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, 2013

Date Issued: March 31, 2014
Report Number: 22-14-006-13-001

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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 DOL's consolidated financial statements as of and for the year ended September 30, 2013, and has issued its report thereon dated December 16, 2013. The audit was conducted in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. The objective of the audit was to express an opinion on the fair presentation of DOL's consolidated financial statements.

KPMG noted certain matters, as of December 16, 2013, involving internal control and other operational matters not related to IT security, that are presented for management's consideration. These management advisory comments are in addition to the significant deficiencies presented in KPMG's *Independent Auditors' Report*, included in DOL's *FY 2013 Agency Financial Report*. These management advisory comments, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I. Included in the comments are 12 prior-year comments that still existed in FY 2013. Exhibit I also includes 8 comments and related recommendations that are new for this year. Finally, the 7 prior-year comments and related recommendations the auditors determined had been satisfactorily addressed during FY 2013 are listed in Exhibit II.

We prepared this report to provide information to management that could assist in the development of corrective actions for the management advisory comments identified in the audit. Satisfactorily addressing these comments by management will help to ensure these issues do not rise to the level of a significant deficiency in the future. OIG will issue separate reports to each applicable Agency Head with comments resulting from the testing performed over the Department's general and application controls related to certain information technology (IT) systems that support the consolidated financial statements.

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U.S. Department of Labor

Office of Inspector General
Washington, DC. 20210

March 31, 2014

Inspector General's Report

Ms. Karen Tekleberhan
Acting Chief Financial Officer
U.S. Department of Labor
200 Constitution Avenue, NW
Frances Perkins Building
Washington, D.C. 20210

KPMG has audited the consolidated financial statements of the Department for the fiscal year ended September 30, 2013, and has issued its report thereon dated December 16, 2013. In planning and performing its audit of the consolidated financial statements of DOL, in accordance with auditing standards generally accepted in the United States of America, KPMG considered DOL's internal control over financial reporting (internal control) as a basis for designing its auditing procedures for the purpose of expressing an opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control. Accordingly, KPMG did not express an opinion on the effectiveness of DOL's internal control. KPMG has not considered internal control since the date of its report.

KPMG noted certain matters, as of December 16, 2013, involving internal control and other operational matters that do not relate to IT security and are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I. These comments are in addition to the significant deficiencies presented in KPMG's *Independent Auditors' Report*, dated December 16, 2013, included in DOL's *FY 2013 Agency Financial Report*. Included in the comments are 12 prior-year comments that still existed in FY 2013. Exhibit I also includes 8 new comments and related recommendations. Finally, the 7 prior-year comments and related recommendations the auditors determined had been satisfactorily addressed during FY 2013 are listed in Exhibit II. Comments involving internal control and other operational matters noted that relate to IT security will be presented in separate letters from us to the appropriate agency heads.

KPMG's audit procedures are designed primarily to enable it 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.

Elliot P. Lewis

Elliot P. Lewis
Assistant Inspector General
for Audit

Comments and Recommendations

New Comments and Recommendations Identified in FY 2013

1. Improvements Needed over the Preparation and Review of Journal Entries

Although improvements had been made over the review of journal entries compared to prior years, we continued to note instances where further improvements are needed. DOL records journal entries throughout the year to account for certain transactions and to make corrections to general ledger account balances, as necessary. The financial statement audit identified various errors in journal entries in the prior year. During FY 2013, the OCFO implemented a process to monitor journal entries on a quarterly basis, and formalized policies and procedures for assigning preparer and approver rights to individuals for posting journal entries in New Core Financial Management System (NCFMS). Additionally, journal entry training was available on a monthly basis.

As a result of the actions above, improvements were noted in the preparation and review of journal entries during FY 2013 audit testing. However, certain deficiencies were identified during testing of a sample of 171 journal entries recorded in NCFMS for the period October 1, 2012, through September 30, 2013. Twenty-seven of the 171 journal entries contained one or more deficiencies. Specifically, the following were noted:

- 14 instances where the entry was not recorded in accordance with the United States Standard General Ledger (USSGL) and/or applicable federal accounting standards;
- 4 instances where the entry did not reflect the underlying events and transactions;
- 11 instances where the Journal Voucher (JV) was not properly and/or timely reviewed by the reviewer;
- 5 instances where the entry was not recorded in the correct accounting period and/or at the appropriate amount; and
- 2 instances where the preparer did not have JV preparer rights.

Furthermore, certain agencies within DOL did not assess the materiality of the aggregated impact of all entries that were recorded to correct prior-year balances in the current fiscal year. DOL had not assessed the impact of 3 of the 171 journal entries tested.

These errors were caused by authorized DOL supervisors' insufficient review of journal entries and their lack of awareness of new USSGL guidance to ensure the journal entries were properly prepared and supported before posting them to the general ledger. Furthermore, DOL did not have in place a tracking mechanism to aggregate the departmental-level impact on the current fiscal year's financial statements of the journal entries that were made to correct prior-year errors. Without proper review and approval of transactions, the risk increases that a material error would not be prevented or detected and corrected in a timely manner. DOL may also not be aware of the full impact on the current year financial statements from prior-year correcting entries that were recorded in the current year.

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

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

Recommendations

We recommend the Acting CFO:

1. Monitor journal entries and provide training to applicable supervisors to ensure they are performing sufficient reviews of journal entries and related documentation before the entries are posted.
2. Develop and implement procedures for all agencies to assess the aggregate impact of all entries that were made during the current fiscal year to correct prior-year balances.

Management's Response

Management acknowledges there is room for improvement and will continue to reinforce policies and procedures and provide additional training, as needed, to further enhance performance in this area. Although we agree that improvement is needed, we do not agree with all of the deficiencies identified. For example, not recording entries in accordance with USSGL, some of these entries were recorded to correct entries recorded in the prior year incorrectly therefore the correction will not be a typical entry but it will be the necessary entry. This example relates to one of the other noted deficiencies, "entry not recorded in the correct accounting period". We do not agree that an entry processed to correct a PY item is a deficiency, the JV is accurate, and it is just a matter of when the error was discovered. Correcting a PY error via JV is not a JV deficiency. Lastly, we believe that journal entries are timely reviewed by the supervisors.

With that being said, we will continue to monitor journal entries and provide training where applicable to enhance the process.

Auditors' Response

Although management did not concur with all the deficiencies, they indicated that actions will be taken to address them. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

2. Improper Design of the Funds Check Control

The process of manual override of the NCFMS control to prevent obligations in excess of amounts available in an appropriation or fund was not designed properly and documented in policies and procedures for the majority of the fiscal year to mitigate the risk of noncompliance with the Anti-Deficiency Act for FY 2013. Specifically, evidence was not maintained to support the following:

- Disabling of the funds check system configuration by an authorized individual.
- Enabling of the system configuration after recording an approved transaction that required the initial disabling of the fund control system configuration.

OCFO's procedures for the instances of manual override of the funds control for funds prior to FY 2009 that were in place for the majority of the fiscal year did not require maintenance of proper documentation. Additionally, OCFO did not have documented maintenance procedures in place for processing the manual override of the funds control subsequent to FY 2009. The OCFO revised its policies and procedures in September 2013 to require OCFO to maintain proper documentation if any manual override (disabling/enabling system configuration) occurred to funds control regardless of fiscal year funds. However, proper evidence was not maintained for the majority of the fiscal year. Furthermore, the completeness of the listing could not be verified because the listing was manually created, and proper monitoring policies and procedures to ensure its completeness were not implemented.

In the absence of formal policies and procedures for manual overriding, OCFO relied on compensating controls designed to detect potential instances of noncompliance with the Anti-Deficiency Act and believed the risk of noncompliance was low.

Without effective policies and procedures to maintain evidence of the manual override to ensure a complete listing of all manual overrides, DOL management may be unaware of the frequency of override usage and related rationale, leading to potential abuse of this option. As a result, DOL may over-obligate funds and be noncompliant with the Anti-Deficiency Act.

The Anti-Deficiency Act, Public Law 97–258, 96 Stat. 923, states:

31 U.S. Code (U.S.C.) § 1341 – Limitations on expending and obligating amounts:

> (a)(1) An officer or employee of the United States Government or of the District of Columbia government may not —
>
> (A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation;
>
> (B) involve either government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law;
>
> (C) make or authorize an expenditure or obligation of funds required to be sequestered under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985; or
>
> (D) involve either government in a contract or obligation for the payment of money required to be sequestered under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985.

31 U.S.C. § 1517 – Prohibited obligations and expenditures:

> (a) An officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding—
>
> (1) an apportionment; or
>
> (2) the amount permitted by regulations prescribed under section 1514(a) of this title.

National Institute of Standards and Technology, Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, Section AU-3, Contents of Audit Records, states:

> Control: The information system generates audit records containing information that establishes what type of event occurred, when the event occurred, where the event occurred, the source of the event, the outcome of the event, and the identity of any individuals or subjects associated with the event.
>
> Supplemental Guidance: Audit record content that may be necessary to satisfy the requirement of this control, includes, for example, time stamps, source and destination addresses, user/process identifiers, event descriptions, success/fail indications, filenames involved, and access control or flow control rules invoked. Event outcomes can include indicators of event success or failure and event-specific results (e.g., the

> security state of the information system after the event occurred). Related controls: AU-2, AU-8, AU-12, SI-11

The GAO Standards state:

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

In addition, the GAO 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 of electronic form. All documentation and records should be properly managed and maintained.

Recommendation

3. We recommend the Acting CFO develop and implement an automated log of instances of the manual override of the funds controls and related management review procedures. Until an automated solution can be achieved, enhance policies and procedures to include procedures addressing the completeness of the listing of instances of the manual override of the funds control.

Management's Response

DOL disagrees that the effect of the manual override process may result in an over obligation of funds creating an Anti-deficiency action violation due to the internal review and documentation maintained by DOL on such requests. DOL had procedures in place to address the need for the manual override process, which impacts funds subsequent to FY 2009 due to NCFMS migration in FY 2010. DOL agrees that more detailed procedures were updated during FY 2013. The following tasks are currently being implemented by DOL to confirm evidence that subsequent controls are in place: OCFO will publish updated policies and procedures on LaborNet as guidance for Agencies to follow.

- OCFO will maintain a log of all funds override control requests received by OCFO.

- Certain OCFO and GCE personnel will be granted authorization to review and approve the fund control override request.
- OCFO will review the requests and confirm the available balance against the trial balance as of the requested date.
- OCFO will provide approval to GCE.
- GCE will process the request by GCE authorized personnel.
- OCFO will confirm that the action was completed by GCE by e-mail and a screen print (if necessary) will be provided for documentation and record keeping purposes.
- GCE will provide a report of the funds control override requests and actions on a monthly basis and OCFO will reconcile against their list for completeness. This will be done until an automated funds control override report is completed.

Auditors' Response

Although management did not agree with a portion of the effect, system controls need to be strengthened to prevent over obligation even in place of manual compensating controls. Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

3. <u>Deficiencies in Office of Job Corps (OJC) Reconciliation Controls between the U.S. Department of Health and Human Services - Payment Management System (HHS-PMS) and the Department's NCFMS</u>

Employment and Training Administration (ETA) generates a quarterly HHS-PMS Synch Report for OJC contracts which identifies differences between the authorized amount (obligation amount) and the advance amount (disbursement amount) reported in HHS-PMS and NCFMS. However, mapping issues between HHS-PMS and NCFMS, which prevent the systems from communicating properly, continued to in FY 2013 as they did in prior years. Additionally, ETA did not have policies and procedures regarding the roles and responsibilities for reviewing the OJC HHS-PMS Synch Report.

The OJC HHS-PMS Synch Report for the quarter ended March 31, 2013, was unreliable because of inaccuracies caused by significant mapping issues between HHS-PMS and NCFMS. Per discussion with OJC management, an independent contractor's OJC HHS-PMS reconciliation was identified as the primary control over OJC contracts. However, the OJC HHS-PMS reconciliation as of March 31, 2013, did not contain evidence documenting the review of the reconciliation by someone other than the preparer. Additionally, the completeness of the OJC HHS-PMS reconciliation as of March 31, 2013, could not be verified.

ETA did not deem allocating resources to resolve the mapping issues between HHS-PMS and NCFMS as necessary because it was phasing out the OJC Synch Report as OJC contracts are transferred to the NCFMS Accounts Payable module. ETA management stated that the majority of contracts will be transferred to this module within the next fiscal year, leaving in HHS-PMS what management believes to be an immaterial dollar value and number of contracts that will not be migrated. Additionally, ETA did not consider the OJC HHS-PMS Synch Report to be its primary control over OJC contracts and, therefore, did not deem it necessary to develop and implement related policies and procedures for reviewing the report. Regardless, ETA has not fully developed and implemented a process to ensure the completeness and accuracy of the OJC HHS-PMS reconciliation, and has not established minimum review requirements. Without adequate reconciliation controls, errors could occur and not be detected or corrected, resulting in a misstatement of OJC contract-related expenses, advances, payables, and undelivered orders.

The GAO Standards state:

> Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approva1s, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.

The GAO Standards also state:

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

Finally, the GAO Standards state:

> 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.

Recommendation

4. Until the transfer of OJC contracts to the NCFMS Accounts Payable module is complete, we recommend the Acting CFO coordinate with the Assistant Secretary for Employment and Training to ensure:

a. The completeness and accuracy of the OJC HHS-PMS reconciliation.
b. The OJC HHS-PMS reconciliation is reviewed by an individual other than the preparer and that this review is documented.

Management's Response

ETA recognizes the need for adequate reconciliation controls for OJC contactors paid via the HHS-PMS. In FY 2012 ETA established a quarterly reconciliation procedure of NCFMS and HHS-PMS balances for all OJC contractors that utilize the HHS-PMS system. The reconciliations include contract obligations, payments and reported expenses, and are complete and well-documented similar to the other reconciliation procedures performed by ETA.

This OJC HHS-PMS reconciliation is now our primary reconciliation, and we do not believe that there is a need or a requirement for a second reconciliation of the same data using the system generated Synch file. In addition, OJC recently moved all contractors (with the exception of the student payroll contract) off of the HHS-PMS system, and the new contract modifications issued in FY 2013 are paid using the regular NCFMS accounts payable processing. At this point ETA does not believe that it is necessary to pursue mapping fixes for the relatively immaterial unpaid and/or unexpended balances remaining on old OJC accounting lines. We will continue to monitor theses balances using our manual HHS-PMS reconciliation procedure until all amounts are fully paid and expended. We will ensure that HHS-PMS transactions are completely and accurately reflected in NCFMS.

We do not agree to the auditor assertion that the March 31, 2013 reconciliation's completeness could not be verified. The reconciliation is prepared by obtaining all contracts and applicable mods from the Office of Contracts through the review date. The contracts are manually searched for in NCFMS and HHS-PMS to determine the cumulative balances of obligations, payments, and expenses. This review was sent to the auditors electronically, as requested. The hard copy of the reconciliation is submitted to management for review/approval. Management signs and dates the hard copy when the review/approval is complete. We believe that our current OJC HHS-PMS reconciliation procedure, while it may be manual, is appropriate and in accordance with applicable standards for internal control.

Auditors' Response

Although management stated they did not concur with the recommendations, sufficient documentation was not provided to contradict the deficiencies identified. Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

4. Insufficient Review and Approval of Initial Grant Awards and Subsequent Grant Award Modifications

The authorization of 32 initial grant awards and 32 grant modifications were selected as of March 31, 2013, to determine if they were appropriately reviewed, authorized, and entered into E-Grants. Of these 64 grants, the following were noted:

- 18 grants for the Bureau of Labor Statistics (BLS) could not be tested to verify segregation of duties between individuals who entered grant awards/modification into E-Grants and those who approved obligations. BLS maintained a process that allowed grant officers to delegate administrative functions to staff; however, system-provided reports could not be identified with specific grant documents to demonstrate appropriate segregation of duties.
- 3 grants related to Veterans' Employment and Training Service (VETS) and the Occupational Safety and Health Administration (OSHA) had not been reviewed by an authorized accountant in E-Grants prior to their approval. According to VETS and OSHA management, on certain occasions E-Grants does not prompt or require an accountant's review prior to a modification's approval.

Without appropriate segregation of duties, review, and approval of grants, subsequent modifications, and funding, DOL could potentially enter into unauthorized grants or modifications to existing grants and over-obligate existing funding.

The GAO Standards state:

> Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees.

In addition, the GAO Standards state:

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

> records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.

OMB Circular No. A-123, 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.

Recommendations

We recommend that the Acting CFO coordinate with the respective agencies to ensure that:

5. Procedures for BLS grants are developed and implemented to clearly demonstrate appropriate segregation of duties in the grant award and modification process.
6. The Assistant Secretary for Veterans' Employment and Training and the Assistant Secretary of Occupational Safety and Health work with the Assistant Secretary for Employment and Training to research and identify why E-Grants does not consistently require an accountant's review prior to a grant modification's approval, and implement appropriate corrective action.

Management's Response

BLS concurs with the finding and recommendation. The BLS will work with the E-Grants staff to develop and implement procedures that demonstrate appropriate segregation of duties in the grant award and modification process.

VETS does not concur that the authorized accountant did not review the grant modifications.

Auditors' Response

Although VETS does not concur, sufficient documentation was not provided to demonstrate the authorized accountants review. BLS indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

5. Insufficient Supporting Documentation for Contracts

Based on testing a sample of 58 contracts[1] from NCFMS for the Department's compliance with the Federal Acquisition Regulation (FAR), one contract (2407DOLJ091A20855002) did not have proof that the contract was signed by a contracting officer with a valid warrant, and one competitive contract (2409DOLB099328948000) did not comply with the FAR requirement for a written quote. Office of the Assistant Secretary for Administration and Management (OASAM) personnel had not maintained adequate supporting documentation to substantiate that a contracting officer with a valid warrant approved funds for obligation. For a second contract, the OASAM contracting officer lacked sufficient oversight to ensure the contract was supported by a written quote. DOL was not in full compliance with FAR, Subpart 6.1, Full and Open Competition; and Subpart 13, Simplified Acquisition Procedures. As a result, the Department could not assure that qualified personnel were suitably trained to perform contracting tasks in the best interests of the government and that it received the best value.

FAR, Subpart 6.1 – Full and Open Competition, states:

> FAR, 6.101 – Policy
>
> (a) 10 U.S.C. § 2304, and 41 U.S.C. § 253, require, with certain limited exceptions (see Subpart 6.2 and 6.3), that contracting officers shall promote and provide for full and open competition in soliciting offers and awarding Government contracts. (b) Contracting officers shall provide for full and open competition through use of the competitive procedure(s) contained in this subpart that are best suited to the circumstances of the contract action and consistent with the need to fulfill the Government's requirements efficiently (10 U.S.C. § 2304, and 41 U.S.C. § 253).
>
> FAR, 1.602-1 Authority
>
> (a) Contracting officers have authority to enter into, administer, or terminate contracts and make related determinations and findings. Contracting officers may bind the Government only to the extent of the authority delegated to them. Contracting officers shall receive from the appointing authority (see 1.603-1) clear instructions in writing regarding the limits of their authority. Information on the limits of the contracting officers' authority shall be readily available to the public and agency personnel. (b) No contract shall be entered into unless the contracting officer ensures that all requirements of law, executive orders, regulations,

[1] Contracts selected were obligated between October 1, 2012, through June 30, 2013.

> and all other applicable procedures, including clearances and approvals, have been met.

In addition, FAR, Subpart 13 – Simplified Acquisition Procedures, states:

> FAR, 13.106-3 – Award and documentation
>
> (b) File documentation and retention. Keep documentation to a minimum. Purchasing offices shall retain data supporting purchases (paper or electronic) to the minimum extent and duration necessary for management review purposes. The following illustrate the extent to which quotation or offer information should be recorded:
>
> > (1) Oral solicitations. The contracting office should establish and maintain records of oral price quotations in order to reflect clearly the propriety of placing the order at the price paid with the supplier concerned. In most cases, this will consist merely of showing the names of the suppliers contacted and the prices and other terms and conditions quoted by each.
> >
> > (2) Written solicitations (see 2.101). For acquisitions not exceeding the simplified acquisition threshold, limit written records of solicitation or offers to notes or abstracts to show prices, delivery, references to printed price lists used, the supplier or suppliers contacted, and other pertinent data.
> >
> > (3) Special Situations. Include additional statements— (i) Explaining the absence of competition if only one source is solicited and the acquisition does not exceed the simplified acquisition threshold (does not apply to an acquisition of utility services available from only one source); or (ii) Supporting the award decision if other than price-related factors were considered in selecting the supplier.

The GAO 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 Acting CFO coordinate with OASAM to:

7. Enforce minimum documentation requirements to support compliance with the FAR.
8. Develop and implement monitoring procedures to ensure compliance with the FAR regarding competitive contracts.

Management's Response

Management does not concur with the findings and recommendations. OASAM currently has monitoring procedures in place to ensure minimum documentation and competition requirements are met, and therefore OASAM is in full compliance with the FAR.

Management does not agree with the finding that the Contracting Officer did not have a valid warrant at the time DOLJ091A20855, Modification #002 was signed. The Contracting Officer had a valid Contracting Officer's warrant at the time he executed the subject document.

Management does not agree with the finding that Task Order #DOLB099328948 did not contain a written quote in the file. A written quote from the Single Award IDIQ contract holder is included in the task order file.

Auditors' Response

Although management does not concur, sufficient documentation was not provided to contradict the deficiencies identified.

6. <u>Review of the Reconciliation of Unemployment Trust Fund (UTF) Ending Balances to Bureau of Public Debt (BPD) Ending Balances</u>

The calculation of the expected Fund Balance with Treasury (FBWT) balance reported on the reconciliation of UTF ending FBWT to the BPD ending FBWT as of September 30, 2013, contained a mathematical error of approximately $190 million. Furthermore, OCFO did not provide documentation to support that it had identified this error.

OCFO personnel indicated that the error was entirely related to a timing difference between transactions recorded by the Department and by BPD. However, OCFO did not sufficiently document its conclusions related to reconciling this item, and elected instead to manually adjust the expected ending FBWT presented on the reconciliation by $190 million. Insufficient documentation of differences identified when performing reconciliation controls may result in undetected misstatements in the consolidated financial statements and inefficiencies in future reconciliations if undocumented differences persist and again require research.

The GAO 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.

The GAO Standards also state:

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

Recommendation

9. We recommend the Acting CFO develop and implement policies and procedures related to the documentation requirements when differences are identified in performing the reconciliation of UTF to BPD ending FBWT.

Management's Response

Management does not concur with this NFR on the basis that the ultimate purpose of the monthly reconciliation is to ensure that the FBWT amounts from NCFMS agree with amounts reported on the Treasury Government-wide Accounting (GWA) statement. A component of this process is to reconcile activity posted in NCFMS to BPD's reported activity and generate an expected balance. However, in this instance since BPD had already submitted their monthly files and an error was noted and corrected afterward by both BPD and DOL, we adjusted the calculated BPD ending balance to the new reported uninvested ESAA balance after consultation with BPD. DOL agrees that the documentation could be improved; however, there was no risk of financial statements misstatement as there are several layers of control within the reconciliation process.

Auditors' Response

Although management stated they did not concur, sufficient documentation was not provided to contradict the deficiencies identified. Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

7. Improvements Needed over the Calculation of Net Present Values Used in the Statement of Social Insurance (SOSI)

OCFO did not properly design its net present value calculation of cash flows associated with the Black Lung program. Specifically, OCFO calculated an average duration of expected cash flows based on decreasing cash flows, but instead should have used an average duration on the respective fiscal year cash flow projections.

OCFO utilized a calculation based on what it believed best represented the average duration of cash flows for the Black Lung program as it provided a better weighted-average representation of cash flows for beneficiaries who were in the Black Lung program longer. Additionally, OCFO incorrectly used OMB economic assumptions for Treasury bonds in order to use one source for discounting its benefit programs (FECA and Energy). Incorrect discount rates may misrepresent the net present value of projected cash flow benefit payments, administrative costs, and income on the SOSI; and impact the change in assumptions as reflected on the Statement of Change in Social Insurance.

Statement of Federal Financial Accounting Standards (SFFAS) 17, *Accounting for Social Insurance*, Paragraph 27, establishes the requirement to discount projected cash flows in preparing the SOSI:

> (3) Actuarial Present Values – For all programs except UI, a statement presenting the actuarial present value of each of the following: All future expenditures during the projection period related to benefit payments [and]…All future contributions and tax income (from taxation of benefits) during the projection period.

SFFAS No. 5, *Accounting for Liabilities of the Federal Government, as amended,* Paragraph 66, though not specifically applicable to the Black Lung Program, provides guidance on the selection of discount rates for liabilities:

> …the discount rate assumption for present value measurements pension liabilities should be the interest rate on marketable Treasury securities of similar maturities to the cash flows of the payments for which the estimate is being made. The discount rates should be matched with the expected timing of the associated expected cash outflow. Thus, each year for which cash flows are projected should have a separate discount rate associated with it. However, a single average discount rate may be used for all projected future payments if the resulting present value is not materially different than the resulting present value using multiple rates.

Statement of Federal Financial Accounting Concepts No.1, *Objectives of Federal Financial Reporting*, Paragraph 163, states:

> Financial reports should be consistent over time; that is, once an accounting principle or reporting method is adopted, it should be used for all similar transactions and events unless there is good cause to change. The concept of consistency in financial reporting extends to many areas, such as valuation methods, basis of accounting, and determination of the financial reporting entity. If accounting principles have changed, or if the financial reporting entity has changed, the nature and reason for the change, as well as the effect of the change, should be disclosed.

Recommendation

10. We recommend the Acting CFO design OCFO's net present value calculation of projected cash flows for the Black Lung program to properly calculate average duration of cash flows, and utilize the interest rates published by Treasury as of the start of the projection period for Treasury loans to government agencies.

Management's Response

OCFO agrees with the recommendation with regard to the calculation of average duration. For FY 2014, OCFO will modify its calculation of average duration. With regard to the source of the discount rates, OCFO will perform an analysis to ascertain the effects of using the OMB mid-session review rates and the Treasury rates on the average duration, Statement of Social Insurance, and Statement of Changes in Social Insurance Amounts and make a determination on the appropriate source for the rates.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

8. <u>Ineffective Controls over Single Audit Report and Desk Review Tracking</u>

During testing of DOL's compliance with the *Single Audit Act Amendments of 1996*, a sample of 58 single audit reports was tested to determine if the OIG completed desk reviews. For one report, the OIG did not complete a desk review and three reports were erroneously excluded from OIG's single audit tracking spreadsheet. Based on additional review, each of the 4 aforementioned reports contained findings and recommendations which were not provided to the applicable agencies for resolution. Furthermore, OIG's tracking spreadsheet contained an incorrect dollar value of the amounts audited for 20 reports, and the incorrect number of findings and/or recommendations for 13 reports.

OIG did not have monitoring procedures in place to ensure it accurately recorded all single audit reports from the Federal Audit Clearinghouse (FAC) into its single audit tracking spreadsheet. As a result of not tracking these four single audit reports, the OIG's desk review process was hindered, which may result in audit findings and questioned costs not being identified and resolved by the applicable agencies for resolution. The lack of reliable single audit data could impact agency management's ability to generate accurate and timely information for decision-making purposes.

Per the *Single Audit Act Amendments of 1996*, Section 7502 (f)(1):

> Each Federal agency which provides Federal awards to a recipient shall … review the audit of a recipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the recipient by the Federal agency.

In addition, OMB Circular No. A-133, Subpart D, Section 400(c), requires the federal awarding agency to perform the following for the Federal awards it makes:

- Ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of this OMB Circular No. A-133.
- Issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action."

The GAO Standards state:

> Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements for budget development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.

The GAO Standards also state:

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

Department of Labor Manual Series (DLMS) 8, *Audit Resolution, Closure and Follow-up,* Chapter 513 (F), states in part, the Inspector General is responsible for:

5. Maintaining the official DOL system for tracking OIG audits from issuance through resolution and implementation of corrective actions, including debt collection.
15. In cooperation with the cognizant audit agency, conducting quality control reviews of single audits of DOL recipients to assess the extent and quality of audit coverage of DOL funds.

OIG desk procedures, *Single Audit Requirements for Desk Review on Applying the Risk-Based Approach*, state that an auditor should:

> Conduct a desk review of every single audit report received from the Federal Audit Clearing house that includes a DOL direct or pass-through funding". In addition, the Resolutions section of these procedures requires personnel to "check to make sure that all findings and recommendations match the report.

The *Single Audit Requirements for Desk Review on Applying the Risk-Based Approach* also state:

> Office of Audit Quality Assurance will issue single audit letter reports to the applicable DOL agency official for those SARs (single audit reports) that include findings and/or questioned costs that require resolution by DOL agency grant officers.

Recommendation

11. We recommend the Acting CFO coordinate with the OIG to ensure single audit desk review procedures are updated to include a supervisory review process that ensures all applicable reports from the FAC are identified, reviewed, accurately tracked, and resolved.

Management's Response

Management concurs with the finding and recommendation. We have updated and implemented additional single audit desk review procedures to strengthen the monitoring of single audit reviews to include a consistent and periodic review that ensures all applicable reports from the FAC are identified, reviewed, accurately tracked, and resolved.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

Prior-Year Comments and Recommendations Still Present in FY 2013

9. Insufficient Supporting Documentation for Certain Undelivered Orders (UDO) and Non-Federal Accounts Payable

Certain UDO's recorded in the NCFMS as of June 30, 2013 lacked sufficient supporting documentation and had incorrect balances. Specifically, 6 of 149 errors that resulted in a known net overstatement of UDOs in the amount of $45,925 contained the following errors:

- 5 UDOs did not have sufficient supporting documentation; and
- 1 UDO had an incorrect balance as of June 30, 2013, based on continuing issues from the data migration that occurred during FY 2010.

In addition, 7 of 100 transactions selected for testing from UDO activity for the period July 1 through September 30, 2013, had insufficient supporting documentation, which resulted in a known net understatement in the amount of $1.4 million.

As of September 30, 2013, the errors resulted in a $1.3 million total known net misstatement of UDO balances. Based on the sample results, the projected most likely understatement was $160.3 million, with 86 percent confidence that the errors ranged between an overstatement of $234.5 million and an understatement of $555.1 million.

Additionally, the OCFO identified transactions that lacked supporting documentation by performing an analysis of abnormal balances in the non-federal accounts payable. However, the OCFO did not correct these errors in the subsidiary ledger and NCFMS. These uncorrected errors jeopardize the integrity of the NCFMS.

The existence of inadequately or 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 NCFMS; failure to resolve all data migration issues from the FY 2010 system conversion; and the inability to provide supporting documentation for certain UDO balances and activities. Furthermore, the OCFO did not have formal documented policies and procedures for management's review of monthly UDOs and accounts payable.

31 U.S.C. § 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 U.S.C. § 1554 – Audit, control, and reporting, states:

> The head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed to support the certification required by section 1108(c) of this title.

OMB Circular No. A-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.

The GAO 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.

The GAO Standards also state:

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

The following prior-year recommendations are still open:

- Work with the DOL agencies to provide training to address:
  - The minimum procedures that should be performed to complete an adequate supervisory review of transactions prior to entry in the general ledger.
  - The minimum procedures that should be performed to monitor obligation balances for validity.
  - The minimum documentation requirements needed to sufficiently support recorded transactions.
- Perform an analysis of UDOs to identify remaining errors that resulted from the migration to NCFMS, and make corrections as necessary.
- Develop and implement formal policies and procedures to:
  - Periodically obtain and review the results of the agencies' review of their UDOs.
  - Confirm that agencies have deobligated expired and invalid UDOs timely in the general ledger.

In addition, we are making the following new recommendations that the Acting CFO:

12. Develop and implement formal policies and procedures to describe the UDO review process, including the appropriate level of detail and minimum documentation requirements.
13. Implement a plan of action to record correcting entries in both the subsidiary ledger and the general ledger, as appropriate, based on the results of its analysis over non-federal accounts payable.

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 2014, 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.

Management recognizes that there is an absence of formerly documented policies and procedures. In 2014, we will implement a formal procedure to periodically review the results of the agencies' review of their UDOs and confirm that agencies have deobligated expired and invalid UDOs.

In FY 2013, management continued to track and analyze abnormal balances throughout the year and performed a comprehensive analysis of abnormal accounts payable balances as of year-end. In 2014, management will make adjustments for significant account balances as needed. These adjustments will be completed in August, 2014.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

10. Insufficient Controls over Certain Budgetary Transactions

During testing of a sample of budgetary transactions as of June 30, 2013, we found that 15 of 58 transactions were inappropriately prepared and approved by the same individual through the NCFMS budget module. We also noted there was no compensating control as the OASAM Departmental Budget Center (DBC) did not subsequently verify the accuracy of the data that was recorded in NCFMS.

The DBC utilized DOL's shared service provider to process these transactions as batches through the NCFMS budget module because of the significant number of underlying transactions. However, the DBC 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, DBC did not subsequently verify the accuracy of the data recorded, as it believed that its existing process outside of NCFMS was adequate. The DBC did not have policies and procedures that required a post-recording review be performed and evidence of review be documented.

Without the proper segregation of duties and proper independent review of budget transactions, the risk increases that a material error would not be prevented or detected and corrected in a timely manner. Specifically, during FY 2013, a $7.146 billion transaction in appropriations, apportionments, and allotments was erroneously recorded because of the lack of adequate review. DOL subsequently detected and corrected this erroneous entry 24 days later. However, should this error

The GAO Standards state:

> 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.

In addition, the GAO Standards state:

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

Recommendations

The following prior-year recommendation is still open:

The Acting CFO should coordinate with OASAM to develop and implement procedures to document the approval of transactions in NCFMS by DOL approvers when service providers are used to prepare batch entries.

In addition, we are making the following new recommendation that the Acting CFO:

14. We recommend the Acting CFO coordinate with OASAM to develop and implement policies and procedures that require a review of batch transactions subsequent to their posting to ensure accuracy.

Management's Response

Management concurs with the recommendations set forth above. In response, DBC met with representatives of OCFO on January 29, 2014 and discussed how to address this NFR and other instances of batch processing by the shared service provider (SSP) that recorded a single individual as both the preparer and approver. At that meeting, OCFO agreed to develop procedures which can be implemented to document the approval of transactions by DOL approvers when service providers are used to prepare batch entries. OCFO is currently reviewing these draft procedures.

The DBC has always requested, and received a post entry report from the SSP and verifies the SSP has accurately entered the data provided. In response to this finding, DBC will now keep formal documentation of these reviews and approvals and make them available upon request. In the instance cited, the information provided to the SSP was input accurately and DBC verified that fact. Where the error occurred was in the initial calculations provided to the SSP. A formula was missing from one cell of the initial worksheet used to develop the entries and was not discovered until reviewed by the agency budget office. Therefore, DBC feels it is inaccurate to say that this error was due to the lack of a review of NCFMS entries. The SSP recorded the data correctly, and DBC verified that fact.

However, there was not a formal requirement for an independent review of amounts made available for obligation when using this ‘automated’ system. This review will be conducted by budget analysts from the Office of Agency Budget Programs (OABP), which is within DBC but separate from the Office of Budget Policy and Systems (OBPS) that is responsible for calculating the amounts available for entry and verification in NCFMS when batch processing is utilized. OABP analysts will conduct an independent review of the amounts to be made available for obligation for their assigned accounts, each time batch, automatic funding is entered in NCFMS. OABP analysts have already received training on the principles of federal appropriations law, and are familiar with the common stipulations included in most CR legislation which is when batch processing is used. This familiarity with both appropriations law and their assigned agencies results in an accurate overall review of the amounts proposed to be made available for obligation by OBPS. In addition, making these amounts available in the financial system in the timeliest fashion possible is the major benefit for using this process, and using two independent offices in DBC in this process will preclude measurable delays in providing amounts available for obligation. Having this added scrutiny in this process will support the inherent reason for developing and continuing to use the ‘automatic’ process while enhancing accuracy, preserving timeliness, and mitigating the chance that one or more DOL agencies would be negatively impacted in carrying out its mission as a result of this independent review.

DBC took initial steps to implement this revised procedure in mid-February by holding an internal training session on amounts planned for distribution for the second 30-day extension of the automatic apportionment of funds, based on the authority contained in section 129.41 of OMB Circular A-11. OABP analysts completed an independent review of the calculations and reported back on any issues they encountered. This procedure worked well during this initial test, and will be incorporated into DBC’s standard operating procedures for the ‘automatic’ appropriation, apportionment, and allotment of funds’ process in the future. DBC believes that this change will work as a permanent procedure to mitigate the chance of a similar error occurring in the future.

Auditors’ Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

11. Recording of Budgetary and Proprietary Entries for Appropriations

During testing of the Department’s appropriations received, 11 appropriation transactions were statistically selected between October 1, 2012 and June 30, 2013, to test for compliance with SFFAS No. 7 and the USSGL. For 3 of the 11 transactions, the proprietary entry to record the unexpended appropriation when the appropriation was made available for apportionment was not posted simultaneously with the corresponding budgetary entry. The proprietary and budgetary entries for these 3 transactions were recorded from 8 to 41 days apart, but were recorded within the same quarter. Not recording the proprietary and budgetary entries simultaneously to recognize appropriations received could result in potential abnormal balances in Fund Balance with Treasury upon disbursements for current year annual and multi-year funds, and imbalances in budgetary/proprietary relationships. In addition, DOL was not fully compliant with the USSGL at the transaction level as required by the *Federal Financial Management Improvement Act of 1996*.

DOL's established procedures were not designed in accordance with SFFAS No. 7 to recognize appropriations in capital as unexpended appropriations when made available for apportionment, even when a Treasury Warrant had not yet been received; and the USSGL in recording the enactment of appropriations. According to DOL's procedures, the OASAM DBC records the budgetary entry when the approved Apportionment Schedule is received, and the OCFO records the proprietary entry when the Appropriation Warrant has been processed by the U.S. Department of the Treasury (Treasury). DOL's procedures were designed based on the premise that the receipt of the Apportionment Schedule and the Appropriation Warrant are two separate events which trigger the budgetary and proprietary entries, respectively. As such, DOL determined that it was not necessary to update its procedures so that OASAM DBC and OCFO coordinate to ensure almost simultaneous recording of appropriation entries.

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources, and Concepts for Reconciling Budgetary and Financial Accounting,* 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. Unexpended appropriations should be reduced for appropriations used and adjusted for other changes in budgetary resources, such as rescissions and transfers. The net increase or decrease in unexpended appropriations for the period should be recognized as a change in net position of the entity.

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

> United States Government Standard General Ledger at the transaction level.

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

USSGL, Section III, Account Transactions, Transaction Code A104, states,

> To record the enactment of appropriations.
>
> **Budgetary Entry**
> Debit 4119 Other Appropriation Realized
> Credit 4450 Unapportioned Authority
>
> **Proprietary Entry**
> Debit 1010 Fund Balance with Treasury
> Credit 3101 Unexpended Appropriation – Appropriations Received

The GAO Standards state:

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

Recommendation

The following prior-year recommendation is still open:

The Acting CFO should assign one agency to be responsible for recording both the budgetary and proprietary journal entries. Or if separate agencies continue to record the entries, develop and implement procedures that require those agencies to coordinate appropriately to ensure simultaneous recording.

Management's Response

We do not agree that the cause of the FY 2013 timing difference between the recording of the enactment of the appropriation and the receipt of the warrant was due to the fact that it is recorded by two different offices. In accordance with the Treasury's guidance then available, the enactment of the appropriation was recorded when the Apportionment Schedule was received. The recording of the warrant was delayed until the actual warrant was processed by Treasury.

Additionally, "potential abnormal balances in Fund Balance with Treasury upon disbursements for current year annual and multi-year finds" is inevitable. At month-end, DOL's FBWT total MUST agree to Treasury's FBWT total and as a result of Treasury not recording the warrant, Treasury's FBWT total is abnormal.

OASAM DBC will continue to record the budgetary entry when the approved Apportionment Schedule is received, and the OCFO records the proprietary entry when the Appropriation Warrant has been processed by the U.S. Department of the Treasury. If the warrant is delayed OCFO will record the proprietary entries using the posting logic guidance from OMB/Treasury until the actual warrant is received.

Auditors' Response

Although management did not concur with the cause, they did not disagree with the remainder of the finding and indicated that actions will be taken to address them. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

12. Improvements Needed in the Reconciliation of Fund Balance with Treasury

The OCFO made progress in addressing prior year recommendations related to the reconciliation of FBWT. Specifically, the OCFO now requires the reconciliation of differences at the document level, and maintains lead sheets to identify all unresolved differences and the responsible point of contact for the unresolved item. The Department also made improvement with respect to resolving the number of Treasury Account Fund Symbols (TAFS) with outstanding prior period differences.

However, based on examination of 45 GWA Account Statement reconciliations and the related supervisory reviews for February 2013, improvement was still needed in the FBWT reconciliation process. Specifically, the following errors were identified:

- 16 TAFS contained unresolved prior month differences ranging from ($31,699,841) to $40,566,782 which were outstanding for more than three months:

	TAFS	Agencies
o	16100181	Office of Job Corps
o	1611/120181	Office of Job Corps
o	16120181	Office of Job Corps
o	1610/110181	Office of Job Corps
o	1609/100184	Office of Job Corps
o	1609/110181	Office of Job Corps
o	16100165	Departmental Management
o	1609/100167	Departmental Management
o	16X4601	Working Capital Fund
o	16X5393	Wage and Hour Division
o	16110179	Employment and Training Administration
o	16100200	Bureau of Labor Statistics
o	16X1521	Office of Workers' Compensation Programs
o	16101200	Mine Safety and Health Administration
o	16090400	Occupational Safety and Health Administration
o	16100400[2]	Occupational Safety and Health Administration

- 2 TAFS — 16100165 and 16100181 — did not contain evidence that management review was performed at a sufficient level of detail to ensure significant differences, defined by OCFO managers as being greater than $2.5 million (i.e., the threshold OCFO management identified during the process walkthrough) were researched, reconciled, and resolved.

These issues occurred because OCFO had not revised its policies and procedures to include a requirement that all differences be resolved within three months. In addition, the OCFO has not formalized and communicated across DOL the dollar amount that constitutes a “significant” difference so that the differences could be prioritized for resolution.

Differences that are not properly researched and resolved timely 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.

[2] The OCFO resolved these differences by August 2013.

Treasury's *FBWT Reconciliation Procedures, A Supplement to the Treasury Financial Manual, 1 TFM 2-5100 March 2012* (Reconciliation Procedures), state:

> Federal agencies must research and 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 state:

> …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.

The GAO Standards state:

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

In addition, the GAO 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

The following prior-year recommendation is still open:

The Acting CFO should enhance DOL's GWA Account Statement reconciliation policies and procedures to specify that all differences identified in the reconciliation process be resolved within three months.

In addition, we are making the following new recommendation that the Acting CFO:

15. Specify a threshold for identifying significant differences in the monthly GWA reconciliation that will be prioritized for resolution and periodically review the threshold for reasonableness.

Management's Response

In FY 14, OCFO Division of Central Accounting Office (DCAO) plans to eliminate all FY10-13 differences for complete compliance to have outstanding differences greater than 90 days cleared by September 30, 2014. DCAO will not establish a threshold, as the differences over 90 days are being worked on as a priority effort in FY14

In addition, FBWT Procedures have been developed and published on Labornet for all reconciliation preparers to access. The procedures now outline the responsibility of each agency to clear differences within 3 months. The procedures also addressed the method in which a "significant difference" will be determined and communicated.

Beginning in FY'14, DOL will begin tracking performance metrics for:
1. Percentage of differences listed at the document level.
2. Percentage of differences cleared within 90 days.
3. Percentage of reconciliations received on time.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

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

Based on testing of a sample of 6 FMS 6652 reconciliations and related supervisory reviews for the month of February 2013, KPMG identified the following deficiencies:

- Four agency location codes (ALC) within ETA, OASAM, and OCFO reported differences for the month of February 2013 that were not resolved timely (i.e., within three months). These differences totaled an absolute dollar amount of $1.2 million and related to prior months ranging from April 2011, to September 2012.

- The FMS 6652 reconciliation for ALC 16012004 was prepared 46 days after month end, which is not considered timely (i.e., within 30 days).

- The reconciliations for ALCs 16012004, 16010003, and 16012016 did not include sufficient evidence to support that the entire difference was reconciled/resolved and posted. Although the majority of the differences — ranging from $6,000 to $180,000 — were resolved before June 4, 2013, the remaining differences were not resolved until August 7, 2013.

- Management review of the FMS 6652 reconciliation for ALC 16010003 was not performed at a sufficient level of detail. Specifically, unresolved differences reported on the FMS 6652 represented approximately 13 percent of the transactions reported for the ALC on the SF-224, *Statement of Transactions*, within the reporting period.

Additionally, four instances were identified in which OCFO did not timely send reminder emails or perform alternate follow up with reconciliation preparers and reviewers that failed to submit FMS 6652 reconciliations to OCFO by the established deadline. Specifically, during testing of the May and July 2013 OCFO reconciliation tracking sheets, the OCFO did not perform timely follow-up for the following FMS 6652 reconciliation submissions:

- The May 2013 reconciliation for ALC 16012011 (disbursements and deposits) was submitted 1 business day late.

- The July 2013 reconciliations for ALCs 16010015 (deposits) and 16012018 (disbursements and deposits) were submitted 4 business days late.

- The July 2013 reconciliation for ALC 16012014 (deposits) was submitted 5 business days late.

DOL made progress in implementing prior-year recommendations. For example, between September 30, 2012, and February 28, 2013, DOL reduced from 13 to 3 the number of FMS 6652 reports with differences dating back to FYs 2011 and 2010. OCFO incorporated Treasury's FBWT Reconciliation Procedures into its revised fund balance with Treasury reconciliation procedures. OCFO also developed additional procedures that provided detailed instructions for the preparation and review of FMS 6652 reconciliations and implemented a new monitoring control to promote the timely submission of FMS 6652 reconciliations by agency. Furthermore, procedures were implemented to share a scorecard provided to DOL by Treasury with agency heads on a quarterly basis to raise awareness among key executives of DOL's metrics related to the accuracy and timeliness of reporting and reconciling fund balance with Treasury.

However, we noted several areas where further improvement could be made which could prevent the type of deficiencies not in this year's audit. Competing priorities within OASAM caused untimely preparation and submission of the February 2013 FMS 6652. In addition, the unresolved differences identified on the reconciliations for OASAM and ETA occurred because these agencies had not implemented 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. Furthermore, department-wide policies and procedures did not specifically require all differences to be resolved within three months.

OCFO stated that it did not follow up with agencies that did not submit timely FMS 6652 reconciliations primarily because the *SF-224 Reporting Procedures Manual* did not include a requirement to do so.

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

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

Reconciliation Procedures also state:

> Federal agencies must research and resolve differences reported on the monthly FMS 6652…Cash Analysis Branch 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, Reconciliation Procedures state:

> …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 "…an authorized agency official should review and sign the monthly agency reconciliation documents."

The GAO Standards state:

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

The GAO Standards also state:

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

DOL procedural document, *SF-224 Reporting Procedures Manual,* Version 2013.4, states:

> Agencies are expected to submit their signed and dated reconciliations to the SF-224 mailbox no later than the thirteenth business day of the month. The SF-224 team will respond to the agency within two business days regarding action items.

Recommendations

The following prior-year recommendations are still open:

- The Assistant Secretary for Employment and Training and the Assistant Secretary for Administration and Management dedicate appropriate resources to resolve all prior period differences, consulting with Treasury personnel as needed.

- The Assistant Secretary for Administration and Management and the Assistant Secretary for Employment and Training follow department-wide policies and procedures over the FMS 6652 reconciliation process to perform, document, and review timely monthly FMS 6652 reconciliations to demonstrate that differences identified on the Statement of Differences reports have been sufficiently investigated and timely resolved.

- Enhancements are made to department-wide policies and procedures over the FMS 6652 reconciliation process to specifically require the resolution of all FMS 6652 differences within three months, in accordance with Treasury's Reconciliation Procedures.

In addition, we are making the following new recommendation that the Acting CFO:

16. Update the *SF-224 Reporting Procedures Manual* to include a requirement that follow-up with agencies that do not submit the FMS 6652 reconciliations by the established due date occur the day after the reconciliation is due.

Management's Response

Management disagrees with the statements that the overall integrity and status of DOL financial reports are compromised, as the SOD difference amounts as of September 30, 2013, are immaterial and within the 3 month threshold in compliance with Treasury guidance. Additionally, DOL is working with Treasury to implement the process that will capture Treasury Account Symbol information for payments, deposits and intra-governmental transactions at the earliest possible time and record the transactions directly to the FMS record of the Agency's Fund Balance with Treasury. DOL and Treasury will complete the work on this major initiative, eliminating FMS-224 reporting and the multiple levels of reconciliation currently required to validate central accounting system fund balance with program information maintained at federal agencies.

Auditors' Response

The SOD difference amounts during fieldwork were not within the three month threshold and therefore could jeopardize the overall integrity and status of DOL financial reports. Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

14. Improvements Needed in Certain Financial Reporting Matters

During testing over the financial reporting process for both the financial statement audit and the subsequent closing package submission to Treasury, the following deficiencies were noted in certain financial reporting matters:

Financial Statement Audit

DOL identified $893.4 million of expended appropriations and unexpended appropriations used that were improperly recorded in the general ledger in prior years and were corrected in the general ledger by DOL in the current year. However, management did not properly document its assessment of the quantitative and qualitative impact of these corrections on the current year's financial statements prior to recording them. OCFO lacked policies and procedures to identify, analyze, and document the quantitative and qualitative effect of recording entries in the current year to correct prior-year errors. Recording entries in the current year to correct prior-year errors may materially misstate the current year financial statements. If these errors are not properly researched and analyzed to assess the qualitative and quantitative effect on the overall financial statements, their inclusion in the current year data may be misleading for users of the financial statements.

DOL did not fully address certain requirements of Management's Discussion and Analysis (MD&A). Specifically, forward looking information within the MD&A focused solely on certain plans by various agencies without providing sufficient discussion of the expected impact of the FY 2013 sequester and other then-known risks and uncertainties on future years. Additionally, the rationale for trends in certain performance measures, including insight as to why performance targets were/were not achieved in FY 2013, was not consistently reported. OCFO indicated that information within the performance section of the MD&A, which discussed FY 2014 and/or FY 2015 planned activities, sufficiently addressed forward-looking information. OCFO also indicated that it did not receive the results of performance measures and related analysis of results as compared to goals by other offices in sufficient time to provide comments and corrections over such information and meet the financial reporting deadline. An incomplete MD&A may not properly communicate management's' insights about the reporting entity, or sufficiently provide understandable and accessible information about the entity and its operations, service levels, successes, challenges, and future.

Closing Package

During KPMG's testing of the closing package, a misclassification between trading partners was identified whereby an OCFO Accountant classified Department of Army as an Independent and Other Trading Partner (Code 9500) instead of as a Department of Defense Trading Partner (DE00) for both Benefit Program Contributions Receivable and Benefit Program Revenue. This occurred because OCFO did not analyze closing package data for significant changes from year to year as part of its internal review process in preparing the closing package Module 4 submission. Management recorded entries to correct the trading partner misclassification for $537 million of Benefit Program Contributions Receivable and $583 million of Benefit Program Revenue within Module 4 of the closing package. Incorrect trading partner information may cause intragovernmental activity elimination errors for the government-wide financial statements.

While the OCFO formally documented procedures for generating detailed general ledger transactions from NCFMS based on an OIG FY 2012 recommendation, OCFO did not formally document the process for promptly researching and resolving significant financial reporting issues. OCFO management believed the informal process they established during FY 2012 was sufficient and documenting the process was not necessary. However, the lack of formally documented policies and procedures increases the risk that controls necessary to ensure the consolidated financial statements are properly stated and presented in conformity with generally accepted accounting principles may not be performed or may be performed improperly. This could ultimately lead to errors in the consolidated financial statements.

The GAO 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.

The GAO Standards also state:

> …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.

SFFAS No. 15, *Management's Discussion and Analysis,* states:

> …MD&A should provide a clear and concise description of the reporting entity and its mission and activities, program and financial performance, systems, controls, legal compliance, financial position and financial condition. MD&A should provide a balanced presentation that includes both positive and negative information about these topics.

SFFAS No. 15 also states:

> MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions and trends.

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

> The MD&A should also include forward-looking information about the possible effects of the most important existing performance and financial demands, events, conditions, and trends. Management should discuss important problems that need to be addressed, and actions that have been planned or taken to address those problems. Actions needed, planned, and taken may be discussed within the sections listed above or in a separate section of the MD&A.

Treasury Financial Manual, Part 2 – Chapter 4700, Section 4705, states:

> List Closing Package line item amounts identified as Federal (items to be eliminated in the Government wide consolidation) by trading partner and amount.

Recommendations

The following prior-year recommendation are still open:

- Document the process for promptly researching and resolving significant financial reporting issues that are identified.

In addition, we are making the following new recommendations that the Acting CFO:

17. Develop and implement formal policies and procedures to assess the aggregate impact of correcting prior-year errors in the current year and to document the materiality analysis of such errors.
18. Expand future years' MD&A to include forward-looking information identified in SFFAS No. 15 and OMB Circular A-136.
19. Analyze and revise internal timelines for agencies to provide performance measure information to OCFO for the MD&A in order to allow sufficient time for OCFO to review and coordinate any appropriate changes to the submitted information.
20. Develop and implement procedures to identify, analyze, and document significant fluctuations in closing package data from year to year.

Management's Response

Management agrees that the closing package data was not analyzed sufficiently. We will revisit and update if necessary, our procedure for cross-referencing and supporting all totals and trading partners to ensure proper reporting.

Management does not agree that a formally documented process for promptly researching and resolving significant financial reporting issues was necessary or reasonable since the process for researching and resolving significant financial reporting issues can vary greatly depending on the issue. We do not believe that lack of formally documented policies and procedures will lead to errors in the consolidated financial statements since DOL promptly researches and rectifies significant financial reporting issues when discovered and will continue doing so going forward.

Management does not agree that we did not document an assessment of the quantitative and qualitative impact of these corrections on the current year financial statements prior to recording them. The support for the entries provided the Cumulative

Results of Operations proof that identified the issue. We also provided the analysis performed before recording the entries to the current year which is stated below:

During FY 2013, CRO and Unexpended Appropriation balances in Treasury Account Fund 1521 were analyzed and we discovered that in prior years, 2012 and 2010, some entries were recorded incorrectly. In order to correct these errors, entries needed to be recorded to 3107/5700. Before doing so we evaluated the overall impact to the Financial Statements in which we determined there not to be any effect (in total). The net position of the statements would not change. At the line item level we deemed the impact to be immaterial because it would not impact a user of the statements. We also analyzed the impact related to 2012 activity versus 2010 activity. Of the $894M, $544M relates to FY 2010, if any prior period adjustments were to be considered, it should have been considered during FY 2011 where the activity could have been reflected in the proper period. But given the amount, $544M would not have been above the materiality threshold either so a current year adjustment would have been proper.

These errors were properly researched and analyzed to assess the qualitative and quantitative effect on the overall financial statement therefore their inclusion in the current year data was not misleading for the users of the financial statements.

Management does not agree that certain requirements of MD&A namely, forward-looking information, were not fully addressed. Management believes that the MD&A sufficiently addressed forward-looking information and met internal timelines.

Auditors' Response

Although management stated they did not concur with the recommendations, sufficient documentation was not provided to contradict the deficiencies identified. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

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

Certain control weaknesses exist in OCFO's processing of PP&E transactions. Specifically, during testing of a sample of 13 PP&E additions for the period October 1, 2012, through June 30, 2013, the following three exceptions were identified:

- Two were not timely recorded in the PP&E subsidiary ledger or NCFMS. Although DOL identified these exceptions during its annual inventory procedures, these 2 additions were recorded in the PP&E subsidiary ledger and NCFMS between 5 and 8 years after being placed into service. One occurred because the responsible Contracting Officer's Representative (COR) neglected to submit the certificate of substantial completion to initiate the capitalization process in a timely manner. The second occurred because DOL's annual inventory count procedures did not include steps to inventory land.

- One did not have invoices or other documentation to support the full amount because of insufficient management review prior to recording the asset in NCFMS.

Additionally, DOL did not fully configure NCFMS to record PP&E additions and deletions and to calculate current-year and accumulated depreciation because of competing priorities and limited resources.

The OCFO made progress in addressing prior-year recommendations. Specifically, OCFO personnel were trained to perform PP&E functions previously performed by contractors. In addition, DOL made progress in configuring the NCFMS fixed asset module and continued with plans to fully configure the module pending available resources and other priorities. However, controls over the PP&E process, including management review procedures, could be further improved. Based on the three errors noted in this year's testing, the PP&E balance was understated by $7 million for several years.

The GAO Standards state "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions."

The GAO Standards also state:

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

Recommendations

The following prior-year recommendation is still open:

- The Acting CFO should complete efforts to configure NCFMS to timely record PP&E additions and deletions and accurately calculate current-year and accumulated depreciation.

In addition, we are making the following new recommendations that the Acting CFO:

21. Develop and implement policies and procedures requiring the COR to notify accountants of the substantial completion of a project within a specified timeframe (e.g., within five business days of certifying substantial completion).
22. Develop and implement procedures to inventory land on a periodic basis.
23. Develop and implement review procedures to ensure that a complete set of supporting documentation for each PP&E addition is readily available.

Management's Response

Management agrees with the exceptions noted. ETA will develop and implement procedures to ensure that the accounting office receives the substantial completion documentation of a project in a timely manner. This would include monthly communication with the program office regarding ongoing projects. In terms of the land inventory, the annual validation process and applicable procedures will be updated to include land verification. ETA will perform land verifications utilizing the corresponding electronic database. As it relates to PPE additions, starting with FY 2014, NCFMS fixed asset module will be the official record for regular ETA and OJC assets. ETA will perform monthly review of the assets listing maintained by the sub ledger system and develop and implement these procedures by the quarter ending.

OCFO Response: In FY 2014, the NCFMS fixed asset module will be DOL's official system used to timely record PP&E additions and deletions and to accurately calculate current year depreciation and accumulated depreciation.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

16. <u>Improvements Needed over the Review and Reconciliation of Payroll-related Information Provided by the U.S. Department of Agriculture National Finance Center (NFC)</u>

Human Resource Officers (HRO) did not prepare 10 of 27 Payroll/Time and Attendance Reconciliation Reports (Reconciliation Reports) timely (i.e., bi-weekly) for pay cycles during the period October 1, 2012, through March 31, 2013. One was prepared between 30 and 60 days after the end of the pay period, and 9 were prepared greater than 60 days after the end of the pay period. All 10 Reconciliation Reports were prepared only after the auditors requested them.

Furthermore, DOL could not provide policies and procedures on how it reconciled deductions data (e.g., employer withholdings) provided by NFC on a bi-weekly basis to DOL records to arrive at employee net pay and total benefits expense.

HROs did not follow established monitoring policies required of them by OASAM's Internal Control Directive (ICD) Human Resource Center (HRC)-3. In addition, DOL did not develop and implement policies and procedures to reconcile deductions data provided by NFC on a bi-weekly basis to DOL's records 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 reports and the lack of related monitoring controls increase the risk that payroll-related items may be misstated and not timely corrected because of errors in payroll processing by NFC.

The GAO Standards state:

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

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

DOL 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/Time and Attendance 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 NFC should have controls in place to ensure the accuracy of processing outputs. As stated by the United States Department of Agriculture OIG 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.

Recommendations

The following prior-year recommendation is still open:

The Acting CFO should coordinate with OASAM to develop policies and procedures to reconcile deduction 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.

In addition, we are making the following new recommendation that the Acting CFO:

24. Coordinate with OASAM to develop policies and procedures to monitor HROs to ensure compliance with ICD HRC-3 procedures.

Management's Response

Management will take the second recommendation under consideration. However, as indicated in the cause section, management believes that other internal controls are sufficiently designed and operating effectively to mitigate related risks, ensuring that deduction data provided by NFC on a bi-weekly basis is accurate.

Auditors' Response

Although management stated they do not concur with our recommendations, they indicated that actions will be taken to address them. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

17. Lack of Policies and Procedures and Untimely Initiation of Background Investigations

A sample of 9 newly hired DOL employees and 9 contractors were tested to determine if they had a background investigation either completed or initiated within 14 calendar days of the date that the individuals first entered on duty at DOL. The following exceptions were identified:

Employees

The background investigation for 1 of 9 DOL employees tested was initiated 28 days after the employee reported for duty. This occurred primarily because the Previous Investigation Check (PIC) form, which is used to determine whether a new background investigation is necessary for an individual who held previous federal position(s), was not completed timely by the OASAM Security Center. Current policies and procedures did not reflect the appropriate roles and responsibilities of individuals in charge of background investigations, including the PIC process. Furthermore, the OASAM Security Center had not implemented an effective process for monitoring the bi-weekly report which lists all recent federal hires and the status of each new employee's background investigation.

Contractors

For 2 of 8 contractors, the background investigation was initiated 154 to 219 days after their date of placement in position. Additionally, the OCFO did not provide the necessary information to test 1 contractor. These conditions occurred because DOL did not have a consistent, department-wide process in place to record the date a contractor was placed in position and the date the background investigation was initiated. In addition, the OASAM Security Center did not dedicate resources to develop and implement a process to effectively monitor compliance with federal and DOL policies for contractors.

Without sufficient policies and procedures to enforce and monitor the timeliness of the initiation of background investigations for DOL employees and contractors, DOL may not be in compliance with federal requirements and may have placed DOL's information and financial systems at risk.

5 CFR, Section 731.106(c) – *Designation of Public Trust Positions and Investigative Requirements*, states:

> (1) Persons receiving an appointment made subject to investigation under this part must undergo a background investigation. Office of Personnel Management (OPM) is authorized to establish minimum investigative requirements correlating to risk levels. Investigations should be initiated before appointment but no later than 14 calendar days after placement in the positions.

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, DOL Personnel Suitability and Security Handbook, 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, DOL Personnel Suitability and Security Handbook, 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.

Recommendations

We have closed the recommendation made in last year's Management Advisory Comments as unimplemented. Alternatively, we are now recommending that the Acting CFO coordinate with the Director of the OASAM Security Center to ensure:

25. Appropriate resources are dedicated to update existing policies and procedures to (a) reflect current roles and responsibilities; (b) specify the appropriate time period for completing and reviewing the PIC form; and (c) implement monitoring procedures over the bi-weekly report of all recent Federal hires and the status of each new employee's background investigation.
26. Department-wide policies and procedures are developed and implemented to monitor the initiation of background investigations for DOL contractors. Specifically, these policies and procedures should address (a) the development and maintenance of a tracking mechanism for all contractors placed into position that captures their start dates and dates of background investigation initiation, and (b) monitoring activities to be performed by the OASAM Security Center to ensure compliance with 5 CFR 731.106 and DOL policies for contractors.

Management's Response

Management concurs with the recommendation.

The Team Lead and Security Specialist in the OASAM Security Center Personnel Security Division (SC-PSD) are in the process of updating and revising the Personnel Security and Suitability Handbook to reflect appropriate roles and responsibilities for the entire investigation request process. The projected date to place the revised Personnel Security and Suitability Handbook into Departmental clearance is the 3rd quarter of FY-

2014. Once cleared, SC-PSD will conduct training for HROs and CORs to ensure that there is a full understanding of their roles/responsibilities.

SC-PSD staff is currently updating the PSD Incoming Log Database to include the contract start dates to assist with monitoring the investigation status of contract employees. The Security Center is conducting research into case management systems used by the majority of federal agencies that allow thorough tracking and greater accountability for investigation requests. Once a viable system is identified a recommendation will be made to Departmental leadership.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

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

DOL made certain improvements in the FMFIA process from the prior FY, such as providing the draft of the FMFIA assurance statement and Summary of Aggregated Deficiencies in September, as recommended in FY 2012. However, certain deficiencies in the FMFIA process still existed, specifically related to management's final internal control assessment. For example, although the FMFIA planning document was enhanced to include the consideration of relevant external audit results, the final internal control assessment did not sufficiently document management's assessment of control deficiencies identified through other audits, including the financial statement audit. Furthermore, the internal control assessment, dated November 11, 2013, was not updated to provide a rationale for differing conclusions between the audit results, which included certain significant deficiencies in internal controls, and management's, which reported no significant deficiencies and an unqualified FMFIA assurance statement.

In addition, the internal control assessment did not include sufficient testing of general controls for DOL IT financial systems not covered by Statement on Standards for Attestation Engagements (SSAE) No. 16 reports to ensure all significant deficiencies and material weakness were identified.

DOL's internal control assessment was as of June 30, while the financial statement audit assesses internal controls for the entire fiscal year, which could lead to differences in severity determinations. However, management has a history of disagreement with independent evaluations of its internal controls. Additionally, in FY 2013 management's IT testing was limited to a consideration of deficiencies identified in SSAE No. 16 reports relevant to DOL that were performed by third parties, selective validation testing of responses to the Office of Financial Systems' self-assessment survey, and reliance on Financial Management Quarterly Certifications completed by each DOL agency.

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 FMFIA.

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)…

OMB Circular No. A-123, states:

> 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….
>
> 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.

DLMS 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 Chief Financial Officers Act, and Amendments to the Inspector General Act.

Recommendations

The following prior-year recommendations are still open:

- Enhance documentation of DOL's final internal control assessment and related rationale.

- Enhance documentation of DOL's consideration of relevant external audit results.
- Enhance the FMFIA process to include additional testing of controls for DOL IT systems to ensure all significant deficiencies and material weaknesses are identified.

Management's Response

Management believes the FMFIA Assurance Statement preparation process was thorough and in accordance with FMFIA and external reporting requirements. Management will consider the auditors recommendations in performing the assessment in FY 2014.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

19. Lack of Advisory Council on Unemployment Compensation

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. The last meeting of the ACUC was in 1997. ETA has been proposing an amendment to SSA since 2005 because it did not believe the ACUC was the most effective way to evaluate the unemployment compensation program. ETA's most recent proposal was in the Unemployment Compensation Program Integrity Act of 2011, which 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.

Although ETA developed a proposal to amend the SSA in FY 2012, it was not approved by DOL for submission to Congress because of competing priorities. ETA developed an amendment to be submitted in FY 2013 that would change the requirement.

As such, DOL was not in compliance with SSA, Section 908, which 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

The following prior-year recommendation is still open:

We recommend the Acting CFO ensure that the Assistant Secretary for Employment and Training complies with Section 908 of the SSA.

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. ETA is preparing for clearance an integrity related legislative proposal that will include the amendment.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

20. <u>Unsupported and/or Incorrect Expenses</u>

Certain non-benefit, non-payroll expense transactions recorded in the NCFMS for the year ended September 30, 2013 lacked supporting documentation or were incorrectly recorded. Specifically, the following errors were identified during testing of 201 transactions:

- 3 transactions were recorded in the improper period;
- 4 transactions did not have Object Class Codes recorded;
- 2 transactions were incorrectly recorded using Document ID Type 19 (miscellaneous obligations) instead of Document ID Type 24 (contracts);
- 1 transaction did not have documentation indicating the goods were received in the current fiscal year;
- 2 transactions related to FY 2012 expenses recorded in FY 2013, and DOL could not provide appropriate documentation indicating the amount was accrued in FY 2012;
- 2 transactions did not have documentation supporting the rationale for recording baseline adjustments;

- 1 transaction was the reversal of a capital purchase that should not have been expensed but should have been capitalized in a previous period. In addition, this transaction did not have a document type recorded in the Document ID field.
- 6 transactions had an ETA 9130 cost report that did not equal the sample amount shown in NCFMS.
- 1 transaction did not have sufficient supporting documentation; and
- 1 transaction did not have a document type recorded in the Document ID field.

The FY 2012 expenses recorded in FY 2013 occurred because management did not have a method in place to determine if specific expense items were properly considered in the prior-year accrual process, as personnel were unable to demonstrate how invoices received in the last few days of the prior fiscal year related to the accruals made. Additionally, these errors occurred in part because management recorded prior-period adjustments as current-year expenses instead of adjusting beginning balances because they determined the expenses were immaterial. However, management did not document this assessment. Furthermore, 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 errors identified above resulted in a $3 million known net misstatement of total non-benefit, non-payroll expenses as of September 30, 2013. Based on the sample results, the projected most likely overstatement was $96.5 million, with 86 percent confidence that the errors ranged from an understatement of $53.3 million to an overstatement of $246.2 million.

The GAO Standards state:

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

In addition, the GAO Standards state:

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

Recommendations

The following prior-year recommendations are still open:

- Develop and implement monitoring controls to ensure that individuals are performing sufficient reviews of expenses and related documentation prior to posting to ensure they are adequately supported and that the correct amounts and attributes are recorded.
- 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 assessment should be documented.

In addition, we are making the following new recommendations that the Acting CFO:

27. Review the current procedures for grant accrual reversals within NCFMS and develop procedures that require accrual reversals prior to the recording of actual cost reports.
28. Develop and implement procedures to determine if invoices received prior to year end that could not be processed until the next fiscal year were properly included in the applicable expense accrual (e.g., though a look-back analysis in the case of accrual estimates).

Management's Response

ETA Accounting will develop a corrective action plan to address the conditions indicated applicable to ETA Accounting. The auditor's recommendations will be taken into consideration during the development of the corrective action plan.

OCFO Management believes that it has adequate procedures and oversight in regards to grant accrual reversals within NCFMS. Management will continue to review these procedures and emphasize them as needed.

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.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2014 to determine whether corrective actions have been developed and implemented.

Prior-Year Comments and Related Recommendations Closed in FY 2013

The following 7 comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2012*, dated June 4, 2013, were closed in FY 2013.

Prior-Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2012 MAC	Recommendation(s) Reported in the FY 2012 MAC
2012-05	2012	Unsupported Cost Allocation Percentages	We recommend the Chief Financial Officer enhance policies and procedures to require: 1. The performance of an annual analysis of cost allocations amount programs and agencies. 2. The maintenance of documentation supporting this analysis and related revisions made, if necessary, to the cost allocation methodology.
2012-07	2012	Insufficient Review of the Budgetary to Proprietary Reconciliation	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.
2012-10	2010	Weaknesses Identified in the Review of Payroll Suspense Reports	We recommend the Assistant Secretary for Administration and Management update the *Standard Operating Procedures Guidelines for the Human Resources (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*.

Prior-Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2012 MAC	Recommendation(s) Reported in the FY 2012 MAC
2012-14	2011	Untimely review of Intra-governmental Reconciliation of Office of Personnel Management (OPM) Employee Benefits	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.
2012-17	2012	Lack of Proper Review of Claimant's Information Recorded in the Energy Compensation System (ECS)	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.
2012-19	2010	Lack of Policies and Procedures Related to New Obligations/ Modifications	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.
2012-21	2011	Insufficient Policies and Procedures Related to the Preparation of the Financial Audit Manual (FAM) 2010 Checklist	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. 3. Requirements for a supervisor to review the completed FAM 2010 checklist for completeness, accuracy, and validity.

Appendix A

Acronyms and Abbreviations

ACUC	Advisory Council on Unemployment Compensation
ALC	Agency Location Code
BLS	Bureau of Labor Statistics
BPD	Bureau of Public Debt
COR	Contracting Officer's Representative
DBC	Departmental Budget Center
DCAO	Division of Central Accounting Office
DLMS	Department of Labor Manual Series
DOL	United States Department of Labor
ETA	Employment and Training Administration
FAC	Federal Audit Clearinghouse
FAM	Financial Audit Manual
FAR	Federal Acquisition Regulation
FBWT	Fund Balance with Treasury
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMS 6652	Statement of Differences
FY	Fiscal Year
GAO	Government Accountability Office
GAO Standards	Government Accountability Office's *Standards for Internal Control in the Federal Government*
GWA	Government-wide Accounting
HHS-PMS	Health and Human Services – Payment Management System
HR	Human Resources
HRC	Human Resource Center
HRO	Human Resource Officers
ICD	Internal Control Directive
IT	Information Technology
JV	Journal Voucher
MD&A	Management's Discussion and Analysis
NCFMS	New Core Financial Management System
NFC	United States Department of Agriculture National Finance Center
OABP	Office of Agency Budget Programs
OASAM	Office of the Assistant Secretary for Administration and Management
OBPS	Office of Budget Policy and Systems
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
PAR	Procurement Action Request

PIC	Previous Investigation Check
PP&E	Property, Plant, and Equipment
SC-PSD	Security Center Personnel Security Division
SFFAS	Statement of Federal Financial Accounting Standards
SOSI	Statement of Social Insurance
SSA	Social Security Act
SSAE	Statement on Standards for Attestation Engagements
SSP	Shared Service Provider
TAFS	Treasury Account Fund Symbol
TFM	Treasury Financial Manual
Treasury	United States Department of the Treasury
U.S.	United States
UDO	Undelivered Order
U.S.C.	United States Code
USSGL	U.S. Standard General Ledger
UTF	Unemployment Trust Fund
VETS	Veterans' Employment and Training Service

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