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

REPORT TO THE OFFICES OF THE CHIEF FINANCIAL OFFICER AND THE CHIEF INFORMATION OFFICER

MANAGEMENT ADVISORY COMMENTS IDENTIFIED IN AN AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

Elliot P. Lewis

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

Date Issued: March 24, 2017
Report Number: 22-17-004-13-001

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Executive Summary

KPMG LLP (KPMG), under contract to the United States Department of Labor's (DOL) Office of Inspector General (OIG), audited DOL's consolidated financial statements as of and for the year ended September 30, 2016, and dated its *Independent Auditors' Report* December 15, 2016. 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. 15-02, *Audit Requirements for Federal Financial Statements*. The objective of the audit engagement was to express opinions on the fair presentation of DOL's consolidated financial statements and its sustainability financial statements.

This report presents for DOL's consideration certain matters that KPMG noted, as of December 15, 2016, involving internal control and other operational matters. These management advisory comments are provided in addition to the material weaknesses presented in KPMG's *Independent Auditors' Report* and included in DOL's *FY 2016 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 as summarized in Exhibit I. Included in this report are 7 comments and related recommendations newly identified in fiscal year (FY) 2016, 15 prior year comments that continued to exist in FY 2016, and 14 prior year comments and related recommendations KPMG determined had been corrected and closed during FY 2016.

KPMG prepared this report to assist DOL in developing corrective actions for the management advisory comments identified in the FY 2016 audit.

KPMG

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

December 15, 2016

Mr. Elliot P. Lewis, Assistant Inspector General for Audit
Mr. Geoffrey Kenyon, Principal Deputy Chief Financial Officer
Mr. Gundeep Ahluwalia, Acting Chief Information Officer
U.S. Department of Labor
Washington, DC 20210

Mr. Lewis, Mr. Kenyon, and Mr. Ahluwalia:

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2016, and our engagement to audit the sustainability financial statements of the United States Department of Labor (DOL) as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the Unites States of America, we considered DOL's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on these financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. During our audit and engagement to audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management and have been communicated through issued Notifications of Findings and Recommendations, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I. In addition, we identified certain deficiencies in internal control that we consider to be material weaknesses, and communicated them in writing in our *Independent Auditors' Report*, dated December 15, 2016, included in DOL's *FY 2016 Agency Financial Report*.

We summarized prior year comments and recommendations that were remediated in fiscal year (FY) 2016 in Exhibit II.

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

KPMG

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

DOL's responses to the comments and recommendations identified in this letter are presented in Exhibit I. DOL's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and the engagement to audit the sustainability financial statements, and accordingly, we express no opinion on the responses.

The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

Comments and Recommendations

New Financial Comments and Recommendations Identified in Fiscal Year 2016

1. Improvements Needed in Management's Documentation of the Review of the Unemployment Trust Fund Due and Payable Estimate

During our testing of the operating effectiveness of controls over the due and payable estimate as of March 31, 2016, we noted that improvement was needed in the management review procedures outlined in the *Due and Payable Accrual Methodology.* Specifically, the review procedures did not specify documentation requirements related to the investigation of outliers identified in the comparison of state accrual estimates of the prior quarter to the current quarter.

Management indicated that their intention when creating procedures related to the due and payable accrual was not to document conclusions related to individual outliers, but rather to document outliers in the event research should be performed. Multiple states had variances that were considered outliers based on the established threshold. However, only the cause of the variance for certain states was documented. Failure to document outliers at the state level may lead to use of inaccurate assumptions or data that could have a material effect on the calculation of the due and payable estimate.

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

> Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. (Page 45)

> Management compares actual performance to planned or expected results throughout the organization and analyzes significant differences. (Page 46)

> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained. (Page 48)

Management designs control activities for appropriate coverage of objectives and risks in the operations. Operational processes transform inputs into outputs to achieve the organization's objectives. Management designs entity-level control activities, transaction control activities, or both depending on the level of precision needed so that the entity meets its objectives and addresses related risks. (Page 49)

U.S. Department of Labor *Due and Payable Accrual Methodology* states:

Compare state accrual estimates to accrual estimates for the prior quarter and for the same quarter in the prior year -- investigate outliers relative to the median ratio (0.67-1.5 x medium ratio for Regular UI, 0.5-2.0 x median ratio for [Unemployment Compensation for Federal Employees] UCFE and [Unemployment Compensation for Ex-service members] UCX).

Recommendation

1. We recommend the Deputy Assistant Secretary for Employment and Training review and update the *Due and Payable Accrual Methodology* to clarify which outliers should be documented and the detail that should be used to document items outside of management's reasonable range.

Management's Response

Management does not concur with the recommendation. There is a misunderstanding of the written procedures outlined in the Due and Payable Accrual Methodology document. The investigation of outliers with its accompanying warning threshold is meant as a notice for the reviewer to then proceed to check the specified variables for "bad" data. The term investigate used in this sentence specifically refers to the process of verifying that the state values identified as outside the threshold do indeed have data that is coming from the proper report and has not been mis-entered. This procedure was undertaken by the reviewer in each submitted report before they signed.

This step intentionally has no mention or requirement for documenting conclusions about why any state value may be outside the warning threshold, once the item has been investigated for correct data, since that conclusion would be outside the reviewer's ability and information at hand. At times the reviewer may add additional cursory information about specific states and items, however this is always well beyond any requirement written or expected in the management review document and not to be confused with any failure to meet the specified requirements for any item.

Management has modified the review process for individual state estimates to identify specifically which state data should be further evaluated. The review is initiated for

states in which the prior quarter and prior year comparisons both fall outside the range of 0.67 to 1.5 times the median ratio for all states.

Documentation of this further review is limited to either a "pass" or "fail" of the underlying data based on the presence of clearly misreported data. Adjustments will be made to the underlying data as described within the methodology documentation regarding the handling of misreported data.

Auditors' Response

Although management disagreed with the recommendation, management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether the corrective actions have been developed and implemented.

2. <u>Lack of Process to Properly Accrue for Schedule Award Payments</u>

During our testing of Federal Employees' Compensation Act (FECA) benefit expense for fiscal year (FY) 2016, we noted the Office of Workers' Compensation Program (OWCP) had not recorded an accrual for schedule award expenses that had been incurred but were to be paid to claimants in installments in future periods. OWCP only recorded expense as installment payments were made. After we brought the matter to the attention of management, OWCP recorded an accrual to account for the remaining installment payments due to claimants as of September 30, 2016.

OWCP did not have policies and procedures in place to properly accrue for schedule awards with installment payments that were due to be paid in subsequent years. Without formal policies and procedures in place to accrue for schedule award payments, an increased risk existed that accrued benefits and benefit expenses may be misstated. Specifically, accrued benefits were initially understated by $42 million as of September 30, 2016; however, OWCP management subsequently corrected this error.

Statement of Federal Financial Accounting Standards (SFFAS) Number (No.) 5: *Accounting for Liabilities of the Federal Government,* paragraph 24, states:

> For federal nonexchange transactions, a liability should be recognized for any unpaid amounts due as of the reporting date. This includes amounts due from the federal entity to pay for benefits, goods, or services provided under the terms of the program, as of the federal entity's reporting date, whether or not such amounts have been reported to the federal entity (for example, estimated Medicaid payments due to health providers for service that has been rendered and that will be financed by the federal entity but have not yet been reported to the federal entity).

The GAO Standards states:

> Transactions are 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 its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded. (Page 48)

> Management performs ongoing monitoring of the design and operating effectiveness of internal control systems as part of the course of normal operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions. (Pages 65 and 66)

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

> Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:
>
> - All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence);
> - All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness); and,
> - All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation).

Recommendation

2. We recommend the Deputy Director of Workers' Compensation Programs design and implement formal policies to properly accrue for schedule award payments in the period incurred.

Management's Response

Management concurs with the recommendation. OWCP has procedures in place to calculate the accrual in advance of the September 30 reporting period. The Office of Inspector General (OIG) comment states that the auditor identified the understatement at September 30, 2016, but this was the amount calculated by OWCP and submitted to the auditor as support. This process should be considered as resolved by September 30, 2016.

Auditors' Response

OWCP personnel calculated the schedule award accrual as of September 30, 2016, after the matter was brought to their attention by KPMG during the audit. Management indicated that actions have been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether the corrective actions were developed and implemented.

3. **Improvements Needed over Reconciliation Controls Related to Federal Employees' Compensation Act Benefit Expense**

During our FY 2016 audit procedures, we identified a difference of $26.7 million between the benefit expense amount reported in the FECA schedule of actuarial liability, net intra-governmental accounts receivable and benefit expense (FECA schedule) and the general ledger as of September 30, 2016.

The compensation and medical expense balances reported in the FECA schedule were obtained from the *Chargeback Agency Billing List Summary* (CB-40) report from the Integrated Federal Employees' Compensation System, rather than the general ledger balance. Furthermore, OWCP did not have a formal process in place to reconcile the compensation and medical payments in the CB-40 report to benefit expenses recorded in the general ledger. Management informed us that a reconciliation of the CB-40 report to the general ledger was performed at year end; however, evidence of the reconciliation was not provided. Furthermore, no specific threshold at which identified differences were required to be resolved had been established.

As previously mentioned, benefit expenses were understated by $26.7 million as of September 30, 2016. Furthermore, the lack of a formal process to reconcile the CB-40 report to the general ledger could result in material misstatements in the benefit

expense balance reported in the FECA schedule that are not detected and corrected by management in a timely manner. In addition, as the CB-40 report is used as underlying data for the actuarial liability, the lack of a process to reconcile the report to the general ledger could also cause errors in the actuarial liability estimates to be undetected by management.

The GAO Standards states:

> Management documents in policies the internal control responsibilities of the organization. (Page 56)

> Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. (Page 56)

> Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions. (Page 65)

Appendix A, Section II, of OMB Circular No. A-123, *Management's Responsibility for Internal Controls,* states:

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> • All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence);
> • All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness); and
> • All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation).

Recommendations

We recommend the Deputy Director of Workers' Compensation Programs:

3. Design and implement formal policies and procedures to reconcile the CB-40 report to benefit expenses recorded in the general ledger. These policies and procedures should document a level of precision for the review that is at an appropriately low level to identify material errors in FECA benefit expenses.

4. Establish and implement documentation requirements for evidencing management's review of the reconciliation.

Management's Response

OWCP disagrees with the effect stated by the auditor that benefit expenses were understated by $26.7 million. OWCP employs reconciliation procedures between the Integrated Federal Employees Compensation System (iFECS) data and the general ledger. The data from iFECS generates the benefit expense and also reconciles with the disbursement amounts reported to Treasury. The CB-40 is intended to report benefit expenses by chargeable and non-chargeable agencies but is not the source of what is posted to the GL. Management does agree that a procedure should be in place and will try to reconcile the FECA populaion to the general ledger along with acceptable differences.

Auditors' Response

Although management disagreed with the effect, management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether the corrective actions have been developed and implemented.

4. <u>Errors in Medical Payment System Coding of Significant Medical Bills Related to the Energy Employees Occupational Illness Compensation Program Act</u>

During our testing of the operating effectiveness over the Energy Employees Occupational Illness Compensation Program Act (EEOICPA) benefit expense controls in FY 2016, we noted certain instances in which significant medical bills in the service provider's medical payment system were not reviewed for accuracy and eligibility prior to payment. Specifically, we noted that for two of five medical bills selected for testing, the DOL Energy Employees Occupational Illness Compensation (EEOIC) Medical Payment System manager did not receive notification from the service provider to review the bill because the transactions were not automatically blocked from being processed by the medical payment system. As such, the DOL EEOIC Medical Payment System manager did not review the bill for accuracy and eligibility prior to payment.

Per discussion with management, the contract with its service provider requires that billing transactions exceeding a threshold of $30,000 for Center for Medicare and Medicaid Services claims or outpatient services and $75,000 for inpatient services be

sent to the DOL EEOIC Medical Payment System manager for review and approval prior to payment. However, these transactions were not consistently automatically blocked for processing by the service provider's medical payment system because of an error in the system code. The medical payment system was configured to automatically process transactions exceeding the review threshold with an edit 391 flag, which blocks the transaction from being processed until the DOL Medical Payment System manager completes the review. The edit 391 flag was not automatically applied to the two transactions noted above despite the fact that they exceeded the thresholds. Ineffective controls over the eligibility and accuracy of medical bills may result in incorrect payments to medical providers on behalf of claimants, which leads to misstatements of benefit expense.

The GAO Standards states:

> Management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring is built into the entity's operations, performed continually, and responsive to change. Separate evaluations are used periodically and may provide feedback on the effectiveness of ongoing monitoring. (Page 65)

Recommendations

We recommend the Deputy Director of Workers' Compensation Programs:

5. Require the service provider to correct the system coding error that prevented the medical bills from being blocked by the medical payment system prior to payment.

6. Implement policies and procedures to periodically monitor the medical bills paid by the service provider to verify that all medical bills exceeding management's review threshold have been sent to the DOL EEOIC Medical Payment System manager for review prior to payment.

Management's Response

Management concurs with the recommendation. Corrective action will be taken and completed in the current fiscal year.

Auditors' Response

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether the corrective actions have been implemented.

5. **Improvements Needed in the Review of the Energy Employees Occupational Illness Compensation and Black Lung Actuarial Liability Model**

OWCP management informed us they conducted meetings during FY 2016 with internal economists, contracted actuaries, and other federal agencies in order to assess the reasonableness of the model inputs and assumptions used to calculate the EEOIC and Black Lung liabilities. As a result of these meetings, OWCP refined certain assumptions used to estimate the liability. OWCP also developed formal policies for periodically assessing the appropriateness and accuracy of the economic assumptions and for verifying the completeness of the underlying data. However, OWCP had not finalized the policies as of September 30, 2016. Furthermore, we noted that the draft policies did not specify the level of detail or precision at which OWCP management's review should be performed.

In FY 2016, OWCP management indicated that they devoted significant time and attention to assessing the appropriateness of the assumptions used in the models. As a result, management did not have adequate time to finalize the policies or to sufficiently define and document the level of precision at which management's review should be performed. Without a sufficient management review of the actuarial model at an appropriate level of precision, an increased risk exists that errors may not be detected and corrected timely, which could lead to a material misstatement of the actuarial liability. In addition, without formal policies, an increased risk exists that controls over the actuarial liability may not be performed or performed properly.

The GAO Standards states:

> Management documents in policies the internal control responsibilities of the organization. Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. (Page 56)

Appendix A, Section II, of OMB Circular No. A-123, *Management's Responsibility for Internal Controls,* states:

> Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:
>
> • All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence);

- All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness); and,
- All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation).

Recommendations

We recommend the Deputy Director of Workers' Compensation Programs:

7. Finalize and implement formal policies that require management to: a) periodically assess the assumptions used to estimate the EEOIC actuarial liability and Black Lund Disability Trust Fund projected future benefit payments to determine whether or not they continue to be appropriate based on the current circumstances and to document how the assessment should be performed; b) review the completeness of the underlying data; and c) validate the mathematical accuracy of the assumptions used.

8. Formally document: a) which data elements the reviewer is required to review; b) what reports are used and how reliability of the data is determined; c) what constitutes an outlier (e.g., a percentage change versus previous quarter or forecasted amounts); and d) why the established metrics/criteria would detect a material misstatement.

Management's Response

Management does not concur with the recommendation.

OWCP plans to finalize the formal policy for maintenance, documentation and review of all OWCP's actuarial models in FY 2017 through assessment and stabilization of multiple factors.

In FY 2016 OWCP implemented and executed a policy of 100 percent review of the acturial models, underlying assumptions, life/mortality tables, and certain methodologies, therefore, we disagree with the stated effect. Additionally, given 100 percent review, "the level of precision" is superseded.

The following levels of review were executed and documented in FY 2016:

1. Internal review, by an economist/ statistician, other than preparer, for reasonability and accuracy of assumptions and inputs.
2. Review by the independent actuary firm for reasonability and accuracy of assumptions, methodologies, validity of underlying data and other inputs.

3. Discussions with each Program's subject matter experts and external subject matter experts for reasonableness of assumptions, underlying data and resultant actuarial liability amounts, as applicable.
4. Office of Chief Financial Officer (OCFO) staff for impact of the proposed changes in assumptions/methodologies on the DOL financial statements.
5. Management review for reasonableness of projections and estimates to ensure those are "based on the best estimates of demographic and economic assumptions taking each factor individually and incorporating future changes mandated by current law," as required by SFFAS 17, paragraph 25.

Further, the actuarial liability is a "best estimate" with an inherent uncertainty, given that it is based on economic and other assumptions and not specific transactions. That fact is fully disclosed in the DOL Financial Statements.

Auditors' Response

Although management did not agree with the effect and recommendation of this comment, we note the effect was accurate as stated, as failure to define the level of precision, which refers to the reviewer's tolerance for errors or exceptions and what constitutes an error or exception, presents a risk of material misstatement for the actuarial models. As such, we did not change our recommendations based on management's response. Follow-up procedures will be conducted in FY 2017 to determine whether the corrective actions indicated by management were implemented.

6. Lack of Monitoring Controls Related to New Obligations/Modifications

At the end of FY 2015, the Veterans' Employment and Training Service (VETS) designed and implemented monitoring procedures to address a prior year finding by reviewing 10 percent of Procurement Action Request (PAR) actions within 30 days of the end of each quarter to ensure all requirements were met. Minimally, a review would ensure the accuracy of the following PAR elements: Type of Action, Amount, Description, and Required Signatures. Findings from these reviews were to be forwarded to the Office of Agency Management and Budget Director for notification and remediation in a memorandum by the staff member who conducted the review.

During our control testing over procurement in FY 2016, we determined that VETS did not continue with its monitoring procedures to ensure that enacted PAR policies and procedures were followed because of agency restructuring. Lack of monitoring procedures increases the risk that controls over obligations may not be performed or not performed properly. This situation could ultimately lead to misstatements in the balances of obligations.

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

> Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective controls throughout the year.

The GAO Standards states:

> Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. (Page 64)

> Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis. Management evaluates issues identified through monitoring activities or reported by personnel to determine whether any of the issues rise to the level of an internal control deficiency. (Page 68)

Recommendation

9. We recommend the Deputy Assistant Secretary for Operations and Management for Veterans' Employment and Training consistently conduct monitoring procedures as outlined in the *PAR Monitoring* procedures.

Management's Response

Management concurs with the recommendation. Effective January 2017, required PAR monitoring procedures will be carried out as part of VETS internal controls quarterly reviews. The review for the first quarter of fiscal year 2017 will be completed by January 19, 2017. Coordinating responsibility is assigned to the VETS Internal Controls manager.

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 2017 to determine whether the corrective actions were implemented.

New Information Technology Comment and Recommendation Identified in Fiscal Year 2016

7. Weaknesses in the System Security Plan and Risk Assessment Annual Review Process

We determined that the latest System Security Plan (SSP) and Risk Assessment documents for the E-Grants and Acquisition Management System (AMS) applications were not reviewed annually as of September 30, 2016. Specifically:

E-Grants:
- SSP – dated April 22, 2015
- Risk Assessment – dated April 22, 2015

AMS:
- SSP – dated April 20, 2015
- Risk Assessment – dated September 9, 2015

For AMS, Office of the Assistant Secretary for Administration and Management (OASAM) management stated that the Risk Assessment and SSP were not reviewed in FY 2016 because of a delay in the migration to National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 Revision 4 due to a dispute with the AMS vendor over contractually-mandated support levels.

For E-Grants, Employment and Training Administration (ETA) management stated that the Risk Assessment and SSP documents were reviewed annually within FY 2016. However, because of the lack of edits required to be made within the documents and oversight by management, updates to the history sections of the documents were not accurately documented and the latest versions were not uploaded to the Cyber Security Assessment and Management (CSAM) system.

By not reviewing and updating SSPs and Risk Assessments for financially relevant applications on at least an annual basis, changes made to the application and its infrastructure may not be appropriately documented and the relevant artifacts may not represent the current state of the system. As such, it may be difficult for the entity or a third party to employ controls to prevent a compromise in the confidentiality, availability, and integrity of the system's data.

The DOL Computer Security Handbook (CSH), Volume 4, Edition 5.0, *Security Assessment and Authorization Policy, Procedures, and Standards,* last reviewed May 2015, Section 3.1.6, page 22, states:

DOL's required minimum standards on developing a security authorization package are as follows:

9. The security authorization package must be updated to coincide with the agency or system's continuous monitoring approach, when there is a significant change to the system, or at least annually to include the SSP (including risk assessment), the security assessment report, and POA&Ms [Plan of Action and Milestones].

NIST SP 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, Controls PL-2 and RA-3, states:

PL-2: The organization:
c. Reviews the security plan for the information system [Assignment: organization-defined frequency];
d. Updates the plan to address changes to the information system/environment of operation or problems identified during plan implementation or security control assessments.

RA-3: The organization:
e. Updates the risk assessment [Assignment: organization-defined frequency] or whenever there are significant changes to the information system or environment of operation (including the identification of new threats and vulnerabilities), or other conditions that may impact the security state of the system.

Recommendations

We recommend the Deputy Assistant Secretary of Employment and Training and the Chief Information Officer:

10. Review the E-Grants and AMS SSPs and perform a Risk Assessment over these applications on at least an annual basis, document the reviews, and upload latest versions of the documents to CSAM timely.

11. Provide annual training to reiterate the annual SSP and Risk Assessment process to responsible supervisors/personnel.

Management's Response

Management concurs with the recommendation. DOL AMS staff will review the SSP and perform the Risk Assessment on an annual basis, to resume in FY 2017. This review will occur when one of the two criteria are met: 1) when the contractual dispute with the AMS service vendor regarding the migration to NIST 800 53 Revision 4 security controls is resolved, or 2) as part of the execution of a new AMS support contract.

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 2017 to determine whether corrective actions have been implemented.

Prior Year Financial Comments and Recommendations Still Present in Fiscal Year 2016

8. Improvements Needed in Management's Review of the Unemployment Trust Fund Federal Employees Compensation Account Existing Claims Accrual

During our testing of the design and implementation of management's review of the Unemployment Trust Fund Federal Employees Compensation Account existing claims accrual as of December 31, 2015, we noted ETA management did not address the first recommendation from the prior year; instead, management implemented additional procedures. Specifically, they revised the review procedures within the *FECA [Federal Employees Compensation Account] Existing Claims Accrual Methodology* to compare the change in the accrual from the prior quarter to the change in first payments made to beneficiaries. However, the review procedures did not specify the threshold to be used when performing this comparison to evaluate identified differences (i.e., the threshold above which explanations for the identified difference would be required).

Additionally, per review of the corrective action plans and *FECA [Federal Employees Compensation Account] Existing Claims Accrual Methodology* document, no additional monitoring control procedures were added in FY 2016 to enforce the management review requirements outlined in the *FECA [Federal Employees Compensation Account] Existing Claims Accrual Methodology* document.

Management stated in its FY 2015 corrective action plan that including more indicators or developing monitoring controls would add layers of unnecessary work that would not add to the accuracy of this estimate. Application of the Federal Employees Compensation Account existing claims methodology without sufficient understanding of the root cause of significant variances may result in a material misstatement in the related accrued benefits and costs reporting on the Consolidated Balance Sheet and Statement of Net Cost, respectively.

The GAO Standards states:

> Management defines risk tolerances for the defined objectives. Risk tolerance is the acceptable level of variation in performance relative to the achievement of objectives. Risk tolerances are initially set as part of the

objective-setting process. Management defines the risk tolerances for defined objectives by ensuring that the set levels of variation for performance measures are appropriate for the design of an internal control system. (Page 36)

Management also evaluates whether risk tolerances enable the appropriate design of internal control by considering whether they are consistent with requirements and expectations for the defined objectives. As in defining objectives, management considers the risk tolerances in the context of the entity's applicable laws, regulations, and standards as well as the entity's standards of conduct, oversight structure, organizational structure, and expectations of competence. If risk tolerances for defined objectives are not consistent with these requirements and expectations, management revises the risk tolerances to achieve consistency. (Page 37)

To identify risks, management considers the types of risks that impact the entity. This includes both inherent and residual risk. Inherent risk is the risk to an entity in the absence of management's response to the risk. Residual risk is the risk that remains after management's response to inherent risk. Management's lack of response to either risk could cause deficiencies in the internal control system. (Page 38)

Management considers all significant interactions within the entity and with external parties, changes within the entity's internal and external environment, and other internal and external factors to identify risks throughout the entity. Internal risk factors may include the complex nature of an entity's programs, its organizational structure, or the use of new technology in operational processes. External risk factors may include new or amended laws, regulations, or professional standards; economic instability; or potential natural disasters. Management considers these factors at both the entity and transaction levels to comprehensively identify risks that affect defined objectives. Risk identification methods may include qualitative and quantitative ranking activities, forecasting and strategic planning, and consideration of deficiencies identified through audits and other assessments. (Page 38)

Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system. (Page 19)

Prior Year Recommendation

The following prior year recommendation remains **open**:

- We recommend the Deputy Assistant Secretary for Employment and Training develop and implement monitoring controls to enforce the management review requirements per the *FECA [Federal Employees Compensation Account] Existing Claims Accrual Methodology* and ensure that the results of the review are sufficiently documented.

The other open prior year recommendation has been modified. See below.

Current Year Recommendation

12. We recommend the Deputy Assistant Secretary for Employment and Training update the *FECA [Federal Employees Compensation Account] Existing Claims Accrual Methodology* to include a threshold by which to explain variances identified when comparing the change in the accrual from quarter to quarter to the change in first payments from quarter to quarter. The threshold should be at an appropriately low level to identify material errors in the estimation methodology.

Management's Response

Management does not concur with the recommendation. Auditors have misstated the cause, impact, and the application of recommendations related to estimating the quarterly accrual of FECA [Federal Employees Compensation Account] existing claims. This is primarily due to the misunderstanding in reference to prior year's recommendation, in which they stated that we were to "explain variances above the specified threshold, as deemed necessary by management" but failed to state what variance they were referring to, or what threshold they were expecting. At times they implied that we were to measure a "level of accuracy threshold" and then later implied that we were to measure a difference measurement between the accruals and the level of FECA first payments- while never clarifying the rationale behind either one.

This year they have not shown how either the condition or the recommendation would lead to any improved accuracy of the estimate. Furthermore, the newly revised recommendation is unrelated to identifying material errors in the estimation methodology.

Although management did not concur with the finding or recommendation, further review of the management control for the FECA [Federal Employees Compensation Account] Existing Claims Accrual continues to be done. So far it has been determined that a comparison using the first payments will be removed and a check of the ratio of

the estimated total benefits to the estimated accrued benefits will be added. Analysis continues in order to determine an appropriate range of ratios.

Auditors' Response

Although management disagreed with certain elements of the comment, management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether the corrective actions have been developed and implemented.

9. <u>Untimely ETA-9130 Cost Report Acceptance by a Federal Project Officer</u>

During interim control testing conducted in May 2016, we noted that for four of the eight sampled ETA 9130s (cost reports) that were noted as delinquent in the *Delinquent 9130 Quarter Ending December 31, 2015* report, no evidence existed indicating a Federal Project Officer (FPO) contacted the grantee to ascertain the reason for delinquency and to ensure the grantee submitted the cost report timely. Additionally, for two of these four reports, an FPO did not timely review, analyze, and accept the grantee's cost report until 35 to 55 days after the grantee's initial submission.

Because of inappropriate oversight after a change in personnel occurred, an FPO supervisor did not properly reassign to another FPO in a timely manner the grantees' ETA 9130 cost reports for review, analysis, and correction or acceptance. Failure to timely review and accept submitted grant expenditure details may lead to grant-related expenses, advances, payables, and undelivered orders being misstated.

Chapter 75 of Title 31, United States Code (Single Audit Act), states:

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

The GAO Standards states:

> Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities. (Page 50)

> Transactions are 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 its initiation and authorization through its final classification in summary

records. In addition, management designs control activities so that all transactions are completely and accurately recorded. (Page 48)

Prior Year Recommendation

The following prior year recommendation remains **open**:

- We recommend the Deputy Assistant Secretary for Employment and Training develop and implement oversight procedures for all regions that address the timely assignment, review, analysis, and correction or acceptance of ETA 9130s when a change in personnel occurs to ensure ETA 9130s are appropriate.

Management's Response

ETA does not concur with the recommendation. ETA acknowledges that four of the eight sampled ETA 9130 cost reports were noted as delinquent for the quarter ending December 31, 2015 and that there was a lack of evidence indicating that the FPO contacted the grantee to ascertain the reason for delinquency. ETA also acknowledges that two of these four cost reports were not reviewed, analyzed and accepted in a timely manner by the assigned FPO. However, all of these issues regarding inappropriate oversight were found in only one of six Regional Offices. ETA believes this is a specific performance management issue rather than a nation-wide issue requiring development of new oversight procedures. As mentioned in the FY15 recommendation, ETA has already taken several actions to strengthen oversight of 9130 cost reports including:

- Issuance of a Standard Operating Procedure (SOP) establishing internal controls for the oversight of delinquent 9130 reports (December 30, 2014). This SOP was distributed to all grant managers and offices with responsibility for the review and acceptance of 9130 reports.
- New policies and procedures in the Region 6 office to address the ETA 9130s.

ETA remains committed to continuous improvement through updating policies and procedures when necessary, and also providing routine training. ETA believes the current SOP is effective.

To strengthen existing SOPs, ETA is drafting written procedures to address the concern regarding timely reassignment of FPOs and staff. The new procedure will include a quarterly attestation that all grants and grant-related work under each ETA Administrator's purview is appropriately assigned and being managed by a current/active FPO or staff member. The expected expected completion date for this action is March 31, 2017.

Auditors' Response

Although management disagreed with the recommendation, they concurred with the comment and indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether the corrective actions have been developed and implemented.

10. Untimely Federal Project Officer Desk Review

During FY 2016 interim control testing, we performed test work to determine if remediation efforts were completed to address prior year recommendations related to FPO desk reviews. We noted that ETA had researched options to design a technology fix in the Grants Electronic Management System (GEMS) to ensure that multiple desk reviews for the same period are associated with the correct period and submission dates correspond with the appropriate quarterly review timeframe. However, during the interim period and as of the completion of our June 30, 2016 testing, additional monitoring procedures to verify that desk review submission dates corresponded with the appropriate quarterly review timeframes had not been established, and recommendations from the previous year had not been fully addressed.

Additionally, we noted that ETA believed policies and procedures reflecting the types of duties and responsibilities of senior executives, managers, and FPO supervisors were already included in existing standards and position descriptions, and therefore, the level of specificity related to guidance on timely reassignment of FPOs was not needed. As such, the related recommendation from the previous year had not been addressed.

As of June 30, 2016, we selected a sample of 44 grants from the population of grant expenses recorded in the New Core Financial Management System (NCFMS) to determine if FPO desk reviews were properly performed and documented in GEMS. For two of the 44 grants selected, we noted that no desk review was completed after the respective quarterly reporting period. For one of these two grants, the review occurred prior to the conclusion of the respective quarterly reporting period.

ETA had not developed additional monitoring procedures to verify that desk review submission dates corresponded with the appropriate quarterly review timeframe while a technology solution was investigated because the exception rate we noted in in the prior year fell within ETA's performance standards (i.e., 90 percent of the quarterly desk reviews will be completed timely).

As noted above, ETA did not believe that specific guidance related to the timely reassignment of FPOs was needed. However, because of the lack of specific policies and procedures relating to FPO reassignments, management did not promptly reassign an FPO for completing a desk review; as such, desk reviews were submitted untimely. In addition, for the one grant where the desk review was improperly conducted prior to

the end of the reporting period, the FPO and Region did not provide proper review and oversight.

Failure to monitor FPO desk reviews increases the risk that proper monitoring is not occurring, which increases the risk of undetected grantee reporting errors and/or violation. Additionally, failure to implement proper monitoring controls to ensure compliance with existing policies and procedures increases the risk that policy deviations are not detected and corrected. Without adequate grantee monitoring controls, grantees may misreport, intentionally or unintentionally, grant expenses without the misstatement being detected by ETA, or may fail to report grant expenditure details. As a result, grant-related expenses, advances, payables, and undelivered orders could be misstated.

The Single Audit Act states:

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

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

> A quarterly desk review is required on all projects in GEMS. Desk reviews must be completed following a review of both the progress and cost reports submitted during the reporting timeframe. Section iii below [not included] identifies the due dates for Desk Review completions.

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

The GAO Standards states:

> Management designs control activities for appropriate coverage of objectives and risks in the operations. Operational processes transform inputs into outputs to achieve the organization's objectives. Management designs entity-level control activities, transaction control activities, or both depending on the level of precision needed so that the entity meets its objectives and addresses related risks. (Page 49)

Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objectives. Entity management needs access to relevant and reliable communication related to internal as well as external events. (Page 58)

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained. (Page 48)

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. (Page 65)

Prior Year Recommendations

The following prior year recommendations remain **open**:

We recommend the Deputy Assistant Secretary for Employment and Training:
- Correct the configuration of GEMS to ensure that multiple desk reviews for the same period are associated with the correct period, and in the interim, implement additional monitoring procedures to verify that desk review submission dates correspond with the appropriate quarterly review timeframe; and
- Develop and implement written policies and procedures to provide specific guidance on the timely reassignment of FPOs.

Management's Response

ETA notes that the performance standard states that 90 percent of quarterly desk reviews will be completed timely and the Operating Plan data from the last five years shows that the regions have exceeded this measure by completing nearly 97 percent of their desk reviews within the required timeframe of 30 days.

For recommendation no. 1, ETA has begun its E-Grants Modernization effort and has convened a Steering Committee that is meeting with key stakeholders and identifying the requirements for designing and deploying a new, integrated, modernized grants management system. ETA notes that this is a two-year planning and developmental process to ensure comprehensive design and implementation of a system that addresses our grant management requirements, processes and procedures. GEMS will

not be updated. GEMS is one of a family of legacy systems at or near the end of their lifecycles. While GEMS performs adequately, ETA does not consider updating GEMS to be cost effective at this point. The expected completion date for this effort is September 30, 2018.

For recommendation no. 2, ETA concurs that one of these untimely desk reviews was related to Recommendation no. 2 and that 2 grants of the 44 grant desk reviews sampled were not completed timely. However, ETA also asserts that our policies and procedures are working, as data show we continue to complete 95-100 percent of the 2500 quarterly desk reviews timely. Two out of 44 results in a 4.5 percent error rate of 95.5 percent timely rate. We are still achieving our 90 percent timely completion target, based on this sample. To address this recommendation, ETA is drafting written procedures to address the concern regarding timely reassignment of FPOs and staff. The new procedure will include a quarterly attestation that all grants and grant-related work under each ETA Administrator's purview is appropriately assigned and being managed by a current/active FPO or staff member. This is expected to be completed by March 31, 2017.

Additionally for recommendation no. 2, ETA continues to have plans to conduct a GEMS refresher training for FPOs by September 30, 2017.

Auditors' Response

Although management disagreed with the recommendation, management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether the corrective actions have been developed and implemented.

11. Untimely Filing of On-Site Monitoring Review Reports

During our FY 2016 audit, we performed procedures to determine if remediation efforts were completed to address the prior year recommendations related to on-site grantee monitoring.

For recommendation no. 1, we noted that DOL's corrective action plan as of June 30, 2016, indicated the *Regional Administrators Standards* for FY 2016 were updated to reflect the development and maintenance of the regional monitoring plan. However, we inspected the 2016 *Regional Administrators Standards* and the FY 2016 regional monitoring plans of all regions and noted no explicit monitoring procedures or policies were in place that ensured changes to original regional site visit plans were appropriate and accurately documented. As such, recommendation no. 1 remains open.

For recommendation no. 2, upon review of the 2016 *Regional Administrators Standards*, we noted DOL did not explicitly update written policies and procedures to include

guidance on monitoring the timely completion of regional on-site monitoring. As a result, recommendation no. 2 remains open.

For recommendation no. 3, we noted the development and implementation of monitoring controls within GEMS were ongoing, as GEMS system workers were pursuing information technology solutions to modernize both the GEMS and E-Grants systems. As such, recommendation no. 3 remains open.

During our FY 2016 internal control test work, we obtained a population of March 31, 2016, on-site visit monitoring plans from ETA's six regions on April 14, 2016. We selected a sample of 14 on-site monitoring dates noted as completed as of March 31, 2016, from the plans provided by each of the six regions and requested the related on-site visit monitoring reports. For seven of 14 sampled items, on-site visit monitoring reports were not uploaded into GEMS within 30 days of report issuance. Of these, five were uploaded after being notified of our sample selection. Upload dates ranged from 39 to 152 days after the GEMS upload deadline. Our testing as of September 30, 2016, of 13 additional on-site visit monitoring visits did not identify any additional exceptions.

ETA had not completed the development and implementation of policies and procedures to address the recommendations we made initially in FY 2014 and repeated in FY 2015 as ETA management indicated they generally will only update standard operating procedures when a new Assistant Secretary for Employment and Training is appointed. Additionally, because resources and capacity had been focused primarily on modernization efforts and system solutions, the Office of Regional Management and the Office of Financial Administration's Internal Control Unit continued to work to improve the monitoring control process to ensure adherence to written guidelines outside of GEMS.

Failure to monitor site visit plans increases the risk that proper monitoring is not occurring, which increases the risk of undetected grantee reporting errors and/or violations. In addition, failure to implement proper monitoring controls to ensure compliance with existing policies and procedures increases the risk that policy deviations are not detected and corrected. Without adequate controls in the grant monitoring process, grantees may be misusing grant funds without detection by DOL. As a result, grant-related expenses, advances, payables, and undelivered orders could be misstated.

The GAO Standards states:

> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in

either paper or electronic form. Documentation and records are properly managed and maintained. (Page 48)

Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objectives. Entity management needs access to relevant and reliable communication related to internal as well as external events. (Page 58)

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. (Page 65)

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

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

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

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

Prior Year Recommendations

The following prior year recommendations remain **open**:

We continue to recommend the Deputy Assistant Secretary for Employment and Training:

- Develop and implement a monitoring procedure to ensure changes to original regional monitoring plans are appropriate, accurately documented, and reported to the ETA National Office;
- Update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring; and
- Develop and implement monitoring controls to determine that on-site monitoring review reports are timely issued and uploaded into GEMS with the appropriate documentation.

Management's Response

For recommendation no. 1: ETA continues to utilize the standardized regional monitoring plan across all regions to meet its business needs. This flexible management tool allows management to manage monitoring according to grantee risk analysis, the number of reviews needed to meet regional goals, initiative priorities, full-time equivalent (FTE) capacity, etc. and make continuous assessments as variables such travel and FTE resources fluctuate. As part of their quarterly process, the Regional Offices have already submitted their completed monitoring plans for FY 2017 quarter 1 on the ETA Shared Drive and will continue to submit their plans quarterly throughout FY 2017.

For recommendation no. 2: KPMG conducted testing on whether written monitoring reports are issued timely (80 percent) and ETA met this standard. As a result, Regional Administrator and employee performance standards remain the most appropriate mechanism for ensuring timely completion of regional on-site monitoring.

For recommendation no. 3: ETA has begun its E-Grants Modernization effort and has convened a Steering Committee that is meeting with key stakeholders and identifying the requirements for designing and deploying a new, integrated, modernized grants management system. ETA notes that this is a two-year planning and developmental process to ensure comprehensive design and implementation of a system that addresses our grant management requirements, processes and procedures. Until a monitoring control can be built into a new system, ETA uses the monitoring plans for tracking the timely issuance of monitoring reports and timely uploads into GEMS. The expected completion date for this effort is September 30, 2018.

Management will continue to provide oversight and operate in the best interest of the program.

Auditors' Response

For recommendation no. 1, management did not indicate a corrective action to our recommendation. Although we recognize management's standardized monitoring plan and that updates are made on a quarterly basis, we continue to believe that a monitoring procedure over the update process is appropriate. As such, we did not change our recommendation based on management's response.

For recommendation no. 2, management did not indicate a corrective action to our recommendation. Although our FY 2016 test work did not identify any untimely monitoring reports on a sample basis, we continue to believe that written policies and procedures should be updated to include specific guidance on monitoring the timely completion of regional on-site monitoring. As such, we did not change our recommendation based on management's response.

For recommendation no. 3, management indicated that until a monitoring control can be built into a new system, the utilization of monitoring plans are used to track timely uploads into GEMS. However, our findings from FY 2016 indicated that this method was not effective. As such, we did not change our recommendation based on management's response.

12. Untimely Grant Closeouts

In the prior year, we noted that VETS and the Bureau of International Labor Affairs (ILAB) did not adhere to Department of Labor Manual Series (DLMS) for the timely closeout of grants. As of March 31, 2016, 97 percent of grants related to VETS had expired and had not been closed within 365 days of expiration. At the time of our walkthrough over grant closeout procedures, we inquired of management about the controls in place to ensure backlogged grants and recently expired grants were appropriately closed in accordance with DLMS policies and procedures. VETS management indicated that progress had been made in closing backlogged grants, but certain backlogged grants remained open.

During our procedures over the grant closeout process as of March 31, 2016, we selected a sample of 40 grants that expired between October 1, 2014, and September 30, 2015, of which 25 were identified as being closed between October 1, 2015, and March 31, 2016, and the additional 15 remained open as of March 31, 2016. Of the 15 grants selected that remained open as of March 31, 2016, we determined that for 14 of them, VETS was not able to provide sufficient supporting documentation evidencing the reason for untimely closeout, any communication between the grant officer and grantee concerning closeout, or that the grant officer had been in the process of closing the grant.

ILAB management is in the process of working with the E-Grants technical staff to implement system enhancements that would facilitate timely monitoring of grants through automated notifications. As such, the corrective actions to address the recommendation related to ILAB in the prior year are ongoing.

Supporting documentation was not maintained appropriately by VETS, and a lack of communication occurred between the grant officers and grantees concerning delays in grant closeout. Also, because of resource constraints over a period of several years, VETS developed a backlog of expired grants to be closed. While additional resources were added in prior years and the current fiscal year to assist with addressing the backlog of expired grants, they were not sufficient to clear this backlog as of our testing date.

Additionally, ILAB management had planned the development and implementation of system enhancements to facilitate monitoring ILAB grant closeouts; however, no targeted completion date had been identified. Without adequate processes and controls to timely close out expired grants and deobligate any remaining funds, undelivered orders may be overstated.

The GAO Standards states:

> Transactions are 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 its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded. (Page 48)

> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained. (Page 48)

> Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. (Page 65)

DLMS 2 – Administration: Chapter 800 – *Grant and Procurement Management, Section 875 – Responsibilities*, states:

E. The contracting or grant officer is responsible for closing the contract out, or seeing to it that the contract, grant, or agreement is closed out by the closeout unit if one has been designated. The contracting or grant officer may designate a contract or grant specialist under his or her supervision as the closeout specialist with continuing responsibility for closeouts of all awards made in that office; or alternatively, may assign each contract, grant, or agreement upon award, to a contract or grant specialist in the office, who shall be responsible for administration including closeout.

F. The official responsible for closeout, whether the contracting or grant officer as specified in (e) above, or the closeout unit, as specified in (d) above, is responsible for:

1. Overseeing the timely closeout of the contract, grant, or agreement;
2. Coordinating activities at closeout …;
3. Scheduling and monitoring closeout activities to avoid or eliminate backlogs and to complete the closeout process within time frames established in paragraph 877, below.

DLMS 2 – Administration: Chapter 800 – *Grant and Procurement Management, Section 877 – Time Frames for Closeout,* states:

Special circumstances may exist which delay closeout, such as a closeout following termination or a closeout where litigation or an appeal is pending. Unless such a circumstance exists, the contracting or grant officer shall close out a contract, grant, or agreement as soon as possible after completion (as defined in the DLMS 2-7, "HANDBOOK—CLOSEOUT OF CONTRACTS, GRANTS, AND AGREEMENTS"). Closeout should be accomplished within the following periods after completion:

a. Firm fixed-price contracts – 6 calendar months. (Except for contracts for automatic data processing (ADP)).
b. All other contracts – 18 calendar months.
c. Grants and agreements – 12 calendar months.

Prior Year Recommendations

The following prior year recommendation remains **open**:

- We recommend the Deputy Assistant Secretary for Operations and Management for Veterans' Employment and Training adhere to DOL retention policies to ensure adequate supporting documentation is maintained to support daily grant activities.

The other open prior year recommendations have been modified. See below.

Current Year Recommendations

We recommend:

13. The Deputy Assistant Secretary for Operations and Management for Veterans' Employment and Training evaluate resource needs and address any shortages to timely address the backlog of expired grants and to properly follow procedures related to the monitoring of the closeout process for grants that have expired and have not been closed within 365 days of expiration.

14. The Associate Deputy Undersecretary for International Labor Affairs complete and implement system enhancements to assist in monitoring the closeout process for grants that have expired and have not been closed within 365 days of expiration.

Management's Response

Management concurs with the recommendations and corrective action will be taken and completed in the current fiscal year.

VETS Response:

Regarding recommendation one, ETA/Office of Grants Management (OGM) carries out grant closeout processes for VETS grants. They have implemented closeout processes that include record retention. Regarding recommendation two, VETS has increased the contractor support available to ETA to conduct closeouts. In addition, ETA/OGM will be adding an additional federal Grants Specialist in FY 2017 as well. ETA/OGM has decreased the backlog through 2016 and with additional resources will be able to reduce it more rapidly in FY 2017.

ILAB Response:

ILAB has worked with the E-Grants technical staff to complete implementation of the system enhancements previously identified to assist in monitoring the closeout process for grants. ILAB believes these enhancements address the recommendation.

Auditors' Response

Management indicated that actions have been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether corrective actions were developed and implemented.

13. <u>Improvements Needed over the Preparation and Review of Journal Entries</u>

DOL records manual journal entries throughout the year to account for certain accounting transactions and to make corrections to general ledger account balances, as necessary. We continued to identify certain deficiencies during our testing of a sample of 286 journal entries recorded in NCFMS for the period October 1, 2015, through September 30, 2016, and 11 journal entries tested during the pre-closing period. In summary, we determined that 20 of 297 journal entries contained one or more deficiencies. Specifically, we noted the following:

- 2 instances where the entry was not recorded in accordance with the United States Government Standard General Ledger (USSGL) and/or applicable federal accounting standards;
- 2 instances where the entry did not reflect the underlying events and transactions;
- 7 instances where the Journal Voucher was not properly and/or timely reviewed by the reviewer; and
- 11 instances where the entry was not recorded in the correct accounting period.

Certain of these errors were caused by insufficient review of journal entries by authorized DOL supervisors to ensure the journal entries were properly prepared and supported before posting them to the general ledger, and other errors were caused by cost/benefit decisions made to not perform related research and analysis. Furthermore, certain incorrect accounting period errors were caused by additional research performed by a DOL agency and the OCFO to ensure proper financial statement accounting that resulted in a delay in recording the activity. Without proper review and timely approval of transactions, the risk increases that a material error would not be prevented or detected and corrected in a timely manner. In addition, DOL was not in full compliance with the USSGL.

The GAO Standards states:

> Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. (Page 65)

Prior Year Recommendation

The following prior year recommendation remains **open**:

- We recommend the Principal Deputy Chief Financial Officer continue to 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.

Current Year Recommendation

We have added one current year recommendation to address a new cause. Specifically:

15. We recommend the Principal Deputy Chief Financial Officer provide additional resources to assist other agencies in conducting timely research into proper financial statement accounting in order to record journal entries in the correct accounting period.

Management's Response

Management concurs with the recommendation. Corrective action will be taken and completed in the current fiscal year.

Auditors' Response

Management indicated that actions have been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether corrective actions were implemented.

14. Lack of Supporting Documentation Related to Training over the Initiation of Background Investigations

During our FY 2016 follow-up procedures over prior year recommendations related to background investigations, management indicated that training material was submitted to Human Resources Offices (HRO) which communicated roles and responsibilities related to the performance and initiation of background investigations. However, the OASAM Security Center did not provide supporting documentation indicating that individual HROs and Contracting Officer's Representatives (COR) received the training to communicate roles and responsibilities related to the initiation of background investigations. Specifically, we sampled 8 of 72 individual CORs and HRO supervisors who had access to the eQIP system to initiate background investigations and did not receive evidence for any of the individuals indicating that they completed the required training.

The OASAM Security Center did not have a process in place for communicating or tracking training for persons responsible for initiating background investigations. Without a sufficient process to provide and monitor training for individuals who initiate background investigations for DOL employees and contractors, DOL may have placed

individuals in positions without initiating a timely background investigation, putting DOL's information and financial systems at risk.

The GAO Standards states:

> Management establishes expectations of competence for key roles, and other roles at management's discretion, to help the entity achieve its objectives. Competence is the qualification to carry out assigned responsibilities. It requires knowledge, skills, and abilities, which are gained largely from professional experience, training, and certifications. It is demonstrated by the behavior of individuals as they carry out their responsibilities. (Page 30)

> Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system. (Page 19)

Prior Year Recommendations

The open prior year recommendation has been modified. See below.

Current Year Recommendation

16. We recommend the Principal Deputy Chief Financial Officer coordinate with OASAM to develop and implement a process to properly communicate, conduct, and track training for HROs and CORs to ensure a full understanding of their roles and responsibilities in accordance with the updated *Personnel Suitability and Security Handbook*.

Management's Response

Management concurs with the recommendation. The Security Center will develop a department-wide training program, as well as an annual refresher training, that will cover the HRO and COR roles and responsibilities as outlined in the current version of the Personnel Suitability and Security Handbook (July 2015). The training requirements will be communicated through email and LaborNet to the individuals responsible for requesting background investigations. The Security Center anticipates completion and implementation by September 30, 2017.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this commment. Follow-up procedures will be conducted in FY 2017 to determine whether corrective actions were developed and implemented.

15. Untimely Resolution of Differences Identified in the Reconciliation of Fund Balance with Treasury

In March 2016, we conducted a walkthrough of the Fund Balance with Treasury (FBWT) reconciliation preparation and review process for the Occupational Safety and Health Administration (OSHA). During this walkthrough, we inspected the December 2015 reconciliations for three of the eight Treasury Account Fund Symbols (TAFS) for which OSHA is responsible. We identified 59 differences with an absolute value of $300,697 within two of the three TAFS selected for testing that had not been resolved within three months. Some of the differences dated as far back as February 2014. Although we noted that 45 of the 59 aged reconciling items netted to zero because corrective actions were taken by OSHA to clear them prior to preparing the reconciliation, the clearing or correcting transaction was not properly matched up to the original transaction and removed from the reconciliation.

Many of the FBWT differences that remained in excess of three months were attributable to the conversion to the Central Accounting and Reporting System (CARS) in FYs 2014 and 2015. OSHA implemented the Treasury Account Symbol/Business Event Type Code (TAS/BETC) requirement for CARS reporters early, prior to the FY 2015 deadline. As a result of the CARS conversion and implementation of the TAS/BETC requirements, agencies had created and implemented new procedures to properly address the outstanding FBWT differences. However, several differences were created by transactions recorded by other Agency Location Codes (e.g., the OCFO/regional offices within DOL) which required additional coordination and time, leading to a delay in the resolution. Additionally, several of the outstanding differences related to purchase cards, which typically require additional time to research by the agencies. Because of the implementation of CARS and the difficulties in coordination with various agencies, the OCFO did not adequately monitor the timely resolution of the differences.

Differences that are not properly researched and resolved timely could compromise the reliability of FBWT balances, other USSGL account balances contra to the USSGL 101000 account, and the U.S. Department of the Treasury's (Treasury) published financial reports. This, in turn, could compromise the overall integrity and status of DOL's financial position.

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

> Monthly, they [agencies] must reconcile the USSGL account 1010 balances for each fund symbol with [Financial Management Service's] 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.

Further, the *TFM* states:

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

The GAO Standards states:

> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained. (Page 48)

> Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions. (Page 65)

Treasury *FBWT Reconciliation Procedures, A Supplement to the Treasury Financial Manual, 1TFM 2-5100 March 2012*, states:

> Federal agencies must…resolve all differences between the balances reported on their G/L FBWT accounts and balances reported on the [Government-wide Accounting] GWA Account Statement [now the Central Accounting Reporting System (CARS)]…The Cash Analysis Branch sends agencies' [Chief Financial Officer] 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.

The DOL *Division of Central Accounting Office (DCAO) FBWT Procedures*, Version 6, April 7, 2015, states, "Items identified on the reconciliation will have to be cleared within 3 months of being placed on the reconciliation as an issue."

Prior Year Recommendation

The following prior year recommendation remains **open**:

- We recommend the Principal Deputy Chief Financial Officer monitor DOL agencies' efforts to properly resolve prior year differences in accordance with DCAO established timeline.

Management's Response

Management does not agree with the information stated above.

The amounts in question are immaterial and were either cleared (but unmatched) or currently being addressed by the agency.

Auditors' Response

While management disagreed with the comment, management indicated that actions were being taken by agencies to address the matters identified in this comment. We will conduct follow-up procedures in FY 2017 to determine whether corrective actions have been implemented.

16. Insufficient Supporting Documentation for Contracts

During FY 2016 test work over Federal Acquisition Regulation (FAR) compliance, we selected a sample of 63 contracts from NCFMS for the period October 1, 2015, through September 30, 2016. Of this sample, we identified one ETA contract with insufficient documentation to determine whether the agency followed FAR requirements. Specifically, documentation was not provided to substantiate if the contract award process solicited offers from multiple sources, was justified as a sole source action, was a Simplified Acquisition, or was a Simplified Acquisition over Threshold.

In addition, DOL management stated that it had implemented a Contract Review Board process as a remedial action to the prior year finding and that 24 contracts went through the process during FY 2016. Based on the large number of contracts at DOL, a review of 24 contracts is not sufficient to remediate the deficiency. However, we tested four of the 24 contracts to determine if the new review process was effective over the limited population. Our testing identified all four sampled items as exceptions; generally, no documentation existed to verify that the contracts had undergone a complete review by the Contract Review Board.

ETA personnel had not maintained adequate documentation to support that the contract complied with FAR solicitation requirements, and the ETA contracting officer lacked sufficient oversight to ensure contracts were in compliance with the FAR. In addition, sufficient resources had not been applied to the planned remediation activity of the Contract Review Board. As a result, DOL is not in full compliance with FAR Subpart 6.1.

FAR Subpart 6.1 – Full and Open Competition, states:

> FAR, 6.101 – Policy
>
> (a) 10 [United States Code] U.S.C. § 2304, and 41 U.S.C. § 3301, require, with certain limited exceptions (see Subparts 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. § 3301).

The GAO Standards states:

> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals in either paper or electronic form. Documentation and records are properly managed and maintained. (Page 48)

Prior Year Recommendations

The following prior year recommendation remains **open**:

• We recommend the Deputy Assistant Secretary for Employment and Training enforce minimum documentation requirements to support compliance with the FAR.

The other open prior year recommendation has been modified. See below.

Current Year Recommendation

17. We recommend the Deputy Assistant Secretary for Employment and Training develop and implement monitoring procedures to ensure compliance with the FAR regarding competitive contracts, including providing sufficient resources to the

Contract Review Board process to ensure that contract files include the required documentation and to confirm completeness of the contract file documentation.

Management's Response

The Office of Contract Management (OCM) will use documentation checklists established by The Department of Labor, Senior Procurement Executive Office. The office of the Assistant Secretary for Administration and Management has issued a minimum contract file documentation requirement as a policy to be included in the Acquisition Management System.

Contracting Officer Notice 2016-22: Issued June 22, 2016, enabled users to easily attach supporting documents from various stages in the procurement process using the current contract file index. These indices exceed the minimum documentation requirement from statutes, regulations, and policies. Additionally, these templates provide a standard format electronically that will help lead DOL into a paperless environment. Complying with this will ensure that the Agency meets the FAR documentation requirements.

Auditors' Response

Management indicated that actions have been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether corrective actions were developed and implemented.

17. Lack of Advisory Council on Unemployment Compensation

ETA 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. In FY 2015, ETA completed an assessment of resources needed to convene the ACUC in order to comply with Section 908 of the SSA, and pursued a budget proposal to fund the ACUC in the FY 2017 budget. However, because of competing budget priorities, proposed funding for the ACUC was not included in the final FY 2017 President's Budget. Without funding, ETA does not have the ability to convene the ACUC.

SSA, Section 908, 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 improvements.

Prior Year Recommendation

The open prior year recommendation has been modified. See below.

Current Year Recommendation

18. We recommend the Deputy Assistant Secretary for Employment and Training continue assessing and pursuing the resources needed to convene an ACUC and comply with Section 908 of the SSA.

Management's Response

Management concurs with the recommendation. In recent years management has taken two approaches to resolving the issue:

1. having Section 908 of the SSA modified so that convening the ACUC would be at the discretion of the Secretary of Labor, and
2. pursuing funds through the budget process in order to convene the ACUC.

Neither approach has been successful. Management will work with new departmental leadership during FY 2017 to evaluate options for addressing this recommendation.

Auditors' Response

Management indicated that actions will be taken to address the matter identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether corrective actions were developed and implemented.

Prior Year Information Technology Comments and Recommendations Still Present in Fiscal Year 2016

18. <u>Weakness in the Entity-Wide Rules of Behavior Acknowledgement Process</u>

During our FY 2015 audit procedures, we issued a Statement of Fact where we determined that Rules of Behavior (ROB) and Computer Security Awareness Training (CSAT) acknowledgements were not consistently provided for users across in-scope applications. During our FY 2016 audit procedures, we inspected the related Plan of Actions & Milestones (POA&M) nos. 21133 and 21125 and determined that the status of POA&M no. 21133 was "Planned/Pending" as of April 28, 2016, and that POA&M no. 21125 was completed as of December 16, 2015. Therefore, one of the weaknesses

related to ROB and CSAT acknowledgements existed for a majority of the audit period without remediation.

Additionally, we selected a sample of 45 new and existing DOL users with accounts on in-scope applications and noted that ROB acknowledgements were not provided for 25 existing users.

OASAM Office of Chief Information Officer (OCIO) management stated that they could not provide documentation of the ROB acknowledgement for the identified users because the paper-based documentation for users with new and existing accounts had not been tracked effectively in a central location.

By not obtaining and maintaining users' acknowledgement of the ROB, DOL did not have assurance that users are aware of their responsibilities in regard to DOL application information and information systems, which increases the risk of misuse of associated information systems. Additionally, if new and existing users do not acknowledge the ROB, DOL may not be able to hold the users liable for unauthorized activities on DOL resources.

The DOL CSH, Volume 12, Edition 5.0, *Security Planning Policies, Procedures, and Standards,* dated February 2015, Section 3.2.1.5, page 13, states:

> DOL agencies must:
> 2. Receive signed acknowledgement from user indicating that they have read, understand, and agree to abide by the rules of behavior, before authorizing access information and the information system.
> 3. Review and update the rules of behavior annually or whenever a significant change to the system occurs.
> 4. Require individuals who have signed a previous version of the rules of behavior to read and resign when the rules of behavior are revised/updated.

NIST SP 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, control PL-4, states:

> PL-4: The organization:
> a. Establishes and makes readily available to individuals requiring access to the information system, the rules that describe their responsibilities and expected behavior with regard to information and information system usage;
> b. Receives a signed acknowledgement from such individuals, indicating that they have read, understand, and agree to abide by the rules of behavior, before authorizing access to the information and the information system;

   c. Reviews and updates the rules of behavior [Assignment: organization-defined frequency]; and

   d. Requires individuals who have signed a previous version of the rules of behavior to read and resign when rules of behavior are revised/updated.

Current Year Recommendation

Because we reported this condition in the prior year as a Statement of Fact with no recommendation, we provide the following recommendation in the current year:

19. We recommend the Chief Information Officer develop, implement, and maintain a centralized document repository for ROB acknowledgement forms until automation can be introduced into the process.

Management's Response

Management does not concur with the finding in regards to the Rules of Behavior related to the Initial Network Access Request (INAR) form. As per the recommendation listed, the centralized document repository for all new ROB acknowledgement forms is the Enterprise Service Desk (ESD) Remedy system.

DOL has two types of rules of behavior. The 'Rules of Conduct and the Consequences for Failure to Follow Rules Concerning the Safeguarding of PII" (ROC) is tied to the CSAT and the ROB is the initial rules that all new users must sign when receiving a new account on the Employee Computer Network (ECN)/Departmental Computer Network (DCN) General Support System (GSS).

The OASAM ROB is viewed and acknowledged through the INAR form for all "new" users that are granted access to the ECN/DCN GSS. These forms are maintained in the Remedy System as part of the INAR and new employee on-boarding process. Of the selected sample where there were no ROB acknowledgements for the 25 users, this was because some of the user's original "new user" forms were from years prior to the integration into OCIO. Agencies were responsible for maintaining the ROBs for the Agency at that time. OCIO is unable to produce forms for users that were supported by another Agency in the past. Upon integration with OCIO, the ESD now maintains any new ROB acknowledgements, as part of the INAR form, for all new users. OCIO will look into options on the possibility of having a new acknowledgement reviewed and signed in 2017.

Auditors' Response

Although management disagreed with the comment, management indicated that the OCIO will investigate actions to address the matters identified in this comment. We will

conduct follow-up procedures in FY 2017 to determine whether corrective actions have been developed and implemented.

19. Employee Computer Network/Departmental Computer Network Incident Reporting Weakness

As a result of FY 2015 testing, we issued a Statement of Fact noting that POA&M no. 18848 was created to address a timeliness weakness in ECN/ DCN incident reporting, but was not closed until May 14, 2015, resulting in the weakness existing for a majority of FY 2015. During our FY 2016 audit procedures, we determined that, as of August 4, 2016, 47 of 460 incidents were not reported from the applicable agency to the DOL Computer Security Incident Response Capability (DOLCSRIC) team within one day. Additionally, as of that date, we determined that 6 of 281 cyber incidents required to be reported from DOLCSIRC to the United States Computer Emergency Readiness Team (US-CERT) were not reported within one business day.

OASAM management stated that the agencies did not report the 47 incidents to DOLCSIRC in a timely manner because the staff did not follow the proper reporting guidance. In addition, OASAM management stated that the six cyber incidents were not reported timely from DOLCSIRC to US-CERT because they either had to be reviewed and verified to ensure they warranted submission to US-CERT, or DOLCSIRC staff did not follow the proper reporting guidance.

Incident response capabilities are vital in ensuring that DOL agencies are able to respond appropriately to all incidents. Failure to report an incident to DOLCSIRC or US-CERT in a timely manner could result in the actions to detect and protect against malicious code being delayed, allowing impacted systems and information to be compromised.

The DOL CSH, Volume 8, Edition 5.0, Incident Response Policies, Procedures and Standards, dated July 2015, Section 3.2.3, page 17, states:

> DOL's required minimum standards on incident reporting are as follows:
>
> 4. DOLCSIRC shall report the incident to OIG, US-CERT, Office of Public Affairs (OPA), the DOL Physical Security Officer, and DOL Senior Management (including but not limited to Deputy Secretary, CIO), as appropriate.
> 6. Incident reports must be submitted to DOLCSIRC via e-mail to dolcsirc@dol.gov. Confirmed Incidents need to be reported within One Hour upon discovery. Suspected Incidents need to be reported within the same business day. To ensure timely reporting, agencies can also notify DOLCSIRC via phone of an incident however agencies are

required to submit a DOLCSIRC incident reports form following the
verbal notification.

NIST SP 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, control IR-6, states:

> The organization:
> a. Requires personnel to report suspected security incidents to the organizational incident response capability within [Assignment: organization-defined time period]; and
> b. Reports security incident information to [Assignment: organization-defined authorities].

Current Year Recommendations

Because we reported this condition in the prior year as a Statement of Fact with no recommendation, we provide the following recommendations in the current year:

We recommend the Chief Information Officer:

20. Develop and periodically conduct training to review incident response reporting guidelines and procedures with all agencies to ensure that they are reminded of the procedures prior to incident occurrence.

21. Develop, document, and implement monitoring procedures over the incident response process to ensure that incidents are reported timely to the DOLCSIRC and US-CERT upon occurrence.

Management's Response

Management does not fully concur with the information stated above as the number of OASAM and ECN/DCN incidents was actually only 268. Inadvertently, all incidents for all of DOL were originally provided which included Bureua of Labor Statistics, OIG, and Office of Job Corps which are out of scope for the request. Upon review of incidents related to the ECN/DCN and OASAM, it was determined that there were actually 268 incidents not 460. With this change it also changed the other numbers. Of the 268 incidents, only 28 were not reported from the applicable agency to the DOLCSIRC team within one day as of August 4, 2016. Additionally, as of that date, 2 of 268 cyber incidents required to be reported from DOLCSIRC to US-CERT were not reported within one business day. In most cases where an incident was not reported from DOLCSIRC to US-CERT the incident was not considered an incident until it was confirmed. The DOL CSH volumn 8 states, "In addition, suspected incidents are to be reported to DOLCSIRC within one business day. These incidents aren't required to meet the one hour time frame, but should be on the same day of discovery." This statement does not

definitively mean the same business day. If an agency for example receives a suspected incident after hours on Friday it would not get reported until Monday the next business day, which would be within one business day.

Management concurs with the finding and agrees there is a need for further training to instill the new US-CERT requirements levied October 1, 2015. The Incident Response Team (IRT) will review procedures and training as per the recommendations. DOLCSIRC has created POA&M no. 22586 to track the ECN/DCN Incident Reporting Weakness finding.

The DOLCSIRC staff was aware of the timeframe allowed for reporting, but on occasion failed to follow guidelines. All staff has been reminded of the DOLCSIRC reporting process.

Auditors' Response

We were unable to substantiate management's assertion that the number of OASAM/ECN/DCN incidents was 268 based on the evidence provided during the audit period. Although management partially disagreed with the comment, management indicated that actions were being taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2017 to determine whether corrective actions have been developed and implemented.

20. Weakness in the Plan of Actions and Milestones Review Process

During our FY 2016 audit procedures, we inspected POA&M no. 21141, opened to remediate our prior year finding related to the untimely review and monitoring of POA&Ms, and determined that it had a "Delayed" status as of April 28, 2016. Additionally, we noted the POA&M was submitted for closure on March 18, 2016, but the submission was denied on March 23, 2016. Therefore, this prior year condition remained open for the majority of FY 2016.

Furthermore, we inspected the CSAM tool and determined that as of August 16, 2016, review and monitoring of POA&Ms was not performed timely for eight financially relevant systems used by DOL. Specifically:

- Semiannual POA&M report cards were not posted to the CSAM system timely by the OCIO, ranging from 132 to 137 days after the end of Quarter 2 (Q2); and
- Q3 snapshots had not been posted to the CSAM system timely by the OCIO, 47 days after the end of Q3.

OCIO management indicated that POA&M no. 21141 remained open for the majority of FY 2016 because staff turnover delayed the responses needed to close the POA&M. Additionally, OCIO management stated that POA&M semiannual scorecards and

quarterly snapshots were not posted timely to CSAM because of competing priorities around the time the scorecards and snapshots should have been posted.

Failure to timely inform agencies of the scorecards and snapshot results of the POA&M review, and failure to ensure completeness and accuracy of agencies' POA&Ms and remediation actions unnecessarily places DOL systems at risk that agencies may not be taking steps to remediate identified weaknesses, which could affect the confidentiality, integrity, and availability of information system data.

The DOL CSH, Edition 5.0, Volume 4, last reviewed May 2015, Security Assessment and Authorization Policies, Procedures, and Standards, page 20, states:

> "POA&Ms are to be updated on a continual basis and will be reviewed by OCIO Security at least semi-annually. The OCIO Security calendar provides the schedule as to the cutoff date for POA&M updates for a given quarter. OCIO semi-annual reviews will be completed and a CSAM POA&M report generated for the [Major Information System] MIS' reviewed (typically within the next 30 calendar days after the cutoff date) providing a snapshot by system. OCIO security will review all POA&M reports for the designated quarter and, after confirmation of the findings by agencies, generate a report card with comments which is then uploaded as an artifact into CSAM."

NIST SP 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, Control PM-04, states:

> The organization:
> a. Implements a process for ensuring that plans of actions and milestones for the security program and associated organization information systems:
>   1. Are developed and maintained;
>   2. Document the remedial information security actions to adequately respond to risk to organizational operations and assets, individuals, other organizations, and the Nation; and
>   3. Are reported in accordance with Office of Management and Budget (OMB) [Federal Information Security Management Act] FISMA reporting requirements.
> b. Reviews Plans of Actions and Milestones for consistency with organizational risk management strategy and organization-wide priorities for risk response actions.

OMB Memorandum No. 04-25, *FY 2004 Reporting Instructions for the Federal Information Security Management Act*, dated August 23, 2004, Section II, states:

Agencies must provide on a quarterly basis, summary information on the POA&M progress and an update on IT security performance measures.

Prior Year Recommendations

The open prior year recommendations have been modified. See below.

Current Year Recommendations

We recommend the Chief Information Officer:

22. Upload all FY 2016 POA&M quarterly snapshots and semi-annual scorecards to the CSAM system.

23. Reiterate and promulgate policies and procedures related to the POA&M review process to relevant personnel to ensure that quarterly snapshots and semi-annual scorecards are uploaded to the CSAM system timely.

Management's Response

Management concurs. Corrective action will be taken and completed in current fiscal year.

Although POA&Ms were timely created, reviewed, and monitored by the OCIO and uploads were not done in a timely manner, this does not pose a significant risk to the Department. Agencies are required to manage their POA&Ms and are aware of remediation actions and planned scheduled mitigation dates. There was no evidence that as a result of not uploading the scorecards timely that this action affected the confidentiality, integrity, and availability of the financial systems' data as stated in the effect. To compensate for untimely uploads of the POA&Ms, the Corrective Action Plan team performed an evaluation of agencies POA&Ms during the period of December 2015 to April 2016 POA&Ms quarterly snapshots and semi-annual scorecards will be uploaded to CSAM system to address this notice of finding. POA&M ID 22616 has been created to track the status of this deficiency with a scheduled completion date of March 30, 2017.

The POA&M reviews are a priority for the Department and responsible personnel are aware of the policy. To ensure the POA&M reviews are completed timely, management reiterated to the responsible personnel the importance of uploading supporting artifacts. In addition, management will increase oversight of the POA&M reviews and require a status report at the end of the quarter from the responsible personnel.

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 2017 to determine whether corrective actions have been implemented.

21. <u>**Weaknesses Identified in the E-Grants and Unemployment Insurance Database Management System Backup Procedures**</u>

During FY 2016 audit procedures, we inspected POA&M no. 21126, which was established to address our prior year finding related to the lack of backup evidence for certain E-Grants and Unemployment Insurance Database Management System (UIDBMS) weekly full and daily incremental backups, and determined that it was in a "Delayed" status as of April 28, 2016. Although we noted that UIDBMS and E-Grants weekly full backups and UIDBMS daily incremental backups were captured during FY 2016, E-Grants daily incremental jobs were not run during FY 2016. Furthermore, we were unable to determine if the E-Grants and UIDBMS backups with an "Aborted" status in the Catalogic tool were completed successfully.

OASAM management indicated that E-Grants incremental backups were typically scheduled on a daily basis. However, during the audit period, a job scheduling conflict existed, which resulted in incomplete backups. In regards to jobs with an "Aborted" status, OASAM management stated that a system limitation in the Catalogic tool prevented reporting that indicated the job was completed successfully.

Failure to back up system-level data on a daily, incremental basis could compromise the availability and integrity of E-Grants application data if the application ever needs to be restored. Without complete daily incremental and weekly full backups, the system may not be able to be restored as close as possible to the failure point, meaning financial data could be lost.

The *OASAM Office of the Chief Information Officer (OCIO) General Support System (GSS) System Backup and Retrieval Procedures*, Version 5.1, dated March 8, 2016, page 2, states:

- Full (Level 0) backups of user-level and system-level information (including system state information) contained in the information system shall be conducted on a weekly basis. Backups are performed to disk and then backed up to tape on a weekly basis. The disk backups shall be overwritten by the backups of the subsequent week. The tape backups shall be sent to the off-site storage location on a weekly basis and retained off-site for a period of six months after which the tapes will be returned.

- Incremental backups of core components of the information system shall be conducted daily and maintained on disk for a week before a full (Level 0) tape backup is conducted after which the storage media is recycled.

The DOL CSH, Volume 6, Edition 5.0, dated February 2014, *Contingency Planning Policies, Procedures and Standards*, page 13, states:

DOL's required minimum standard on information system backups is as follows:

Information system personnel shall:
1. Conduct backups of user-level information contained in the information system daily for incremental data and weekly for all data.
2. Conduct backups of system-level information (including system state information) contained in the information system daily for incremental data and weekly for all data.
3. Conduct backups of information system documentation including security-related documentation daily for incremental data and weekly for all data.

NIST SP 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, Control CP-9, states:

The organization:
a. Conducts backups of user-level information contained in the information system [*Assignment: organization-defined frequency consistent with recovery time and recovery point objectives*];
b. Conducts backups of system-level information contained in the information system [*Assignment: organization-defined frequency consistent with recovery time and recovery point objectives*];
c. Conducts backups of information system documentation including security-related documentation [*Assignment: organization-defined frequency consistent with recovery time and recovery point objectives*]; and
d. Protects the confidentiality, integrity, and availability of backup information at storage locations.

Prior Year Recommendations

The open prior year recommendations have been modified. See below.

Current Year Recommendations

We recommend the Chief Information Officer:

24. Review the job scheduling tool and remove the noted conflict to ensure that the daily incremental jobs are run to successfully back-up E-Grants data in the Catalogic backup tool.

25. For aborted backups, ensure and document that a subsequent successful backup is run.

Management's Response

Management concurs with the finding, but the issue has been remediated as of FY 2017. No POA&M will be issued for this recommendation.

Milestones for POA&M 21126 were completed between April 2016 and August 2016. The POA&M was officially closed out on 8/2/16. As stated in the condition, the weekly full backups and daily incremental backups were being captured.

OCIO currently runs all incremental and full backups on the E-Grants and UIDBMS systems. The incremental backups for E-Grants have been in place since July 2016 based on an audit request. At one time ETA had a storage issue and was not able to perform incremental backups. Therefore, OCIO performed daily snapshots which held 2 weeks of information and then a full backup was completed weekly. The snapshot process was the same as an incremental backup; thus this finding is considered low risk as OCIO was performing both an incremental (snapshot) and a weekly backup.

OCIO has reviewed and remediated the job scheduling conflict and has confirmed that the daily incremental and weekly jobs are running successfully.

When Catalogic shows a status of Aborted, OCIO's procedure for an Aborted incremental job is to skip that daily incremental as the next incremental would soon start. However, if the job is aborted a second time, OCIO performs a thorough review to troubleshoot the issue and ensures that a subsequent successful incremental backup runs. If a weekly job has an Aborted status, OCIO reviews the issue and initiates a new full backup job immediately. This process is part of OCIO's daily checks.

Auditors' Response

Management indicated that actions have been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether corrective actions were implemented.

22. Lack of Executed Memorandum of Understanding and Interagency Security Agreement between Acquisition Management System and the General Services Administration System for Award

As of June 21, 2016, we inspected POA&M No. 20595, which was established to facilitate the development and authorization of a Memorandum of Understanding (MOU) and Interagency Security Agreement (ISA) between AMS and General Services Administration's (GSA) System for Award, and we determined that its status was "Delayed" with a planned completion date of December 30, 2016.

OASAM management indicated they were unable to complete the MOU and ISA because of a lack of both resources and prioritization of POA&M remediation efforts. The purpose of an MOU is to have an agreement of cooperation between two parties defining the roles and responsibilities of each party. The purpose of an ISA is to provide the technical framework for agreed security controls and to outline responsibilities for data shared between the two systems. Without having final documented agreements reviewed and approved by both parties, the risk exists that the terms of the agreements may not be understood or appropriately implemented to address all security requirements, which may lead to unauthorized access to AMS data.

The DOL CSH, Volume 4, Edition 5.0, *Security Assessment and Authorization Policy, Procedures and Standards,* last reviewed May 2015, page 8, states:

> The participating organizations/agencies perform preliminary activities, examine all relevant technical, security, and administrative issues, and form an interconnection agreement, including a memorandum of understanding (MOU) and an interconnection security agreement (ISA), governing the management, operation, and use of the connection. During the planning stage, a system connection implementation plan should be developed to guide the process.

Additionally, page 9 states:

> DOL policy requires an MOU be executed, using the DOL template provided in this volume whenever two authorized systems not under the same management authority are connected, to ensure that both systems have the appropriate security controls in place. The MOU is intended as a managerial agreement that must be authorized and executed by each AO.
>
> Once the MOU is completed, the parties must draft an ISA using the DOL template provided in this volume. It may be drafted as a separate document, or as an attachment to the MOU. An ISA is the technical component of the MOU and should be signed by the Authorizing Official only after consultation with the appropriate technical experts supporting

the connected systems. The ISA is a necessary complement to the MOU when establishing an interconnection. The ISA provides a technical framework for agreed security controls, and outlines responsibility for data shared between the two systems. Additionally, the ISA should specifically outline the technical and security requirements for establishing, operating, and maintaining the connection. The ISA supports the MOU by providing a basic template for establishing clear lines of responsibility and coordination when two systems connect.

The DOL CSH, Volume 12, Edition 5.0, *Security Planning Policies*, *Procedures, and Standards,* last reviewed February 2015, page 8, states:

> In accordance with [National Institute of Standards and Technology] NIST Special Publication 800-18, the system owner is to provide a copy of the current [System Security Plan] SSP for each MIS not under the same management authority to the system owner of each interconnecting information system. Alternatively, agencies may share their SSP via [Cyber Security Assessment and Management tool] CSAM. This can be accomplished with agency ISOs granting access for other agency CSAM users. The purpose of this activity is to ensure that the interconnected systems are identified by both parties and that those systems appropriately address all relevant security controls.

NIST SP 800-47, *Security Guide for Interconnecting Information Technology Systems*, page B-1, states:

> The organizations that own and operate the connected systems should establish a Memorandum of Understanding (or Agreement) (MOU/A) (or an equivalent document) that defines the responsibilities of both parties in establishing, operating, and securing the interconnection. This management document should not contain technical details of the interconnection. Those details should be addressed separately in the Interconnection Security Agreement (ISA).

Prior Year Recommendation

The following prior year recommendation remains **open**:

- We recommend the Chief Information Officer complete POA&M efforts to develop and sign MOU and ISA between AMS and GSA's System for Award.

Management's Response

Management concurs. Corrective action has be taken and completed in fiscal year 2017.

DOLAMS management has worked with GSA representatives to finalize an MOU that complies with POA&M 20595 and POA&M 21296. After review and clearance, DOLAMS and GSA signed the finalized MOU on November 14, 2016. A copy was provided to PMC and another has be uploaded to CSAM.

Auditors' Response

Management indicated that actions were taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2017 to determine whether corrective actions were implemented.

Prior Year Comments and Related Recommendations Closed in Fiscal Year 2016

The following comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2015*, dated March 25, 2016, were closed in fiscal year (FY) 2016.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2015 MAC	Recommendation(s) Reported in the FY 2015 MAC
2015-02	2015	Improvements Needed in Controls over the Unemployment Trust Fund (UTF) Due and Payable Estimate	We recommend that the Assistant Secretary for Employment and Training: 1. Update the *Due and Payable Accrual Methodology* to include policies and procedures that require the periodic review of the assumptions used in the estimate, and implement such policies and procedures, and 2. Develop and implement a consistent methodology for classifying states that pay unemployment benefits both on a weekly basis and a biweekly basis.
2015-04	2015	Improvements Needed over the Identification of New Leases	We recommend that the Principal Deputy Chief Financial Officer develop and implement detailed policies and procedures to ensure agencies are performing a proper level of accounting review of contracts to ensure timely identification and reporting of new leases.
2015-05	2015	Untimely Clearance of Funds Balance with Treasury	We recommend that the Principal Deputy Chief Financial Officer: 1. Develop and implement written policies and procedures to properly monitor the timely clearance of the suspense account balances; and

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2015 MAC	Recommendation(s) Reported in the FY 2015 MAC
		(FBWT) Suspense Account Balances	2. Identify all Agency Location Code (ALC) owners at DOL's regional offices, and develop and implement a process to identify subsequent changes to ALC owners.
2015-07	2015	Untimely Review of the Reconciliation of UTF Ending Balances to Bureau of the Fiscal Service Ending Balances	We recommend that the Principal Deputy Chief Financial Officer revise the *Process Document – UTF FBWT Variance Documentation Requirements* to specify the required timing for documenting management's review of the reconciliation.
2015-08	2015	Lack of Review over Obligations Extracts for *Obligation Analysis Process*	We recommend that the Principal Deputy Chief Financial Officer develop and implement policies and procedures to ensure that the obligations extracts generated by Enterprise Service Center monthly are complete and accurate before being used in the review of outstanding obligations by individual DOL offices.
2015-09	2015	Weaknesses in the Acquisition Management System (AMS) Backup Process	We recommend that the Chief Information Officer document and maintain evidence of the performance of weekly full and daily incremental backups.
2015-10	2015	Weakness in the AMS Contingency Plan Testing Process	We recommend that the Chief Information Officer: 1. Enforce the DOL Computer Security Handbook (CSH) to ensure AMS contingency plan testing is performed annually, including backup and restoration testing. 2. Document and maintain evidence of annual AMS contingency plan testing.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2015 MAC	Recommendation(s) Reported in the FY 2015 MAC
2015-15	2013	Ineffective Controls over Single Audit Report and Desk Review Tracking	1. We recommend that the Principal Deputy Chief Financial Officer coordinate with the Office of Inspector General's Assistant Inspector General for Audit to enhance the supervisory review process to ensure all applicable reports from the Federal Audit Clearinghouse are identified, reviewed, accurately tracked, and reported to the applicable agency. 2. We recommend that the Assistant Secretary for Employment and Training develop and implement monitoring policies and procedures to ensure submission of final determination reports to the OIG within the required timeframe. 3. We recommend that the Assistant Secretary for Employment and Training and the Assistant Inspector General for Audit periodically compare Single Audit report tracking data to verify that all grantee audit findings are being tracked and communicated timely upon receipt of the Single Audit reports.
2015-16	2014	Improvements Needed in Accounting for the Black Lung Disability Trust Fund's (BLDTF) Capitalized Interest	We recommend that the Principal Deputy Chief Financial Officer coordinate with the Office of Workers' Compensation Program and the U.S. Department of the Treasury to obtain an approved scenario for the recording of BLDTF capitalized interest.
2015-18	2013	Improvements Needed in Certain Financial Reporting Matters	We recommend that the Principal Deputy Chief Financial Officer: 1. Communicate to the agencies upfront the need to provide detailed supporting documentation for the Program Performance Overview section of the Management's Discussion and Analysis and coordinate to obtain proper documentation; and

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2015 MAC	Recommendation(s) Reported in the FY 2015 MAC
			2. Amend the analysis related to Note 12, *Liabilities not Covered by Budgetary Resources*, to properly consider the different funding sources used to pay DOL's liability for future workers' compensation benefits.
2015-21	2009	Insufficient Management Review over Undelivered Orders and Abnormal Accounts Payable	We recommend that the Principal Deputy Chief Financial Officer:: 1. Complete the development and implementation of a DOL-wide policy to formalize the obligation review process for all agencies at the Department level; 2. Enhance the *Obligation Certification* procedures to require agencies to submit corrective action plans related to their obligation analyses on a recurring basis; and 3. Monitor whether agencies are reviewing their obligations and tracking related corrective actions on a timely basis.
2015-22	2014	Improvements Needed in the Cost Allocation Policies and Procedures	We recommend that the Principal Deputy Chief Financial Officer update policies and procedures to include appropriate definitions of each crosscutting program and to ensure that the definitions match those included in the *Agency Financial Report.*
2015-26	2011	Employment and Training Administration (ETA) Data Center Physical Access Weaknesses	We recommend that the Chief Information Officer coordinate with the Assistant Secretary for Employment and Training to document and maintain evidence of the monthly data center physical access review.
2015-28	2013	Employee Computer Network (ECN)/ Departmental Computer Network	We recommend that the Chief Information Officer: 1. Enforce the DOL CSH to ensure that contingency plan testing is performed annually, including backup and restoration testing over all major and minor applications; and

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2015 MAC	Recommendation(s) Reported in the FY 2015 MAC
		(DCN) Contingency Plan Testing Weakness	2. Document and maintain evidence of annual contingency plan testing.

The following comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2015*, dated March 25, 2016, were partially re-issued during FY 2016 but included recommendations that were closed during the year.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2015 MAC	Recommendation(s) Reported in the FY 2015 MAC
2015-14	2014	Untimely Grant Closeouts	We recommend that the Assistant Secretary for Employment and Training periodically remind responsible parties about the policies and procedures regarding the timely closeout of grants that have expired.
2015-17	2006	Improvements Needed over the Preparation and Review of Journal Entries	We recommend that the Principal Deputy Chief Financial Officer research and resolve system issues which allowed the journal entry preparer and reviewer to be the same individual.
2015-19	2008	Lack of Policies and Procedures and Untimely Initiation of Background Investigations	We recommend that the Principal Chief Financial Officer coordinate with the Office of the Assistant Secretary for Administration and Management to communicate new policies and procedures, including timeliness requirements, to each Human Resource Officer responsible for initiating and tracking background investigations within his/her agency.

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