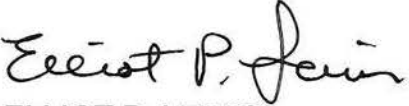




DEC 16 2013

MEMORANDUM FOR: JAMES L. TAYLOR  
Chief Financial Officer

FROM:   
ELLIOT P. LEWIS  
Assistant Inspector General  
for Audit

SUBJECT: FY 2013 Independent Auditors' Report  
Report Number: 22-14-002-13-001

Attached is the Independent Auditors' Report on the U.S. Department of Labor's (DOL) FY 2013 financial statements. We contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to audit the financial statements of DOL as of and for the years ended September 30, 2013 and 2012. The contract required that the audit be conducted in accordance with generally accepted government auditing standards (GAGAS) and Office of Management and Budget (OMB) audit requirements.

KPMG's opinion on DOL's financial statements is unqualified and KPMG's report on internal control over financial reporting identified no material weaknesses. KPMG also concluded that DOL complied, in all material respects, with the requirements under the *Federal Financial Management Improvement Act of 1996* (FFMIA) as of September 30, 2013.

While KPMG's report on internal control identifies no material weaknesses, the report does identify two significant deficiencies in internal controls over financial reporting: 1) a lack of sufficient information technology security controls over key financial and support systems, and 2) a lack of sufficient controls over grants. These two significant deficiencies are repeat findings from the FY 2012 financial statements audit. KPMG also found that DOL had made improvements in FY 2013 that resulted in the elimination of the significant deficiency reported in FY 2012 related to the preparation and review of journal entries.

KPMG is responsible for the attached auditors' report and the conclusions expressed in the report. However, in connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review differed from an audit performed in accordance with GAGAS because we did not intend to express, nor did we express: an opinion on DOL's financial

statements; conclusions about the effectiveness of internal controls or whether DOL's financial management systems substantially complied with FFMA; or conclusions on DOL's compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS and OMB audit requirements.

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

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

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

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

Attachment

cc: Karen Tekleberhan, Deputy Chief Financial Officer  
T. Michael Kerr, Assistant Secretary for Administration and Management  
Gary Maupin, Associate Deputy Chief Financial Officer for Fiscal Integrity  
Robert Balin, OCFO Audit Liaison



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

## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the U.S. Department of Labor (DOL), which comprise the consolidated balance sheets as of September 30, 2013 and 2012; the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended; the statements of social insurance as of September 30, 2013, 2012, 2011, 2010, and 2009; and the statements of changes in social insurance amounts for the years ended September 30, 2013 and 2012; and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG LLP is a Delaware limited liability partnership,  
the U.S. member firm of KPMG International Cooperative  
("KPMG International"), a Swiss entity.





We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion on the Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor as of September 30, 2013 and 2012; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance as of September 30, 2013, 2012, 2011, 2010 and 2009; and the changes in its social insurance amounts for the years ended September 30, 2013 and 2012, in accordance with U.S. generally accepted accounting principles.

***Emphasis of Matter***

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

***Other Matters***

***Required Supplementary Information***

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Message from the Secretary of Labor, Message from the Chief Financial Officer, and Other Information section is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



## **Other Reporting Required by Government Auditing Standards**

### ***Internal Control over Financial Reporting***

In planning and performing our audit of the consolidated financial statements, we considered DOL's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in Exhibit I that we consider to be significant deficiencies.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether DOL's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which DOL's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

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



***DOL's Responses to Findings***

DOL's responses to the findings identified in our audit are described in Exhibit I. DOL's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of DOL's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

December 16, 2013

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

In fiscal year (FY) 2013, U.S. Department of Labor (DOL) agencies completed corrective action to address certain previously-identified control deficiencies. However, during our FY 2013 testing of significant DOL financial and support systems, we identified new security control deficiencies in addition to certain ones that were reported in prior years across the four DOL agencies responsible for these systems. We have classified the deficiencies identified into the following four categories: account management, system access settings, system audit log reviews, and vulnerability management.

The first two categories summarize the identified deficiencies related to controls that were designed to help prevent unauthorized access to information technology (IT) systems. Control deficiencies related to account management increase the risk that current employees, separated employees, and/or contractors may obtain unauthorized or inappropriate access to financial systems and/or data. Such access could lead to unauthorized activities and/or inappropriate disclosures of sensitive data. System access setting control deficiencies may be exploited, in either a singular fashion or in combination, by a malicious user, which may affect the confidentiality, integrity, and/or availability of DOL systems and data. The specific deficiencies identified in these two categories were as follows:

### ***Account Management***

- User accounts were not timely removed for separated users, and certain separated users had active system accounts;
- Incidents were not timely reported;
- Periodic user account re-certifications were not appropriately performed; and
- Account management controls were not performed, as evidenced by incomplete or missing access requests, non-disclosure agreements, modification forms, and termination forms.

### ***System Access Settings***

- Inactive accounts were not disabled in a timely manner;
- Password settings did not comply with the Office of the Chief Information Officer (OCIO) Computer Security Handbook; and
- Inadequate system configurations were in place.

### ***System Audit Logs Reviews***

The system audit logs reviews category represents controls designed to detect unauthorized access to IT systems. Although DOL has certain detective controls in place to mitigate the aforementioned account management and system access settings risks, we identified that certain audit logs were not generated, reviewed, or reviewed timely. The lack of effective and timely system audit log reviews may allow for unauthorized or inappropriate activities to go undetected by management for lengthy periods of time.

### ***Vulnerability Management***

Controls related to vulnerability management are designed to prevent weaknesses in IT systems from being exploited. Such controls include proactively monitoring system vulnerabilities, timely patching related security issues, and configuring IT systems in compliance with baseline security requirements. During our FY 2013 vulnerability assessments, we identified the following deficiencies:

- Numerous critical and high-risk application and operating system patches were not implemented;
  - Numerous servers were not compliant with minimum security baselines; and
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- Logical access control weaknesses, such as the ability to obtain the host security identifier for the remote host without credentials, existed.

In addition, we noted that one agency did not implement any corrective actions in FY 2012 or FY 2013 related to patch and configuration management weaknesses we identified in FY 2011 for one of its IT systems. The agency had developed Plans of Action and Milestones to address these weaknesses; however, they were not scheduled for completion until December 31, 2013.

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

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

The National Institute of Standards and Technology Special Publication 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, provides federal information systems standards and guidelines for controls that include, but are not limited to, the controls in which deficiencies were identified.

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

- a) Coordinate efforts among the DOL agencies to develop procedures and controls to address account management, system access settings, system audit log reviews, and vulnerability management control deficiencies in financial and support systems;
- b) Monitor the agencies' progress to ensure that procedures and controls are appropriately implemented and maintained; and
- c) Coordinate with the applicable agencies to ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address account management, system access settings, system audit log reviews, and vulnerability management control deficiencies.

**Management's Response:** The Office of the Assistant Secretary for Administration and Management (OASAM) appreciates the importance of adequately managing Information Technology (IT) security risks within DOL's major information systems and is committed to ensuring the Department implements appropriate corrective actions in a timely fashion. The Chief Information Officer continues to enhance its Enterprise Risk Management and Continuous Monitoring efforts and completed the following activities in FY 2013:

- Monitored Agencies progress in mitigating weaknesses found to be contributors to the Department's Significant Weakness via Agency Operating Plans and Departmental Administrative Measures.
- Implemented Enterprise IT Security Performance Metrics enabling a Departmental view into agency compliance progress with respect to achieving vulnerability and configuration management targets, and risk management goals.



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- Deployed an enterprise IT security tool enabling a Departmental view and automated monitoring capability of asset inventories, and vulnerability and configuration management of all Departmental systems.

OASAM accepts the OIG's recommendations. Moving forward in FY 2014, the OCIO will increase communication with DOL Agencies to ensure they give priority attention and sufficient resources to prioritize and complete the corrective action required to address the identified account management, vulnerability and configuration control deficiencies. The OCIO will monitor agency progress on addressing these deficiencies, as well as; assess agency progress on achieving the IT Security Performance Metrics on a quarterly basis via Agency dashboards. In FY 2014, the OCIO will also acquire and begin a Department-wide deployment of additional Enterprise IT Security tools as a part of the Department's Continuous Monitoring efforts via the Department of Homeland Security sponsored Continuous Diagnostics and Mitigation program. Further, to ensure we continue to safeguard DOL's financial systems, OASAM will evaluate its current policies and procedures to seek ways we can improve continuous monitoring processes to strengthen the overall security posture of DOL's information systems.

**Auditors' Response:** We will conduct follow-up procedures in FY 2014 to determine whether corrective actions have been developed and implemented.

## 2. Lack of Sufficient Controls over Grants

DOL awards numerous formula and discretionary grants to various state and local governments, nonprofit organizations, and other organizations. The Employment and Training Administration (ETA) awards and monitors the majority of these grants. Recipients of DOL grants are required to report their expenses to DOL on a quarterly basis via form ETA 9130, *U.S. DOL ETA Financial Report*, or a SF-425, *Federal Financial Report* (cost reports). During our FY 2013 audit procedures, we identified new deficiencies in certain controls over grants, in addition to certain ones that were reported in prior years, as described below. These deficiencies are grouped into two categories Grant Accrual and Grant Monitoring.

### **Grant Accrual**

Each year, ETA performs a grant accrual accuracy analysis to determine if the methodology used to calculate the previous year's September 30 grant accrual is reasonable, and to develop cost-to-payment ratios for subsequent grant accrual calculations. The accuracy analysis compares the expense amounts accrued at year end to the expenses subsequently reported on the grantees' cost reports. During our FY 2013 testwork over the accuracy analysis for the grant accrual as of September 30, 2012, we identified discrepancies between information in the executive summary and the accompanying tables of ETA's initial analysis documentation, which included evidence of management review of the analysis. However, the review was not adequate enough to detect those discrepancies because sufficiently detailed procedures were not in place to document the review process. If the analysis is not properly reviewed, an increased risk exists that errors in the validity of the data and preparation of the grant accrual accuracy analysis will not be detected and could potentially affect the reliability of the accrual ratios.

During our control test work performed over the ETA grant accrual as of March 31, 2013, we reviewed the draft *Standard Operating Procedures for Grant Accrual and Review* dated March 2013 and the grant accrual summary to determine if the deficiencies previously reported by us were remediated and noted the following continuing issues:

- The draft standard operating procedures were updated to show ETA's assessment over the reasonableness of management's expectations for the grant accrual each period. However, ETA did not consider changes in
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funding levels or other relevant changes and did not compare historical amounts to actual expenses recorded to evaluate if historical accrual amounts were consistently accurate or if ETA's accrual methodology should be changed to account for any material differences.

- The draft standard operating procedures did not include a requirement to investigate and resolve estimated grant accruals outside the range of management's expectations.
- Procedures requiring individuals performing supervisory reviews to verify the accuracy of the accrual data and calculation had not been developed.

In addition, we noted that at the time of our testing, the standard operating procedures had not been finalized and more than half of the fiscal year had passed.

ETA management believes that its existing policies and procedures are adequate, as they detail how the accrual should be prepared and include comparability of its accrual calculation over a period of years. ETA management notes that, in their opinion, this is a sufficient method to demonstrate reasonableness of the accrual. Therefore, they have not updated the procedures sufficiently to resolve all prior year recommendations.

The lack of sufficient internal controls over the grant accrual increases the risk that gross costs, other liabilities, and advances could be misstated.

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

Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Appendix A, Section I, states:

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions...All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation).

In addition, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (the Standards) states:

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

Managers also need to compare actual performance to planned or expected results throughout the organization and analyze significant differences.

## ***Grant Monitoring***

### Site Visits

We selected a sample of 45 site visits from the on-site monitoring reviews planned in FY 2013 as of June 30, 2013, by each of the six regions to determine if the on-site monitoring reviews were properly performed and documented in the Grant Electronic Management System (GEMS). Based on our testwork, we identified issues with both the site visit monitoring plans and the site visit monitoring review reports, as follows:

- For 3 items, ETA was unable to provide an on-site visit monitoring review report for FY 2013;
- For 1 item, the on-site monitoring review was not performed as indicated on the monitoring review plan received from the region as of August 2013;
- For 12 items, an on-site monitoring review was performed, but the on-site monitoring review report was not issued within 45 business days of the last day of the on-site review; the reports were issued ranging from 5 to 137 days past the due date;
- For 2 items, inconsistencies existed between findings in the completed on-site monitoring review report and those in GEMS;
- For 5 items, the on-site monitoring review report was not included in GEMS; and
- For 5 items, the on-site monitoring review report was not uploaded in GEMS until after we notified ETA the report was missing during the completion of our testwork.

ETA did not have cohesive policies and procedures in place to ensure region site visit plans were prepared, reviewed, and updated timely throughout the fiscal year. In addition, ETA was unable to provide a current year monitoring report for two site visits because of inaccurate completion and review of site visit plans. Although ETA procedures specified a timeline requirement for completing and filing on-site monitoring review reports, that requirement was not properly monitored. Lastly, ETA did not have policies and procedures in place to monitor the completeness of documentation included in GEMS related to on-site monitoring review reports issued.

Failure to monitor site visit plans increases the risk that proper monitoring is not occurring, which increases the risk of undetected grantee reporting errors and/or violations. In addition, failure to implement proper monitoring controls to ensure compliance with existing policies and procedures increases the risk that policy deviations are not detected and corrected. Specifically, failing to ensure on-site monitoring review reports are completed timely increases the risk that issues identified with grantees are not resolved timely.

If proper documentation is not retained and readily accessible in GEMS, possible findings may not be communicated in the monitoring review reports and tracked for correction. This could ultimately lead to errors in grant expenses not being identified properly by ETA management.

Without adequate controls in the grant monitoring process, grantees may be misusing grant funds without detection by DOL. As a result, grant-related expenses, advances, payables and undelivered orders could be misstated.

The Standards states:

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available or 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.

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For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events.

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.

The ETA *Core Monitoring Guide* states:

Subsequent to the review, the results of using the guide in conducting the review are to be entered into GEMS at the objective level for each core activity.

The DOL *Update to the August 30, 2011, Memo for Federal Project Officer (FPO) Grant Management Responsibilities Related to the Grants Electronic Management System (GEMS)* memorandum states:

Details of the monitoring event, including all findings, observations, and promising practices will be entered into GEMS within 30 working days of issuing the report to the grantee...

The FPO is required to input all reportable compliance findings, observations, promising practices and the grantee's progress to resolution. The FPO must also input questioned cost amounts under the appropriate finding. Details of the monitoring event, including all findings, observations, and promising practices will be entered into GEMS within 30 working days of issuing the formal report to the grantee. A copy of the formal compliance report will be uploaded to the Case File module within 30 working days of issuing the report to the grantee.

The *SES Performance Management; Executive Performance; Agreement Appraisal Cycle [October 1 – September 30]* results 2 section (Measure of Outcomes/Targets) state:

1. Conduct on site monitoring according to plan and issue Monitoring Reports
  - a. 80% of all initial written Monitoring Reports issued within 45 days of the exit conference date.
  - b. Copies are uploaded to GEMS within 30 days of issuance.

#### Other Monitoring Procedures

As part of our audit procedures over grant controls as of June 30, 2013, we selected a sample of 45 grants from the population of grant expenses recorded in the New Core Financial Management System (NCFMS) to determine if Federal Project Officers' (FPO) desk reviews were properly performed and documented in GEMS. However, for 1 of the 45 grants selected, the desk review was not completed within the required timeframe, and for 1 of 45 grants selected, adequate documentation did not exist to support the assigned risk factors. ETA management communicated to us that workload management issues existed because of staff turnover and vacancies that created shortages of experienced staff.

We also tested the December 31, 2012, Delinquent Reporting Analysis, and noted that the analysis did not identify all grantees that were delinquent in filing their cost reports. As noted in FY 2012, the analysis only identified those grantees that were delinquent and had cash advance balances over a certain threshold because related procedures were designed in this manner. Based on our testwork as of March 31, 2013, we noted that the deficiency related to the analysis only identifying those grantees that were delinquent and had a cash advance balance over a certain threshold was remediated.

Based on testwork performed as of June 30, 2013 over the Delinquent Reporting Analysis, we noted that all other deficiencies previously reported by us (i.e., inadequate procedures related to the timeliness of the quarterly notification of delinquent filers and deadlines for follow-up on delinquent filers) were resolved but had been present for a majority of the fiscal year. In addition, upon review of the revised policies, we noted a lack of specific requirements related to documentation needed by FPOs to evidence their follow-up with delinquent grantees; ETA management did not deem such specific requirements necessary.

Without adequate grantee monitoring controls, grantees may misreport, intentionally or unintentionally, grant expenses without the misstatement being detected by ETA, or may fail to report grant expenditure details. In addition, the miscoding of grantee risk factors may lead to inappropriate allocation of monitoring resources. As a result, grant-related expenses, advances, payables, and undelivered orders could be misstated.

The DOL *Update to the August 30, 2011, Memo for Federal Project Officer (FPO) Grant Management Responsibilities Related to the Grants Electronic Management System (GEMS)* memorandum states:

A quarterly desk review is required on all projects in GEMS. Desk reviews must be completed following a review of both the progress and cost reports submitted during the reporting timeframe. Section iii below identifies the due dates for Desk Review completions....

Frontline supervisors are responsible for ensuring the FPOs meet these requirements and timeframes. Supervisors conduct quarterly reviews of the GEMS exception report and notify FPOs of concerns or anomalies regarding completeness or timeliness. Supervisors report their unit's status to their Administrator on a regular basis.

Chapter 75 of Title 31, United States Code (commonly referred to as the *Single Audit Act*), states:

Each Federal agency shall, in accordance with guidance issued by the Director under section 7505, with regard to Federal awards provided by the agency – (1) monitor non-Federal entity use of Federal awards...

In addition, the Standards states:

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

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.

To address the issues noted above, the Acting Assistant Secretary for Employment and Training should:

- a) Revise current management review procedures to ensure that all aspects of the grant accrual accuracy analysis are properly reviewed and approved to prevent potential errors in the preparation of the analysis;
- b) Update grant accrual review procedures to include assessing and documenting the reasonableness of management's expectations for the grant accrual each period by comparing historical accrual data to actual



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- recorded grant expenses and taking relevant changes into consideration; estimated grant accruals outside the range of management's expectations should be investigated and resolved;
- c) Require individuals performing supervisory reviews to verify the accuracy of the grant accrual data and calculations;
  - d) Develop and implement a monitoring procedure to ensure changes to original regional site visit plans are appropriate and accurately documented;
  - e) Update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring;
  - f) Update written policies and procedures to include specific documentation requirements for GEMS to support the conclusions included in the on-site monitoring review reports;
  - g) Develop and implement monitoring controls to determine that on-site monitoring review reports are timely issued and uploaded into GEMS with the appropriate documentation;
  - h) Adhere to existing written policies and procedures for evaluating and documenting grantee risk;
  - i) Develop and implement monitoring procedures to review FPOs' risk factors quarterly on a sample basis;
  - j) Develop and implement a staffing contingency plan to address potential future FPO turnover or staff shortages; and
  - k) Update written policies and procedures to require FPOs to document communication with delinquent grantees in a standardized manner;

**Management's Response:** ETA does not agree with the auditor's determination of a significant deficiency in controls in the area of grants management. While we recognize room for improvement in some areas, ETA manages its grants in a sound and reliable manner.

#### *Grant Accrual*

ETA updated the grant accrual standard operating procedure (SOP) to provide additional clarification of management's expectation of the quarterly grant accrual. Additionally, the SOP was updated to provide procedures for individuals performing supervisory review to verify the reasonableness of the accrual data (e.g. ensuring only grant activity for the current accrual period) and the result of the calculation (as compared to the general ledger). ETA considers historical accrual amounts in establishing management's expectations as well as considering changes in funding levels when needed (e.g. ARRA funding). While we track the historical accrual amounts and assess changes in funding levels, we also compare the estimated accrual to actual costs on an annual basis. Significant differences are analyzed to determine if changes in the grant accrual methodology is needed. Additional analysis and updates to the procedures will be considered in fiscal year 2014.

#### *Onsite Monitoring*

The ETA Regional Offices have a corrective action plan in place to ensure better results. This plan was already in place at the time of the audit. ETA Regions continue to have a set of policies and procedures in place including: the Regional Administrator (RA) Performance Standards, that cascade down to managers and staff; a number of policies and procedures in place for monitoring and the issuance of monitoring reports such as the Core Monitoring Guide, the monitoring report template, and the Memo for Federal Project Officer Grant Management Responsibilities related to GEMS.

#### *Other Monitoring Procedures*

Since the auditor's testing period, the Delinquent Reporting Analysis has improved significantly. As previously recommended, all grantees that were delinquent are included in the analysis regardless of the advance balance. Additionally, communication between ETA's Accounting, National and Regional offices has increased. Federal Project Officers are followed up with closely to make sure they provide comments to the delinquent ETA 9130

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cost reports and take appropriate actions to increase the rate of on-time submissions. The results of this review are communicated back to ETA's accounting office as evidence of follow up with grantees. The results can be in whatever form the FPOs deem sufficient. The methods of such communication are a means to an end. The end result is that ETA wants to reduce the number of delinquent reports. ETA believes that the results of these efforts were evidenced by the decline in the number of delinquent reports from March 31 quarter to June 30 quarter.

ETA will review and consider the auditor's recommendations in all these areas of grants management. ETA will develop corrective action plans to address any control deficiencies.

***Auditors' Response:*** In accordance with auditing standards generally accepted in the United States of America, we considered the grant-related deficiencies identified above in our FY 2013 audit individually and in the aggregate. In our professional judgment, the aggregation of these findings results in a significant deficiency. Although management stated that they do not concur with our categorization of identified deficiencies as a significant deficiency, they plan on taking steps to address the deficiencies identified. We will conduct follow-up procedures in FY 2014 to determine whether corrective actions have been developed and implemented.