U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

NOV 1 3 2012

MEMORANDUM FOR: JAMES L. TAYLOR
Chief Financial Officer

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: FY 2012 Independent Auditors' Report
Report Number: 22-13-002-13-001

Attached is the Independent Auditors' Report on the U.S. Department of Labor's (DOL) FY 2012 financial statements. We contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to audit the financial statements of DOL as of and for the years ended September 30, 2012 and 2011. The contract required that the audit be conducted in accordance with generally accepted government auditing standards (GAGAS) and Office of Management and Budget (OMB) audit requirements.

KPMG's opinion on DOL's financial statements is unqualified, and KPMG's report on internal control over financial reporting identified no material weaknesses. KPMG also concluded that DOL complied, in all material respects, with the requirements under the *Federal Financial Management Improvement Act of 1996* (FFMIA) as of September 30, 2012.

KPMG's report on internal control over financial reporting identified three significant deficiencies, as follows:

1. Lack of Sufficient Security Controls over Key Financial and Support Systems
2. Lack of Sufficient Controls over Grants
3. Improvements Needed in the Preparation and Review of Journal Entries

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

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

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

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

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

Attachment

cc: Karen Tekleberhan, Deputy Chief Financial Officer

T. Michael Kerr, Assistant Secretary for Administration and Management

Stanley C. Karczewski, Director for Financial Reporting and Compliance

Robert Balin, OCFO Audit Liaison

KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of Labor (DOL) as of September 30, 2012 and 2011; the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended; the statements of social insurance as of September 30, 2012, 2011, 2010, 2009, and 2008; and the statements of changes in social insurance amounts for the years ended September 30, 2012 and 2011 (hereinafter referred to as "consolidated financial statements" or "basic financial statements"). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year (FY) 2012 audit, we also considered DOL's internal control over financial reporting and tested DOL's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

We have also examined DOL's compliance with section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA) as of September 30, 2012.

SUMMARY

As stated in our opinion on the financial statements, we concluded that DOL's consolidated financial statements present fairly, in all material respects, the financial position of DOL as of September 30, 2012 and 2011; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance program as of September 30, 2012, 2011, 2010, 2009, and 2008; and the changes in social insurance amounts for the years ended September 30, 2012 and 2011, in conformity with U.S. generally accepted accounting principles.

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

Also, as discussed in our opinion on the financial statements, DOL changed its presentation for reporting the combined statement of budgetary resources in FY 2012.

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

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

2. Lack of Sufficient Controls over Grants

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

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the FFMIA, disclosed no instances of noncompliance and four other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

As stated in our opinion on DOL's compliance with section 803(a) of FFMIA, we concluded that DOL complied, in all material respects, with the requirements of section 803(a) of FFMIA as of September 30, 2012.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Department of Labor as of September 30, 2012 and 2011; the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended; the statements of social insurance as of September 30, 2012, 2011, 2010, 2009, and 2008; and the statements of changes in social insurance amounts for the years ended September 30, 2012 and 2011.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor as of September 30, 2012 and 2011; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance program as of September 30, 2012, 2011, 2010, 2009, and 2008; and the changes in its social insurance amounts for the years ended September 30, 2012 and 2011, in conformity with U.S. generally accepted accounting principles.

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

As discussed in Note 1-Z to the consolidated financial statements, DOL changed its presentation for reporting the combined statement of budgetary resources in FY 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, DOL's combined statement of budgetary resources for FY 2011 has been adjusted to conform to the current year presentation.

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our FY 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

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

OPINION ON COMPLIANCE WITH FFMIA

DOL represented that, in accordance with the provisions and requirements of FFMIA, the Secretary of Labor determined that DOL's financial management systems were in substantial compliance with FFMIA as of September 30, 2012.

We have examined the U.S. Department of Labor's compliance with section 803(a) of the *Federal Financial Management Improvement Act of 1996* as of September 30, 2012. Under section 803(a) of FFMIA, the U.S. Department of Labor's financial management systems are required to substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. We used OMB's *Implementation Guidance for the Federal Financial Management Improvement Act*, dated January 9, 2009, to determine compliance.

In our opinion, the U.S. Department of Labor complied, in all material respects, with the aforementioned requirements as of September 30, 2012.

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RESPONSIBILITIES

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the FY 2012 and 2011 consolidated financial statements of DOL based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but

not for the purpose of expressing an opinion on the effectiveness of DOL's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our FY 2012 audit, we considered DOL's internal control over financial reporting by obtaining an understanding of DOL's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether DOL's FY 2012 consolidated financial statements are free of material misstatement, we performed tests of DOL's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DOL. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Our responsibility also included expressing an opinion on DOL's compliance with FFMIA section 803(a) requirements as of September 30, 2012, based on our examination. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence about DOL's compliance with the requirements of FFMIA section 803(a) and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on DOL's compliance with specified requirements.

DOL's written response to the findings identified in our audit and presented in Exhibit I was not subjected to the auditing procedures applied in the audit of DOL's consolidated financial statements, and accordingly, we express no opinion on it.

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

KPMG LLP

November 16, 2012

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

In fiscal year (FY) 2012, U.S. Department of Labor (DOL) agencies completed corrective action to address certain previously-identified control deficiencies. Additionally, the Office of the Chief Information Officer (OCIO) issued an updated department-wide Computer Security Handbook to incorporate current National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, information technology (IT) requirements on August 1, 2011, which was effective for FY 2012.

During FY 2012, we also noted improvements in DOL's manual compensating controls that mitigate certain IT security control weaknesses. These controls had deteriorated when DOL's control environment was significantly altered as a result of implementing the New Core Financial Management System (NCFMS) in FY 2010, but we determined most of these controls to be operating effectively during FY 2012.

However, during our FY 2012 testing of significant DOL financial and support systems, we identified new security control deficiencies in addition to certain ones that were reported in prior years across the four DOL agencies responsible for these systems. We have classified the deficiencies identified into the following four categories: account management, system access settings, system audit log reviews, and vulnerability management.

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

Account Management

- User accounts were not timely removed for separated users, and certain separated users had active system accounts;
- Shared, generic, and multiple user accounts for the same user existed;
- Incidents were not timely reported;
- Developer, test, and production roles were not separated; and
- Account management controls were not performed, as evidenced by incomplete or missing access requests, non-disclosure agreements, modification forms, and termination forms.

System Access Settings

- Inactive accounts were not disabled in a timely manner;
- Password settings did not comply with the OCIO Computer Security Handbook; and
- Inadequate system configurations were in place.

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

System Audit Logs Reviews

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

Vulnerability Management

Controls related to vulnerability management are designed to prevent weaknesses in IT systems from being exploited. Such controls include proactively monitoring system vulnerabilities, timely patching related security issues, and configuring IT systems in compliance with baseline security requirements. During our FY 2012 vulnerability assessments, we identified the following deficiencies:

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

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

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

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

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

a) Coordinate efforts among the DOL agencies to develop procedures and controls to address access and vulnerability management control deficiencies in financial and support systems;

b) Monitor the agencies' progress to ensure that procedures and controls are appropriately implemented and maintained; and
c) Coordinate with the applicable agencies to ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address access and vulnerability management control deficiencies.

Management's Response: The Office of the Assistant Secretary for Administration and Management (OASAM) will ensure proper resources are prioritized to address the security control weaknesses outlined above. In management's view, DOL policies, procedures, and physical and logically separated systems with supporting boundary controls, collectively provide compound safeguards and redundant security measures to ensure the integrity of DOL financial systems. Management will increase communication with DOL Agencies to ensure they give priority attention and sufficient resources to prioritize and complete the corrective actions required to address the weaknesses.

We appreciate the importance of properly managing IT Security Risks within our major information systems. In FY 2011, the Office of the Chief Information Officer expanded upon the DOL Enterprise Risk Management Strategy by implementing Department-wide and agency specific IT Security Performance Metrics. One of the performance metrics: – *Percentage of Agency audit recommendations related to DOL Security Significant Deficiencies closed within 90 days* –, has also been added to each Agency's FY 2013 Operating Plan. Additionally, the OCIO completed the following actions:

- In the last two weeks of July 2012, the OCIO held meetings with each Agency to discuss their IT Security Performance Metrics and provided recommended actions to ensure they achieve their FY 12 and FY 13 targets.
- On August 14, 2012, the DOL Chief Information Security Officer, provided an IT Security Risk Management briefing to the DOL Agency Heads regarding the importance of Risk Management as well as discussed the Departmental IT Security Risk Management metrics.
- On August 23, 2012, OCIO provided a 2 hour training session for Agency representatives responsible for managing their Agency IT Security risks.
- On September 19, 2012, the CIO distributed Agency IT Security Performance Metrics to each DOL Agency Head.

The OCIO will monitor agency progress on achieving the IT Security Performance metrics via periodic status meetings as well as agency Operating Plan status updates. To ensure we continue to safeguard our financial systems, OASAM will evaluate its current efforts to deploy policies, procedures and automated tools to seek ways we can improve current continuous monitoring processes to strengthen the overall security posture of DOL's information systems.

Auditors' Response: We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

2. Lack of Sufficient Controls over Grants

DOL awards numerous formula and discretionary grants to various state and local governments, nonprofit organizations, and other organizations. The Employment and Training Administration (ETA) awards and monitors the majority of these grants. Recipients of DOL grants are required to report their expenses to DOL on a quarterly basis via form ETA 9130, *U.S. DOL ETA Financial*

Report, or a SF-425, *Federal Financial Report* (cost reports). During our FY 2012 audit procedures, we identified deficiencies in certain controls over grants, as described below.

Grant Expenses

As part of our audit procedures over grant controls as of March 31, 2012, we selected a sample of 32 grants from the population of grant expenses recorded in the NCFMS to determine if Federal Project Officers' (FPO) desk reviews were properly performed and documented in the Grants Electronic Management System (GEMS). However, 8 of the 32 grants selected were not listed in GEMS. ETA management communicated to us that these 8 grants were related to projects in GEMS that were reviewed timely, but based on the documentation provided, we noted no connection between these grants and the related projects communicated by management. As such, sufficient documentation evidencing the FPO desk reviews of the specific grants could not be provided. ETA did not have policies and procedures in place to ensure that all grants were properly included in GEMS.

In addition, we noted that supervisors were able to access exception reports in GEMS to identify FPO desk reviews that were not completed timely; however, the reviews of these reports were not required to be documented. Further, although the related ETA written policies and procedures were updated in August 2011, they did not include any guidance on monitoring the timely completion of FPO desk reviews. The policies and procedures related to GEMS were written to focus on the FPO's grant responsibilities, not on supervisory responsibilities.

We also tested the December 31, 2011, Delinquent Reporting Analysis and noted that the analysis did not identify all grantees that were delinquent in filing their cost reports. The analysis only identified those grantees that were delinquent and had a cash advance balance over a certain threshold. ETA's *Delinquent Filers Monitoring Procedures* were not designed to identify grantees without a cash advance that were delinquent in filing their quarterly cost reports. Further, the cash advance balances in the analysis were not calculated using the most current information available; ETA used the cumulative cash receipts data from the grantees' latest submitted cost reports rather than current data from the U.S. Department of Health and Human Services (HHS)-Payment Management System (PMS). We also noted that ETA did not update the *Delinquent Filers Monitoring Procedures* to include deadlines for required follow-up by the appropriate parties, or a control procedure designed to ensure that the quarterly notification of delinquent filers was distributed timely, as recommended in the prior year audit report.

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 DOL *FPO Grant Management Responsibilities Related to the GEMS* memorandum states:

> A quarterly desk review is required on all projects in GEMS. Desk reviews must be completed within 30 days from the date on which the grantee submits its certified report and/or not later than 75 days from the quarter-ending date.
>
> …FPOs with grant monitoring responsibilities must use GEMS to conduct and record results for initial and/or annual risk assessments, complete quarterly desk reviews,

> and include official site visit or desk record reviews. Other GEMS features available for optional use include work plans and budget records.

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

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

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

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

The Standards also states:

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

Grant Accrual

Each year, ETA performs a grant accrual accuracy analysis to determine if the methodology used to calculate the previous year's September 30 grant accrual is reasonable, and to develop cost-to-payment ratios for subsequent grant accrual calculations. The accuracy analysis compares the expense amounts accrued at year end to the expenses subsequently reported on the grantees' cost reports. During our testwork over the accuracy analysis for the grant accrual as of September 30, 2011, we identified several errors in the data underlying the accuracy analysis. To test the accuracy analysis, we obtained an extract from E-Grants, the tracking and management system for ETA grants, of all cost reports for the quarter ended September 30, 2011. We then compared the accuracy analysis to the extract of cost reports to determine the completeness and accuracy of the data used in the analysis. As a result of our procedures, we identified the following:

- 167 grants were improperly excluded from the accuracy analysis, and
- 77 grants had expenses in the accuracy analysis that did not agree to the related cost reports.

Certain grants were excluded because the methodology used in preparing the grant accrual accuracy analysis was not designed to capture grants that had cost reports submitted with cumulative expenses of $0 or with cumulative expenses that had not changed since the prior period. Additionally, the reported expenses that ETA used in the analysis did not include all adjusting entries from the general ledger, which caused the reported expenses in the accuracy analysis to be greater than the amounts actually reported by the grantees. If all relevant grant data is not properly captured in the grant accrual accuracy analysis, ETA will not be able to adequately assess if the grant accrual methodology is accurately estimating the accrual. In addition, without adequate controls over the data used in the accuracy analysis, errors could occur in the cost-to-payment ratios that result in a misstatement of the grant accrual.

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

> The agency head must establish controls that reasonably ensure that revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

In addition, the Standards states:

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

Other Grant Controls

On a quarterly basis, ETA generates separate HHS-PMS Synch Reports for Office of Job Corps (OJC) grants and all other ETA grants. These reports identify differences between the authorized amount (obligation amount) and the advance amount (disbursement amount) reported in HHS-PMS and DOL's NCFMS. During our testwork over the OJC HHS-PMS Synch Report for the quarter ended December 31, 2011, we noted that ETA did not document explanations evidencing investigation and resolution for any of the differences identified. These differences totaled $27.4 million for obligations and $15.5 million for disbursements.

ETA did not document explanations evidencing investigation and resolution of differences because significant mapping issues between HHS-PMS and NCFMS for OJC-related grants continued to exist as of September 2012. ETA management informed us that they did not have the resources necessary to fully resolve these mapping issues, which were more complex than originally anticipated. Furthermore, related policies and procedures were not developed to assign responsibility within ETA to ensure that all differences on the OJC HHS-PMS Synch Report were investigated, resolved, and documented. Without adequate reconciliation controls, errors could occur and not be detected or corrected, resulting in a misstatement of OJC grant-related expenses, advances, payables, and undelivered orders.

In addition, we selected a sample of 45 expired grants from the Closeout Inventory Tracking System as of June 30, 2012, to determine if grants were properly and timely closed out. Based on our testing, we determined that 1 of the 45 grants should have been closed out as of April 2012, but remained open as of September 2012.

This situation occurred because ETA's Grant Closeout Unit did not follow-up timely on matters related to the grantee's performance certification submitted by the FPO, which had to be addressed before the grant could be closed out. As a result, the performance certification was not finalized, and the final closeout modification could not be created in E-Grants. ETA's management informed us that this grant's closeout was suspended until the required issues could be resolved. Without adequate controls to timely close out expired grants and deobligate any remaining funds, undelivered orders may be overstated.

We also selected a sample of 25 grants from the population of on-site monitoring reviews planned in FY 2012 by each of the six regions to determine if the on-site monitoring reviews were properly performed and documented in the GEMS. Based on our testwork, we determined that Monitoring Review Reports were not completed timely. Specifically, the Monitoring Review Reports for 8 of 25 on-site monitoring reviews were issued more than 45 days after the exit date of fieldwork, ranging from 46 to 120 days. The reports were not issued on time because the Core Monitoring Guide (Guide), dated April 2005, did not specify a timeline for completing and filing Monitoring Review Reports. Each region had its own internal guidelines, but those guidelines were not properly monitored.

In addition, we noted for all 25 on-site monitoring reviews, proper documentation to support the conclusions reached as outlined in the respective Monitoring Review Reports was not preserved in GEMS. The Guide did not specify the documentation that is required to be retained in GEMS to support the results outlined in the Monitoring Review Reports.

If proper documentation is not retained and readily accessible in GEMS, possible findings may not be communicated in the Monitoring Review Reports and tracked for correction. This could ultimately lead to errors in grant expenses not being identified properly by ETA management. In addition, without adequate controls in the grant reporting process, grantees may be misusing grant funds without detection by DOL. As a result, grant-related expenses, advances, payables and undelivered orders could be misstated.

The Standards states:

> Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.
>
> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.
>
> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available or examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form.
>
> For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events.

ETA's Standard Operating Procedures (SOP) *Closing out ETA's Expired Grants and Agreements* provides internally-developed closeout procedures and documentation on the timeframe for the assignment of grants scheduled to be closed, the receipt of closeout documents from the grantee, and the reconciliation of the closeout documents by the closeout grant officer. The SOP indicates that the timeframe from closeout completion is "no later than 12 calendar months after the expiration date of the grant or agreement."

In addition, the SOP states:

> Obtain a performance certification from the national and regional program officers within 45 days after closeout documents are received. Requests from Regional Office FPOs must be forwarded to the Closeout Grant Officer for handling. Once a financial reconciliation is reached and internal certifications are completed final closeout modification is created in E-Grants. Modifications must be certified by the Closeout Grant Officer and forwarded to the DFAS for financial certification.

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

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

a) Develop and implement policies and procedures to ensure all grants are properly and timely added to GEMS. Specifically, the policies and procedures should require the FPOs to 1) notify the GEMS Point of Contact when a new grant needs to be added to GEMS and 2) review GEMS on a monthly basis to confirm all grants have been properly included;
b) Update written policies and procedures to include specific guidance on monitoring the timely completion of FPO desk reviews. The guidance should require supervisors to periodically review the GEMS exception report and document these reviews;
c) Revise the *Delinquent Filers Monitoring Procedures* to include 1) a control procedure designed to ensure that the quarterly notification of delinquent filers is distributed timely, 2) deadlines for required follow-up of delinquent filers, 3) procedures to identify all grantees that are delinquent in filing their costs reports, and 4) procedures that require the use of the most current appropriate data in the delinquent monitoring analysis;
d) Revise the methodology for calculating the grant accrual accuracy analysis to capture all submitted cost reports as of September 30, including those that report cumulative costs of $0;
e) Develop and implement policy and procedures to reconcile the expenses obtained from the general ledger to the expenses reported by the grantees in E-Grants prior to uploading the expenses into the grant accrual accuracy analysis; and
f) Enhance policies and procedures related to closing out grants to ensure that issues identified during the closeout process are resolved and grant closeout documentation is finalized in a timely manner.
g) Allocate the necessary resources to timely resolve the mapping issues between HHS-PMS and NCFMS to allow the systems to communicate properly;
h) Develop and implement policies and procedures designating roles and responsibilities for reviewing the OJC HHS-PMS Synch Report to ensure that differences for authorized amount (obligation amount) and the advance amount (disbursement) are properly identified, resolved, and documented;
i) Update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring, including establishing a specific timeline to complete the Monitoring Review Reports;
j) Update written policies and procedures to include specific documentation requirements in GEMS to support the conclusions included in the Monitoring Review Reports; and

k) Develop monitoring controls to determine that Monitoring Review Reports are issued timely and are properly supported with documentation in GEMS.

Management's Response: We believe that ETA has established and maintains strong internal controls over grants management. The exceptions covering desk reviews, delinquent cost reports, HHS/PMS Synch Report, and closeout noted by the auditors cover procedures relating to the analysis, review and documentation of recorded grant costs. ETA continues to improve its internal controls over grants and has already addressed some of the recommendations and will address in FY 2013 the other recommendations noted by the auditors. Specifically, ETA's Office of Grants Management will work with the appropriate offices to determine the best process for ensuring that all related document IDs are properly and timely added to GEMS. Additionally, ETA will update the memorandum on *Federal Project Officer Grant Management Responsibilities Related to the Grants Electronic Management System* to instruct FPO supervisors to maintain documentation of periodic review of the timely completion of desk reviews. To address the issues relating to the delinquent reporting analysis, ETA will establish due dates for responses to ensure timely update of cost information and revise the current policy to include all grantees with delinquent cost reports for timely follow up. Procedures will be reviewed and updated, as needed, regarding the regional on site monitoring and inclusion of related documentation in GEMS.

Regarding the accrual accuracy analysis, ETA has already begun implementing corrective actions. ETA has revised the methodology for calculating the grant accrual accuracy analysis to capture all submitted cost reports, including those that report cumulative costs of $0 and implemented changes to ensure all data used for the grant accrual accuracy analysis is complete. ETA will enhance its policies and procedures related to closing out grants to ensure that issues identified during the closeout process are timely resolved. ETA has established a re-engineering team comprised of both National and Regional office staff who, among other things, will address the timely close out issues and will develop a trigger to send a list of delinquent closeouts to the Regional Administrators.

ETA has been working with the NCFMS system operator to resolve the HHS/PMS Synch Report mapping issues. In June 2012, ETA implemented an alternative PMS reconciliation that is performed each quarter. The reconciliation compares obligation, disbursements and cost data recorded in PMS and NCFMS for all OJC contracts, and computes variances. These reconciliations are manually prepared based on reports obtained from the two systems, and will continue to be prepared until such time as the Synch Report mapping issues are fully resolved. Additionally, ETA will develop and implement policies and procedures designating roles and responsibilities for reviewing the OJC HHS-PMS Synch Report and the manual reconciliations to ensure that differences for authorized amount (obligation amount) and the advance amount (disbursement amount) are properly identified, resolved, and documented.

Auditors' Response: We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

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

DOL records manual journal entries throughout the year to account for certain accounting transactions and to make corrections to general ledger account balances, as necessary. During FY 2012, the Office of the Chief Financial Officer (OCFO) provided trainings to DOL staff to address the minimum documentation requirements needed to sufficiently support journal entries and the requirements for adequately reviewing journal entries and the related documentation. In addition, we noted that the OCFO implemented a process that required the JV Controller from the Division of Central Accounting Operations to review a sample of posted journal entries at least on a quarterly basis. The JV Controller is required to prepare a report for the OCFO that documents the findings and results of the review, and provide recommendations for improvement. The results and recommendations are also communicated to the preparers and approvers of the selected journal entries. The OCFO uses the report to implement corrective actions, including the coordination of training, as necessary.

As a result of the items above, we noted improvements in the preparation and review of journal entries during our fiscal year 2012 audit testing. However, we continued to identify certain deficiencies during our testing of a sample of 410 journal entries recorded in NCFMS for the period October 1, 2011, through September 30, 2012. In summary, we determined that 42 of the 410 journal entries contained one or more deficiencies. Specifically, we noted the following:

- 3 instances where the entry was not recorded in the correct accounting period and/or at the appropriate amount;
- 32 instances where the entry was not recorded in accordance with the United States Standard General Ledger (USSGL) and/or applicable Federal accounting standards;
- 4 instances where a generic account was used to approve a journal entry that was created by DOL's shared service provider;
- 1 instance where the approver was not documented in NCFMS; and
- 7 instances where the entry did not reflect the underlying events and transactions.

Certain errors above 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. In addition, DOL did not have formal policies and procedures in place during the first half of FY 2012 that required the approver's name for manual journal entries created by the shared service provider to be documented in NCFMS to evidence that the appropriate entry was recorded. However, we noted that DOL implemented a process in March 2012 that allowed the names of individuals approving journal entries prepared by the contractor to be documented in NCFMS, which allowed a clear approval chain to be documented strictly through the system.

Without proper review and approval of transactions, the risk increases that a material error would not be prevented or detected and corrected in a timely manner. Further, without formal policies and procedures for assigning journal entry preparing and approving rights, an increased risk exists that an unauthorized journal entry may be posted to the general ledger.

The Standards state:

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

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

a) Formalize and implement policies and procedures for assigning preparer and approver rights to individuals for posting journal entries in NCFMS; and

b) 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.

***Management's Response*:** Management recognizes there is room for improvement and will continue to reinforce policies and procedures and provide additional training, as needed, to further enhance performance in this area. As noted by the auditors, the additional training and the review process implemented in FY 2012 resulted in further improvement in the preparation and review of journal entries. We cannot specifically respond to the deficiencies noted or to the level of deficiency as we did not have adequate time to review the majority of these items. We will review these items and implement changes as needed. Although we believe that journal entries are properly reviewed by the supervisors, we will continue to work to enhance the supporting documentation. We agree that prior to March 2012 a generic designation was included in the system for certain types of journal entries, however all such journal entries were specifically approved by a DOL employee in accordance with procedures in place at that time.

Auditors' Response: We will conduct follow-up procedures in FY 2013 to determine whether corrective actions have been developed and implemented.

The following table provides the fiscal year (FY) 2012 status of all recommendations included in the Independent Auditors' Report on the U.S. Department of Labor's FY 2011 Consolidated Financial Statements, Report No. 22-12-002-13-001 (November 15, 2011).

Fiscal Year 2011 Finding	**FY Finding Originated**	**FY 2011 Recommendations**	**FY 2012 Status**
Internal Control			
1. Lack of Sufficient Controls over Financial Reporting – Material Weakness	2009 (as a Significant Deficiency)	**Recommendation (a):** The Chief Financial Officer (CFO) should develop and implement procedures to properly complete and document the monthly Government-wide Accounting System (GWA) Fund Balance with Treasury (FBWT) reconciliations, including 1) reinstatement of the previous reconciliation process that reconciled the ending balances reported on the GWA Account Statements to the ending FBWT balances recorded in the general ledger and 2) documented research and resolution of identified differences.	Partially Open and Revised to Control Deficiency
		Recommendation (b): The CFO should dedicate adequate resources to complete the monthly FBWT reconciliations and supervisor reviews timely.	Closed
		Recommendation (c): The CFO should perform, document, and review timely the monthly FMS 6652 reconciliations to demonstrate that the differences identified on the FMS 6652 reports have been resolved.	Open and Revised to Control Deficiency
		Recommendation (d): The CFO should update policies and procedures to properly complete and document the monthly FMS 6652 reconciliations, including documented research and resolution of all identified differences.	Open and Revised to Control Deficiency
		Recommendation (e): The CFO should formalize procedures for generating data extracts of detailed general ledger transactions from New Core Financial Management System (NCFMS), and enhance the procedures for reviewing data extracts prior to submission for audit to ensure they reconcile to the consolidated trial balance.	Closed
		Recommendation (f): The CFO should develop and implement a formal process for promptly researching and resolving significant financial reporting issues that are identified. In addition, resolution of each issue should be formally documented and retained to support the consolidated financial statements' compliance with GAAP.	Open and Revised to Control Deficiency
		Recommendation (g): The CFO should finalize draft Department of Labor Manual Series (DLMS) policies and procedures requiring detailed review of all financial information in the financial statements, and ensure that OCFO personnel adhere to these policies. Financial statement review should include procedures for comparing financial data reported on the different statements to ensure	Closed

Fiscal Year 2011 Finding	FY Finding Originated	FY 2011 Recommendations	FY 2012 Status
		accuracy and consistency; agreeing the financial data to the general ledger to ensure existence, completeness, and accuracy of financial data reported; and analyzing significant variances between current period and prior period financial information.	
		Recommendation (h): The CFO should formally document comprehensive policies and procedures related to the financial reporting process under NCFMS.	Closed
		Recommendation (i): The CFO should develop and implement policies and procedures to address the minimum documentation requirements needed to support adjustments recorded by DOL's shared service provider, provide training to the agencies to address the minimum documentation requirements needed to sufficiently support recorded transactions, and develop and implement monitoring controls to ensure that individuals are performing sufficient reviews of expenses and related documentation before they are posted in NCFMS to ensure they are adequately supported.	Open and Revised to Control Deficiency
		Recommendation (j): The CFO should investigate the specific cause of the grant expense misclassification issue, and develop and implement appropriate corrective action.	Closed
		Recommendation (k): The CFO should record journal entries to correct the misclassified amounts identified above to their proper United States Standard General Ledger (USSGL) accounts in the general ledger, develop and implement procedures to properly record these transactions in the future, review significant transactions for USSGL compliance, and make any necessary corrections.	Open and Revised to Control Deficiency
		Recommendation: The Assistant Secretary for Administration and Management should perform, document, and review timely the monthly FMS 6652 reconciliations to demonstrate that the differences identified on the FMS 6652 reports have been resolved.	Open and Revised to Control Deficiency
		Recommendation: The National Director for the Office of Job Corps continue working to resolve the mapping issues between U.S. Department of Health and Human Services (HHS)-Payment Management System (PMS) and NCFMS to allow the systems to communicate properly, and develop and implement procedures to investigate, resolve, and document differences identified through the quarterly HHS-PMS Synch Report.	Open (See Exhibit I, comment no. 2)

Fiscal Year 2011 Finding	FY Finding Originated	FY 2011 Recommendations	FY 2012 Status
		Recommendation (a): The Assistant Secretary for Employment and Training should develop and implement written policies and procedures regarding the quarterly reconciliation of E-Grants to NCFMS and resolution of identified differences, including an expected timeframe to ensure errors are detected and corrected to avoid a misstatement. Documentation should be maintained to support these activities.	Closed
		Recommendation (b): The Assistant Secretary for Employment and Training should develop and implement comprehensive procedures for the preparation and review of the Unemployment Trust Fund (UTF) disbursements accrual that address the minimum documentation needed to support management's conclusions and require individuals performing supervisory reviews to verify the accuracy of the accrual data and calculations and the adequacy of documentation maintained to substantiate management's conclusion.	Closed
		Recommendation (c): The Assistant Secretary for Employment and Training should update written policies and procedures to include guidance on monitoring the timely completion of Federal Project Officers' (FPO) desk reviews, which should include requirements for supervisors to periodically review a sample of active grantees to confirm that the FPO desk reviews are being completed timely. This review should be documented.	Open (See Exhibit I, comment no. 2)
		Recommendation (d): The Assistant Secretary for Employment and Training should update the *Delinquent Filers Monitoring Procedures* to include 1) a control procedure designed to ensure that the quarterly notification of delinquent filers is distributed timely, 2) a deadline by which the notification of delinquent filers must be sent to the responsible individuals for follow-up, and 3) deadlines for required follow-up.	Partially Open (See Exhibit I, comment no. 2)
2. Lack of Sufficient Controls over Budgetary Accounting – Material Weakness	2009 (as a Significant Deficiency)	**Recommendation (a):** The CFO should provide adequate resources to complete all necessary budgetary reconciliations timely.	Closed
		Recommendation (b): The CFO should update policies and procedures over budgetary reconciliations 1) to address the minimum documentation requirements needed to substantiate that identified differences are properly researched and resolved, and 2) to outline the necessary steps to complete adequate supervisory reviews.	Open and Revised to Control Deficiency
		Recommendation (c): The CFO should provide training	Closed

Fiscal Year 2011 Finding	FY Finding Originated	FY 2011 Recommendations	FY 2012 Status
		on the updated policies and procedures over budgetary reconciliations, including timing and frequency of reconciliation preparation.	
		Recommendation (d): The CFO should update the NCFMS configuration so that all recorded transactions are subject to the system's automated funds control.	Closed
		Recommendation (e): The CFO should provide training to the agencies to address the minimum documentation requirements needed to sufficiently support the validity of undelivered orders.	Open and Revised to Control Deficiency
		Recommendation (f): The CFO should update the NCFMS Budget Module configuration to allow appropriations that are exempt from apportionment to be posted to the correct general ledger account. Until the NCFMS Budget Module is properly configured, procedures should be developed and implemented to periodically review funds with appropriations exempt from apportionment to ensure amounts improperly reported as Unapportioned Authority are properly reclassified to Unobligated Funds Exempt from Apportionment.	Closed
		Recommendation (g): The CFO should require that one agency be responsible for recording both the budgetary and proprietary journal entries for economic events, or if separate agencies continue to record the entries, develop and implement procedures that require those agencies to coordinate appropriately to ensure almost simultaneous recording.	Open and Revised to Control Deficiency
		Recommendation (a): The Assistant Secretary for Employment and Training should evaluate E-Grants to determine the cause of the continuing system errors related to the acceptance of Employment and Training Administration (ETA) 9130s, and implement the appropriate corrective action.	Closed
		Recommendation (b): The Assistant Secretary for Employment and Training should identify and correct the E-Grants coding issue that prevented timely and proper grant closeout.	Closed
		Recommendation (c): The Assistant Secretary for Employment and Training should develop and implement alternative procedures to properly post refunds to appropriate grants in NCFMS.	Closed

Fiscal Year 2011 Finding	FY Finding Originated	FY 2011 Recommendations	FY 2012 Status
3. Lack of Sufficient Security Controls over Access to Key Financial and Support Systems – Material Weakness	2001 (as a Reportable Condition[1])	**Recommendation (a):** The Chief Information Officer (CIO) should coordinate efforts among the DOL agencies to develop procedures and controls to address access and vulnerability management control deficiencies in financial and support systems.	Open (See Exhibit I, comment no. 1)
		Recommendation (b): The CIO should monitor the agencies' progress to ensure that procedures and controls are appropriately implemented and maintained.	Open (See Exhibit I, comment no. 1)
		Recommendation (c): The CIO should ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address access and vulnerability management control deficiencies.	Open (See Exhibit I, comment no. 1)
4. Improvements Needed in the Preparation and Review of Journal Entries – Significant Deficiency	2006 (as a Reportable Condition[1])	**Recommendation (a):** The CFO should provide training on the updated policies and procedures implemented in June 2011 to address the minimum documentation requirements needed to adequately support journal entries.	Closed
		Recommendation (b): The CFO should develop monitoring controls to ensure that supervisors or individuals other than the preparer are performing sufficient reviews of journal entries and related documentation before the entries are posted to ensure they are adequately supported and are in compliance with the USSGL and Federal accounting standards.	Open (See Exhibit I, comment no. 3)
5. Weaknesses Noted over Payroll Accounting – Significant Deficiency	2006 (as a Reportable Condition[1])	**Recommendation (a):** The CFO should design the Payroll/Time and Attendance Reconciliation Reports to reflect the necessary payroll-related information to conduct an adequate reconciliation.	Open and Revised to Control Deficiency
		Recommendation (b): The CFO should complete periodic monitoring procedures to ensure that the July 2009 policy and procedures are implemented and complied with throughout DOL.	Closed
		Recommendation (c): The CFO should revise procedures related to the monthly payroll reconciliations to require the preparer and the reviewer to document the preparation and review dates, respectively, and to sign the reconciliations once they have completed their work.	Closed
		Recommendation: We also recommend that the Director of the Human Resource Center ensure that the OCFO's July 2009 policy and procedures are properly and	Open and Revised to Control

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

Status of Prior Year Findings and Recommendations
Exhibit II

Fiscal Year 2011 Finding	FY Finding Originated	FY 2011 Recommendations	FY 2012 Status
		consistently implemented, by enforcing the requirements that all payroll-related reconciliations are documented, reviewed, and approved by an appropriate supervisor, and maintained.	Deficiency
Compliance			
1. Federal Financial Management Improvement Act (FFMIA) of 1996	2010 (as Non-compliance	We recommend that DOL follow the recommendations provided in Material Weakness Nos. 1, 2, and 3 and improve its processes to ensure compliance with FFMIA section 803(a) requirements in FY 2012.	Open and Revised to Non-reportable Non-Compliance