ETA will formally document its review process of work performed by contractors by January 2013. (Please note that the error noted above did not result from the work performed by a contractor.)

Auditors' Response

Management indicated that actions have and will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

16. Untimely Initiation of Background Checks for Personnel with Access to Financial Systems

During our FY 2012 audit procedures, we selected a sample of 34 newly hired DOL employees and 13 contractors who obtained system access for the in-scope applications during the period October 1, 2011, to May 30, 2012, to determine if they had a background investigation completed prior to our test work date or the background investigation was initiated within 14 calendar days of the date that the individuals first entered on duty at DOL. We noted the following exceptions:

Contractors

DOL did not have a consistent, centralized process established to record the date a contractor first entered on duty or began work at DOL. As such, we were unable to evaluate evidence supporting whether the 13 contractors from OWCP and ETA had background investigations initiated within 14 calendar days after they entered on duty at DOL.

For the 13 contractors, OASAM could not provide evidence to substantiate that 3 contractors had completed background investigations as of August 10, 2012, and their background investigations were initiated more than 14 calendar days after the individuals received access to the information systems. Specifically, 3 OWCP contractors were provided access to the Division of Information Technology Management and Services General Support System on November 17, 2011, December 8, 2011, and March 16, 2012, respectively. However, background investigations were not initiated for these contractors until after they received access to the system for a period that ranged from 90 to 264 days.

Employees

For the 34 newly hired DOL employees selected, OASAM could not provide evidence to substantiate that 1 employee had a completed background investigation as of August 10, 2012; this background investigation was initiated more than 14 days after the individual first entered on duty at DOL. Specifically, we noted that one OASAM employee had an effective hire date of December 4, 2011. However, a background investigation was not initiated for this employee until 147 days after the individual entered on duty.

The issues noted above can be attributed to the fact that OASAM, the Security Office, and DOL Agency Heads, or their designees, did not implement effective monitoring procedures to determine compliance with DOL policies and procedures related to initiating background investigations when Federal employees and contractors first enter on duty at DOL. Additionally, DOL did not dedicate resources to develop and implement a process to effectively capture the date that contractors first enter on duty at DOL in a centralized and consistent basis.

Without proper personnel security measures, such as background investigations for personnel working at or with DOL systems and data, the integrity of the information assets is at risk for manipulation and potential compromise. In addition, DOL management cannot ascertain compliance with its background investigation initiation policies and procedures for contractors.

The DOL Personnel Suitability and Security Handbook, Chapter 2, Section 1, part D, states, "DOL requires an investigation to be initiated before an individual first enters on duty with the Department, or at the most, within 14 calendar days of placement in the position […]."

Additionally, Chapter 4, Section 2, states:

> The personnel suitability and security program requirements that apply to DOL employees also apply to contractor employees, as well as to other persons who have such access by virtue of an agreement between a DOL Agency and another party.

Furthermore, Chapter 4, Section 3, Part C, states:

> The DOL Agency Heads, or their designees, are responsible for the operation of the Personnel Suitability and Security Program as it relates to contractor employees engaged in work for their respective organizations, including the following:
>
> - Ensure that a contractor employee is not allowed to work, unless he or she has completed all required documentation to initiate the investigation.

- Ensure that the appropriate level of investigation for each contractor applicant or employee is initiated before or shortly after he or she begins work.

The DOL Computer Security Handbook, Version 4.0, Volume 13, version 1.0, *Personnel Security Procedures*, page 4, states, "The Department and agency shall screen individuals requiring access to Department and/or agency information and information systems before authorizing access."

Also, Homeland Security Presidential Directive 12: *Policy for a Common Identification Standard for Federal Employees and Contractors*, states, "Secure and reliable forms of identification…is issued based on sound criteria for verifying an individual employee's identity."

Recommendation

We recommend the Director of the OASAM Security Center (SC) continues to implement procedures to initiate and monitor background investigations for all federal employees and contractors, which should include following up on outstanding background investigations to ensure their timely completion, and periodically reviewing individuals in sensitive job positions to confirm appropriate background investigations were completed.

Management's Response

OASAM SC assumed responsibility for the employees background investigation (BI) on-boarding process in the fourth quarter FY 2012. The SC has been assessing the status of current and outstanding investigations to establish a baseline to begin planning corrective actions. OASAM management understands the significance of this issue and recently established an Employee On Boarding (EOB) Working Group (WG) to review the current processes in place, identify areas for improvement, and renew/establish a departmental policy and standard process that all DOL agencies can follow for the proper initiation and completion of BI's for newly hired employees and contractors to meet requirements.

OASAM SC will leverage work previously stated by OASAM HRC to include the published ICD no. HRC-1, Background Investigation Status Report on 2/11/2011, which requires HR offices to monitor, track, and address background investigation requirements for all newly hired employees. Additionally, the SC will ensure compliance with the related on-boarding processes outlined in the DOL Personnel Suitability and Security Handbook (PSSH) for employees and contractors. OASAM SC will work with the HR offices to enforce the ICD, and those related processes outlined in the PSSH until an acceptable standard process has been established and implemented for the department to follow.

The EOB WG membership includes representatives from OASAM HRC, SC, and OCIO. The WG has only recently been established. Timelines and milestones have not been established as of this response. OASAM SC will work with the EOB WG to assist in the development of a reasonable timeline for the formulation and implementation of the new standard for the department and will forward the information to the OIG.

Auditors' Response

Management indicated that actions have and will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

17. <u>Lack of Proper Review of Claimant's Information Recorded in the Energy Compensation System (ECS)</u>

In the FY 2012 audit, we identified an instance where an Energy Employees Occupational Illness Compensation Program Act (EEOICPA) compensation payment was not properly entered into ECS. Specifically, a claimant's gender designation from the Employee's Claims for Benefits Form (EE-1) did not match to the gender designation in ECS. This discrepancy occurred because the Claims Examiner failed to thoroughly and properly review the claimant's information entered in ECS by the Case Create Clerk (CCC) to ensure it was consistent with the information on the EE-1.

Without effective controls surrounding the case creation process, the integrity of the underlying data entered into the actuarial liability model may be compromised and result in a misstatement in the EEOICPA actuarial liability.

GAO's Standards states:

> Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.
>
> Controls over Information Processing - A variety of control activities are used in information processing. Examples include edit checks of data entered, accounting for transactions in numerical sequences, comparing file totals with control accounts, and controlling access to data, files, and programs.

Additionally, the *EEOICPA Procedure Manual*, Chapter 1-0300 Case Creation, number 7b, states:

> Verification of Claimant/Employee Information. The assigned Claims Examiner (CE) or CE2 confirms that the claimant/employee information is correct in ECS. The assigned CE or CE2 checks the last name, first name, and middle initial of the employee/claimant in ECS for accuracy. The full middle name does not appear in ECS unless the claim form is signed with the complete middle name. The assigned CE or CE2 checks the gender, date of birth, and date of death (when applicable) in ECS for accuracy. The address and phone number of the claimant/employee are also checked for accuracy.

Recommendation

We recommend that the Acting Director of the Office of Workers' Compensation Programs continues to implement the policies and procedures that require the CEs to review the information entered by the CCCs and to update information in ECS as applicable.

Management's Response

On March 11, 2013, management issued a notice to Claims Examiners to emphasize the policies and procedures that require the Claims Examiners to review the information keyed in by the CCCs and to update information in ECS as applicable.

Auditors' Response

Management indicated that actions have been taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

18. Lack of Formal Financial Reporting Policies and Procedures

During FY 2012, although the OCFO updated its internal procedures to include the reconciliation and review of data populations prior to submission, OCFO personnel did not document formal procedures in regards to the generation of detailed general ledger transactions from NCFMS. In addition, the OCFO formally documented and retained the resolution of significant accounting issues identified in FY 2012. However, the OCFO did not formally document the process for promptly researching and resolving significant financial reporting issues.

The OCFO did not formally document the aforementioned policies and procedures because management believed the informal processes established during FY 2012 were sufficient and that documenting them was not necessary.

The lack of formally documented policies and procedures increases the risks that controls necessary to ensure the consolidated financial statements are properly stated and presented in conformity with generally accepted accounting principles (GAAP) may not be performed or not performed properly. This could ultimately lead to errors in the consolidated financial statements.

GAO's Standards states:

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

The Standards also states:

> …management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations.

OMB Circular No. A-123 states:

> Control activities are the policies and procedures that help ensure that management directives are carried out and that management's assertions in its financial reporting are valid.

Recommendations

We recommend the Chief Financial Officer:

1. Formally document the procedures for generating detailed general ledger transactions from NCFMS; and
2. Formally document the process for promptly researching and resolving significant financial reporting issues that are identified.

Management's Response

Formal reconciliation procedures for detailed general ledger transactions were established in FY 2011 and have been followed consistently in FY 2012 and provided to the auditors when requested. Such procedures include structured templates that staff is required to complete to perform the reconciliations. Although, we continue to believe that such procedures are adequate for other/new staff to be able to follow and perform, we will undertake to include additional narrative documenting the process for preparing the reconciliations and for researching and resolving significant financial reporting issues in FY 2013.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

19. <u>Lack of Policies and Procedures Related to New Obligations/Modifications</u>

In FY 2011, we recommended that VETS enhance policies and procedures to ensure that changes made to obligating documents are supported by documentation that is retained and readily available upon request. During FY 2012, we noted that VETS implemented the Procurement Action Request (PAR) form, which was used to support new obligations and modifications. However, VETS did not implement formal policies and procedures because management believed the informal process they established during FY 2012 related to the implementation of the PAR was sufficient and that documenting it was not necessary.

GAO's Standards states:

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

The Standards also states:

> …management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations.

Per OMB Circular No. A-123:

> Control activities are the policies and procedures that help ensure that management directives are carried out and that management's assertions in its financial reporting are valid.

The lack of formally documented policies and procedures increases the risks that controls over obligations may not be performed or not performed properly. This could ultimately lead to misstatements in the balances of obligations.

Recommendation

We recommend the Assistant Secretary for Veterans' Employment and Training formally document policies and procedures regarding how the PAR should be used to ensure that changes to obligating documents are supported by documentation that is retained and readily available upon request.

Management's Response

VETS is in the process of developing a formal budgetary policy. We expect to be completed by April 2013.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

20. <u>Lack of Advisory Council on Unemployment Compensation</u>

DOL was not in compliance with Section 908 of the *Social Security Act* (SSA), which requires the Advisory Council on Unemployment Compensation (ACUC) to meet every four years. However, the last meeting of the ACUC was in 1997. ETA has proposed an amendment to SSA since 2005, most recently in the Unemployment Compensation Program Integrity Act of 2011, that would permit the Secretary of the Department of Labor to establish an advisory council at his/her discretion instead of every four years. Congress has not yet approved this amendment.

ETA does not believe that the ACUC is the most effective way to evaluate the unemployment compensation program. As a result, ETA planned to again propose an amendment in FY 2012 to have Congress change the requirement outlined in the legislation to read as follows:

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

As such, DOL was not in compliance with Section 908 of the SSA.

Section 908 of the SSA states:

> Not later than February 1, 1992, and every 4th year thereafter, the Secretary of Labor shall establish an advisory council to be known as the Advisory Council on Unemployment Compensation (referred to in this section as the "Council"). It shall be the function of each Council to evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and any other aspects of the program and to make recommendations for improvement.

Recommendation

We recommend the Assistant Secretary for Employment and Training comply with Section 908 of the SSA or continue to pursue having the SSA amended by submitting to Congress a proposal to amend the SSA, as has been done in prior years.

Management's Response

Management agrees with the recommendation to continue to pursue having the SSA amended by submitting to Congress a proposal to amend the SSA, as has been done in prior years.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

21. Insufficient Policies and Procedures Related to the Preparation of the Financial Audit Manual (FAM) 2010 Checklist

During our FY 2012 audit procedures, we continued to note certain deficiencies in the completion of the FAM 2010. Specifically, the OCFO did not provide explanations or other pertinent information to support the responses for all of the items on the detailed checklist, as required. For instance, the majority of the questions in the FAM 2010 that were answered "yes" did not have the page number or location in the financial statements where the information could be found. Additionally, although the FAM 2010 was completed and received within the time frame requested, the OCFO did not revise its policies and procedures related to the annual preparation and review of the FAM 2010 to indicate a specific date by which it should be completed and reviewed.

The OCFO's policies and procedures related to the financial reporting process did not provide sufficient instructions on how the FAM 2010 should be prepared and subsequently reviewed, specifically regarding explanations required as part of the detailed checklist, nor did it provide a specific date by which it should be completed and reviewed. As the OCFO had implemented an informal process to prepare and review the FAM 2010, management did not believe that formal documented policies and procedures with associated deadlines were necessary.

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

GAO's FAM 2010 provides the following instructions for completing the checklist:

> For each 'yes' answer, include in the explanation column the page number or location in the financial statements where the information is found. Also, provide any other information pertinent to the question and the response in the explanation column.
>
> A 'no' answer indicates that the information asked for in the question is not included in the financial statements, notes, or supplementary information, respectively. This would include immaterial items that need not be disclosed. Describe in the explanation column or note why the information is not included and whether this causes the financial statements to not be in conformity with U.S. GAAP.
>
> An 'N/A' answer might indicate that the question does not apply to the federal entity. Describe in the explanation column or note why this information is not applicable.

GAO's Standards states:

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

The Standards also states:

> …management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations.

In addition, OMB Circular No. A-123 states:

> Control activities are the policies and procedures that help ensure that management directives are carried out and that management's assertions in its financial reporting are valid.

Recommendations

We recommend the Chief Financial Officer revise the policies and procedures related to the annual preparation and review of the FAM 2010. The policies and procedures should include the following, at a minimum:

1. The date the checklist should be completed and reviewed;
2. Requirements for preparers to support their responses to questions in the checklist with detailed explanations, in accordance with GAO's instructions; and
3. Requirements for a supervisor to review the completed FAM 2010 checklist for completeness, accuracy, and validity.

Management's Response

Management will consider revising the policies and procedures as recommended by the auditors prior to the preparation of the FAM 2010 for FY 2013. We note that the FAM 2010 was correctly prepared on time and was properly reviewed. The additional explanations were considered not necessary as the answers provided were adequate to assess compliance.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

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Status of Prior Year Comments

The status of comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2011*, dated March 29, 2012, (MAC), addressed to the Assistant Inspector General for Audit and the Chief Financial Officer, United States (U.S.) Department of Labor (DOL), is summarized in the table below. For each comment, we provided the current year status.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2011 MAC	Recommendation(s) Reported in the FY 2011 MAC	FY 2012 Status of Comment Reported in the FY 2011 MAC
2011-01	2010	Preparation of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) Draft Assurance Statement	We recommend the Chief Financial Officer review DOL's FMFIA assessment process and implement enhancements to (a) better document its final internal control assessments and related rationale, (b) document its consideration of relevant external audit results, and (c) more timely complete its draft FMFIA assurance statement and SAD.	Open (See Exhibit I comment no. 9)
2011-02	2010	Untimely Receipt of Prepared-by-Client (PBC) Items	We recommend that the Chief Financial Officer: 1. Enhance the new quality control process for reviewing PBC items prior to submission to the auditors to ensure each item addresses all required elements per the request. 2. Continue efforts to improve monitoring of the PBC list by periodically reviewing it for items due in the upcoming weeks and following up with the responsible individuals at least one week prior to the due date to ensure they are tracked and to identify potential delays and ensure the appropriate resources are in place to adequately fulfill the PBC list.	Closed

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2011 MAC	Recommendation(s) Reported in the FY 2011 MAC	FY 2012 Status of Comment Reported in the FY 2011 MAC
			3. Improve accountability for PBC items by continuing to coordinate with the appropriate Agency Heads to ensure they are properly monitoring those individuals responsible for delivering PBC items and taking appropriate corrective actions when PBC requests are not delivered timely. 4. Consistently communicate PBC delays, which should be rare, as soon as they are identified, and provide a realistic alternative delivery date based on consultation with the individual or agency responsible for providing the item.	
2011-03	2011	Deficiencies in Grant-related Obligation and Modification Controls	We recommend that the Chief Financial Officer identify the specific cause of the New Core Financial Management System (NCFMS) posting error and develop and implement corrective actions to ensure modifications are posted for the correct amount to the appropriate accounting line in NCFMS.	Closed
2011-04	2010	Non-grant, Non-benefit, New Obligations/ Modifications	We recommend that the Acting Assistant Secretary for Veterans' Employment and Training Service enhance policies and procedures to require that changes made to obligating documents are supported by documentation that is retained and readily available upon request.	Open (See Exhibit I comment no. 19)
2011-05	2011	Improvements Needed in the Reconciliation and Recording of Employee Benefits	We recommend that the Chief Financial Officer: 1. Develop and implement procedures for supervisory review of the intra-governmental quarterly confirmation and reconciliation prior to submission to Treasury in Intra-governmental Fiduciary Confirmation System. These procedures should	Partially Open (See Exhibit I comment no. 14)

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2011 MAC	Recommendation(s) Reported in the FY 2011 MAC	FY 2012 Status of Comment Reported in the FY 2011 MAC
			require that the reviewer physically or electronically document his or her review and approval and the date of review. 2. Update the NCFMS configuration to properly crosswalk object class codes for employee benefit program and operating expenses based on United States Government Standard General Ledger requirements.	
2011-06	2011	Insufficient Documentation Related to the *Request for Personnel Action*, Standard Form 52	We recommend that the Director of Human Resources, Human Resource Center, Office of the Assistant Secretary for Administration and Management (OASAM), provide training to reinforce with applicable DOL personnel the procedures to be followed and documentation to be prepared when processing separated employees.	Closed
2011-07	2010	Insufficient Documentation Related to the Review of Payroll Suspense Reports	We recommend that the Assistant Secretary for Administration and Management update the *Standard Operating Procedures Guidelines for the [Human Resources] HR Suspense Process* to include minimum documentation requirements to support the review of suspense reports and the clearing of items listed on the suspense reports. The update should also include requirements related to the time period and method of retention of such documentation. We also recommend that the Director of Human Resources, Human Resource Center, OASAM, monitor compliance with the *Standard Operating Procedures Guidelines for the HR Suspense Process*.	Open (See Exhibit I comment no. 10)
2011-08	2011	Untimely Recording of Property, Plant,	We recommend that the Chief Financial Officer:	Partially Open (See Exhibit I

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2011 MAC	Recommendation(s) Reported in the FY 2011 MAC	FY 2012 Status of Comment Reported in the FY 2011 MAC
		and Equipment (PP&E) and Lack of Formal Policies and Procedures over Monitoring of Contractors	1. Complete efforts to configure NCFMS so it can be used to record PP&E additions and deletions and to accurately calculate current year depreciation and accumulated depreciation. 2. Identify and train alternate personnel to perform the financial reporting functions assigned to the PP&E contractors in the contractors' absence. 3. Formally document the policies and procedures necessary to monitor the work of its contractors.	comment no. 15)
2011-09	2011	Improvements Needed over PP&E Construction-in-Process (CIP)	We recommend that the Chief Financial Officer: 1. Analyze CIP detail to identify all improperly capitalized consulting fees, and reclassify them from CIP to Operating Expense in the general ledger. 2. Develop and implement review procedures over the CIP detail quarterly to ensure that all items are appropriately capitalized.	Partially Open (See Exhibit I comment no. 15)
2011-10	2011	Lack of Proper Review over the Energy Employees Occupational Illness Compensation Benefits (EEOICB) Liability	We recommend that the Acting Director of the Office of Workers' Compensation Programs revise policies and procedures for the review of the EEOICB actuarial model to mitigate the risk that errors within the actuarial model may cause a material misstatement.	Closed
2011-11	2011	Refinement of Discount Rate Selections	We recommend that the Acting Director of the Office of Workers' Compensation Programs refine the discount rate selection methodology to incorporate guidance	Closed

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2011 MAC	Recommendation(s) Reported in the FY 2011 MAC	FY 2012 Status of Comment Reported in the FY 2011 MAC
			provided in federal accounting standards to ensure discounted liabilities and cash flows presented in DOL's financial statements continue to meet federal accounting standards.	
2011-12	1997	Re-establishment of the Unemployment Compensation Advisory Council	We recommend that the Assistant Secretary of Employment and Training Administration continue to pursue having the Social Security Act amended.	Open (See Exhibit I comment no. 20)
2011-13	2011	Improvements Needed in Completion of Accounting Checklist	We recommend that the Chief Financial Officer revise the policies and procedures related to the annual preparation and review of the FAM 2010. The policies and procedures should include the following, at a minimum: a) the date by which the checklist should be completed and reviewed; b) requirements for preparers to support their responses to questions in the checklist with detailed explanations, in accordance with GAO's instructions; and c) requirements for a supervisor to review the completed FAM 2010 checklist for completeness, accuracy, and validity.	Open (See Exhibit I comment no. 21)

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Appendix A

Acronyms and Abbreviations

ACUC	Advisory Council on Unemployment Compensation
ALC	Agency Location Code
CAB	Cash Analysis Branch
CFOA	Chief Financial Officers Act
CIP	Construction-in-Process
DBC	Departmental Budget Center
DFR	Division of Financial Reporting
DOL	United States Department of Labor
EEOICB	Energy Employees' Occupational Illness Compensation Benefits
EEOICPA	Energy Employees Occupational Illness Compensation Program Act
EOB	Employee On Boarding
ETA	Employment and Training Administration
FAM	Financial Audit Manual
FBWT	Fund Balance with Treasury
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMS 6652	Statement of Differences
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GWA	Government-wide Accounting
HR	Human Resources
HRC	Human Resource Center
ICD	Internal Control Directive
IFCS	Intra-governmental Fiduciary Confirmation System
IRAS	Intragovernmental Reporting and Analysis System
IT	Information Technology
NCFMS	New Core Financial Management System
NFC	United States Department of Agriculture National Finance Center
OASAM	Office of the Assistant Secretary for Administration and Management
OCFO	Office of the Chief Financial Officer
OFCCP	Office of Federal Contract Compliance Programs
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personal Management
OWCP	Office of Workers' Compensation Programs
PBC	Prepared by Client
PP&E	Property, Plant, and Equipment
PSSH	Personnel Suitability and Security Handbook
SAD	Summary of Aggregated Deficiencies
SC	Security Center

SFFAS	Statement of Federal Financial Accounting Standards
SNC	Statement of Net Cost
SSA	Social Security Act
SSAE	Statement on Standards for Attestation Engagements
Standards	Government Accountability Office's *Standards for Internal Control in the Federal Government*
T&A	Time and Attendance
TAFS	Treasury Account Fund Symbol
TFM	Treasury Financial Manual
TP	Tie-Point
Treasury	United States Department of the Treasury
U.S.	United States
UDO	Undelivered Order
USC	United States Code
USSGL	U.S. Standard General Ledger
UTF	Unemployment Trust Fund
VETS	Veterans' Employment and Training Service
WG	Working Group
WHD	Wage and Hour Division

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