



NOV 17 2014

MEMORANDUM FOR: KAREN TEKLEBERHAN  
Acting Chief Financial Officer

FROM:   
ELLIOT P. LEWIS  
Assistant Inspector General  
for Audit

SUBJECT: FY 2014 Independent Auditors' Report  
Report Number: 22-15-002-13-001

Attached is the Independent Auditors' Report on the U.S. Department of Labor's (DOL) fiscal year (FY) 2014 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, 2014 and 2013. 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 unmodified and its 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, 2014.

While KPMG's report on internal control identifies no material weaknesses, the report does identify two significant deficiencies in internal controls over financial reporting: 1) a lack of sufficient information technology general controls over key financial and support systems, and 2) a lack of sufficient controls over grants. These two significant deficiencies are repeat findings from the FY 2013 financial statement audit.

KPMG is responsible for the attached auditors' report and the conclusions expressed in the report. However, in connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review differed from an audit performed in accordance with GAGAS because we did not intend to express, nor did we express, an opinion on DOL's financial statements, conclusions about the effectiveness of internal controls or whether DOL's financial management systems substantially complied with 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: T. Michael Kerr, Assistant Secretary for Administration and Management  
Edward C. Hugler, Deputy Assistant Secretary for Operations  
Gary Maupin, Associate Deputy Chief Financial Officer for Fiscal Integrity  
Robert Balin, OCFO Audit Liaison



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## **Independent Auditors' Report**

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

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

We have audited the accompanying consolidated financial statements of the U.S. Department of Labor (DOL), which comprise the consolidated balance sheets as of September 30, 2014 and 2013; 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, 2014, 2013, 2012, 2011, and 2010; and the statements of changes in social insurance amounts for the years ended September 30, 2014 and 2013; and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements" or "basic consolidated financial statements").

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

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

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

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

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

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

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



### ***Opinion on the Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor as of September 30, 2014 and 2013; its net costs, changes in net position, and budgetary resources for the years then ended; the financial condition of its social insurance as of September 30, 2014, 2013, 2012, 2011 and 2010; and the changes in its social insurance amounts for the years ended September 30, 2014 and 2013, in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

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

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

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



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

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

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2014, we considered the DOL's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

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

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

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

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



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

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

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

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

KPMG LLP

November 17, 2014

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**1. Lack of Sufficient Information Technology General Controls over Key Financial and Support Systems**

In fiscal year (FY) 2014, U.S. Department of Labor (DOL) agencies completed corrective action to address certain previously-identified control deficiencies. However, during our FY 2014 testing of significant DOL financial and support systems, we identified new 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 categories: account management, system access settings, system audit log reviews, configuration management, vulnerability management, and third party oversight.

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

***Account Management***

- Certain user accounts were not timely removed for separated users, and certain separated users had active system accounts;
- Personnel activities were not consistently controlled through effective segregation of incompatible duties and responsibilities;
- Account management controls were not consistently performed, as evidenced by incomplete or missing access requests, rules of behavior, non-disclosure agreements, and modification forms; and
- Shared, generic, and multiple user accounts for the same user existed on one DOL system.

***System Access Settings***

- Inactive accounts were not consistently disabled in a timely manner; and
- Certain password settings did not comply with the Office of the Chief Information Officer (OCIO) Computer Security Handbook.

***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 certain audit logs were not generated or reviewed timely. The lack of effective and timely system audit log reviews may allow for unauthorized or inappropriate activities to go undetected by management for lengthy periods of time.

***Configuration Management***

Controls related to configuration management are designed to provide reasonable assurance that changes to information system resources are authorized and systems are configured and operated securely and as intended. Although DOL had designed controls to establish accountability and responsibility for configuration management, including monitoring and tracking of changes, we identified certain segregation of incompatible duties weaknesses in the development and production environments and

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instances where configuration changes and patches did not follow the DOL configuration management process. The lack of strong change controls may allow for unauthorized or inappropriate changes to be applied and go undetected by management, resulting in lower assurance that the information system will operate as intended and that the data is reliable, valid, and complete.

### ***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 2014 audit procedures, we identified that the following FY 2013 deficiencies had not been remediated despite having associated corrective action plans:

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

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.

### ***Third Party Oversight***

DOL did not have formalized policies, procedures, or processes established for monitoring a third party service provider that hosts and operates a financially relevant system used by DOL. Without effective oversight of third parties, an increased risk exists that unauthorized persons could access sensitive resources and disclose sensitive information and that the system's security posture would not be consistently reported to the authorizing officials responsible for adequate security and making informed decisions about residual risks. In addition, without formally established policies, procedures, and processes in place, DOL management risks ineffective monitoring of accounting transaction information hosted by third parties and the inability to consistently support an effective entity-wide system of internal control.

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 specific causes, and the systems impacted by them have been communicated separately to management. These deficiencies were the result of issues in the design, implementation, or 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 developed, implemented, and operating effectively.

The National Institute of Standards and Technology Special Publication 800-53, Revision 4, *Recommended Security Controls for Federal Information Systems and Organizations*, provides federal information systems standards and guidelines for controls that include, but are not limited to, the controls in which deficiencies were identified.

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

- a) Coordinate efforts among the DOL agencies to develop procedures and controls to address account management, system access settings, system audit log reviews, configuration management, 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;
- c) Coordinate with the applicable agencies to ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address account management, system access settings, system audit log reviews, configuration management, and vulnerability management control deficiencies in financial and support systems; and
- d) Establish and implement formal policies, procedures, and processes to monitor third party service providers that host and operate financially relevant systems used by DOL and document these monitoring efforts.

**Management's Response:** The Office of the Assistant Secretary for Administration and Management (OASAM) is committed to ensuring the Department implements adequate safeguards to protect its information and information systems and appreciates the importance of adequately managing identified security risks. As such, the Department will ensure resources are applied to implement required corrective actions to address all identified security issues. The Chief Information Officer continues to strengthen its Cybersecurity program efforts and completed the following activities in FY 2014:

- Released Computer Security Handbook, Edition 5 to provide agencies with updated policies, procedures, and standards to ensure minimum security requirements for account and configuration management are achieved.
- Released an updated Enterprise Risk Management Strategy and facilitated an Agency training session to ensure DOL's risk management processes are effectively administered across the Department.
- Facilitated a series of Cybersecurity Case Study sessions with DOL Agencies resulting in the identification of proposed enterprise solutions to address account management, information system audit log reviews, as well as vulnerability and configuration management deficiencies. The OCIO performed an in-depth analysis of the proposed solutions and established a priority order for their implementation.
- Monitored the Agencies' progress in mitigating weaknesses found to be contributors to the Department's Significant Deficiency via Agency Operating Plans, Departmental Administrative Measures.
- Documented and began implementing the Information Security Continuous Monitoring (ISCM) Strategy including a focused patch management security monitoring effort resulting in a considerable decrease in system vulnerabilities.
- Acquired additional enterprise ISCM tools from the US Department of Homeland Security (DHS) and General Services Administration's Continuous Diagnostics and Mitigation (CDM) Program that will enhance DOL's current automated solutions for the ISCM Strategy.

OASAM accepts the recommendations in this report. Building on the progress mentioned above, in FY15, OCIO will continue implementation of its ISCM program. DOL will implement the ISCM tools received from the DHS CDM program; ultimately, automating additional DOL ISCM capabilities in alignment with the ISCM Strategy. In addition, DOL will increase the quantity of performance metrics, enhance automated monitoring, and provide data-driven security reporting. The OCIO will re-emphasize communication efforts with DOL agencies to ensure they give priority attention and sufficient resources to prioritize and complete planned corrective action(s) and will monitor agency progress on addressing

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identified deficiencies. Lastly, the OCIO will finalize and release guidance to DOL agencies to strengthen their practices as it relates to monitoring third-party service providers compliance with its information security requirements.

**Auditors' Response:** We will conduct follow-up procedures in FY 2015 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 2014 audit procedures, we identified deficiencies in certain controls over grants, as described below. These deficiencies are grouped into two categories, Grant Accrual and Grant Monitoring.

### *Grant Accrual*

Each year, ETA performs a grant accrual accuracy analysis to determine if the methodology used to calculate the previous year's September 30 grant accrual is reasonable, and to develop cost-to-payment ratios for subsequent grant accrual calculations. The accuracy analysis compares the expense amounts accrued at year end to the expenses subsequently reported on the grantees' cost reports. During our FY 2014 testing of controls over ETA's grant accrual accuracy analysis provided on May 27, 2014, we identified 658 document IDs/footprints that were improperly excluded from the accuracy analysis. Sufficiently detailed procedures were not in place to identify discrepancies during the review process. 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 accrual ratios that may result in a misstatement of subsequent grant accruals.

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.

OMB Circular No. A-123 also states:

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

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

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

### ***Grant Monitoring***

#### Site Visits

When a grantee is selected for an on-site monitoring visit, the related Federal Project Officer (FPO) conducts the visit to assess compliance with applicable regulations, policies, and procedures outlined in the *ETA Core Monitoring Guide*. We selected a sample of 45 on-site monitoring reviews planned in FY 2014 as of June 30, 2014, by each of the six regions to determine if the on-site monitoring reviews were properly performed and documented in the Grant Electronic Management System (GEMS). Based on our testwork, we identified issues with both the site visit monitoring plans and the site visit monitoring review reports, as follows:

- For 8 items, the on-site monitoring review was not performed as indicated on the monitoring review plans received from the regions as of August 2014;
- For 5 items, an on-site monitoring review was performed, but the on-site monitoring review report was not issued within 45 business days of the exit conference date; the reports were issued ranging from 4 to 54 days past the due date;
- For 3 items, the on-site monitoring review report was not attached to GEMS as of the date our testing was performed, which was 30 days or greater after the report issuance date;
- For 5 items, GEMS did not include a monitoring history for the corresponding grant file, and neither the findings nor the report were documented in GEMS as of the time our testing was performed;
- For 2 items, the on-site monitoring review report was not included in GEMS within the 30 day period; these reports were uploaded in GEMS 59 and 83 days after issuance of the reports; and
- For 6 items, the on-site monitoring review report was not uploaded in GEMS until after we notified ETA that the report was missing during the completion of our testwork; these reports were uploaded in GEMS ranging from 71 to 175 days after issuance of the reports.

ETA was unable to provide current year on-site monitoring review reports for eight on-site reviews selected from these plans because of inadequate reviews of original on-site regional monitoring plans and lack of periodic reviews for changes to these plans. In addition, ETA did not dedicate resources to update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring or to develop monitoring controls to ensure the timely issuance of on-site monitoring review reports and the completeness of documentation included in GEMS related to these reports.

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

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

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

The Standards states:

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

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

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

The *ETA Core Monitoring Guide* states:

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

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

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

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

The *SES Performance Management; Executive Performance; Agreement Appraisal Cycle [October 1 – September 30]* Results No. 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.

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Other Monitoring Procedures

As part of our audit procedures over grant controls as of June 30, 2014, we selected a sample of 45 grants from the population of grant expenses recorded in DOL's financial management system to determine if FPOs' desk reviews were properly performed and documented in GEMS. We noted that for 1 of the 45 grants selected, the desk review was not completed for the quarter selected. ETA management indicated that two desk reviews for the grant had been completed for the prior period, which resulted in GEMS erroneously identifying that a desk review had been completed for the period tested.

In addition, during our April 2014 test of design and implementation, we inquired of five FPOs across multiple regions about their process for documenting communication with delinquent grantees. We noted that responses provided by the FPOs to this inquiry were inconsistent as different interpretations of what information should be documented were provided.

Furthermore, we noted that ETA was in the process of creating a comprehensive Standard Operating Procedures (SOP) manual for all ETA regions, which would address, among other items, the insufficient FPO documentation of grantee delinquent cost reports condition identified in the prior fiscal year; however, ETA had not yet created the policies and procedures over the delinquent cost report process.

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

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

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

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

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

In addition, the Standards states:

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

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

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

- a) Enhance current procedures to ensure that all aspects of the grant accrual accuracy analysis are properly reviewed and approved to prevent potential errors in the preparation of the analysis;
- b) Develop and implement a monitoring procedure to ensure changes to original regional site visit plans are appropriate, accurately documented, and reported to the ETA National Office;
- c) Update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring;
- d) Develop and implement monitoring controls to determine that on-site monitoring review reports are timely issued and uploaded into GEMS with the appropriate documentation;
- e) 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.
- f) Complete the process of creating an SOP manual for all regions that will address documentation requirements for FPO follow-up communications with delinquent grantees;
- g) Upon completion and dissemination of the SOP manual, provide appropriate training to FPOs to ensure consistency in documentation of delinquent grantee communications across regions; and
- h) Provide notification to all regions that all communication with grantees should be properly documented and retained in the interim until the SOP manual is complete.

***Management's Response:*** Grants management and workforce investment system leadership is at the core of ETA's risk management strategy to ensure proper use of Federal funds. The grant management activities carried out by the Regional Offices includes managing 2,021 grants currently totaling nearly \$26 billion in taxpayer resources. The ETA Regional Offices provide oversight for ETA's portfolio of investments to ensure accountability, conformity with statute, compliance with regulations, and fiscal accountability. The Regional Offices are primarily responsible for this function through: risk assessments; quarterly desk reviews; reviews of quarterly performance and financial reports; enhanced desk monitoring reviews (EDMR); onsite monitoring; establishing corrective action plans when required; and promoting improved grantee performance by providing direct guidance and technical assistance to grantees. In addition to resolving current problems, these activities allow ETA to proactively provide direct guidance to grantees to help them achieve their stated goals and demonstrate the cost effective use of federal investments in accordance with Federal laws and regulations, and grant terms and conditions.

ETA has a comprehensive grants management strategy and monitoring system, which is focused on continuous improvement; however, the Agency also is very aware of financial and human resource challenges it faces to fully operate this system. In response to specific recommendations:

- a) *Enhance current procedures to ensure that all aspects of the grant accrual analysis are properly reviewed and approved to prevent potential errors in the preparation of the analysis.*

ETA has made improvements in its processes and procedures over the reasonableness of the data used in the accuracy analysis. These documented procedures include, but are not limited to, comparing the new ratios to that of prior years and the number of lines analyzed in various parts of the analysis to that of prior years, and investigating variances noted in the overall calculated difference between estimated

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and actual costs analysis down to the program and individual stratum. Additionally, ETA implemented the use of data analysis software to assist in the analysis, providing a comprehensive review of the updated costs information. The results of the analysis were shared with both ETA and OCFO management during and at the completion of the analysis. Any unusual situations or results that fall outside of management's expectations were further researched.

ETA is currently reviewing all policies and procedures related to the grant accrual analysis to ensure all aspects of the process are completely addressed. Any updates to the policies and procedures will be finalized by December 31, 2014.

- b) *Develop and implement a monitoring procedure to ensure changes to original regional site visit plans are appropriate, accurately documented, and reported to the ETA National Office;*

To address this, on October 1, 2013, the regions created and began using a consistent monitoring plan template that captures all the required data fields. The On-Site Monitoring plan represents the proposed number and type of reviews each Regional Office initially plans to undertake, based on grant risk, travel resources and staffing patterns. This plan is completed at the beginning of each fiscal year based on estimated resources. The Monitoring plan is a living document which is updated quarterly or upon request, based on various changes in events; travel allotments, staff workloads, grantee availability, coordination of reviews, complexity of reviews, incident reports or OIG request, complaints, grantee types, etc. Quarterly updates will be monitored for accuracy by ETA's Office of Financial Administration (OFA) as part of the Annual OMB Circular A-123 internal controls process and all discrepancies will be communicated to the Office of Regional Management (ORM). The final Monitoring plan is reported annually to ORM along with final travel expenditures, monitoring reports issued from this plan, and the number of findings issued from each report.

- c) *Update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring;*

The policies and procedures related to monitoring have been updated and are in place. Employment and Training Order (ETO) 1-14, which outlines all of the grant management policies and responsibilities for the agency was updated and issued on March 21, 2014. The Regional Administrator (RA), Regional Manager, and Federal Project Officer (FPO) performance standards include the ETA operating metrics established: Percent of grants to be monitored annually; percent of quarterly desk reviews completed timely; the timeliness of monitoring report issuance (80 percent within 45 days of exit date), and the number of findings issued and closed (70 percent closed annually). These Operating Plan metrics are then cascaded down to managers and staff so that all ETA Regional staff have identical goals. ETA will review existing policies and procedures to determine if updates are needed.

- d) *Develop and implement monitoring controls to determine that on-site monitoring review reports are timely issued and uploaded into GEMS with the appropriate documentation;*

The RA, Regional Manager, and FPO performance standards require that regions conduct on site monitoring and Enhanced Desk Monitoring Reviews (EDMR), and that 80 percent of all initial written Monitoring Reports are issued within 45 days of the exit conference date. In addition, the RA Standards and an August 30, 2011, Memorandum entitled, Federal Project Officer (FPO) Grant Management Responsibilities Related to the Grants Electronic Management System (GEMS); and a March 27, 2013 Memorandum which updated the August 30, 2011, Memorandum require that copies of all issued monitoring reports be uploaded to GEMS within 30 days of issuance. Staff are informed on a quarterly basis about upcoming GEMS deadline requirements (desk reviews, report acceptance, etc.) and managers monitor the completion. The Regions report their performance under the RA standards each quarter.

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ORM will work with ETA, OFA's internal controls group to identify a useful process to ensure adherence to written guidelines.

- e) *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.*

ETA will research options to design a technology fix in GEMS, if funds are available, and a "fix" is technically feasible. If it is not feasible, ETA will seek to address this requirement in any future specifications for the grant management system. Staff are informed on a quarterly basis about upcoming GEMS deadline requirements (desk reviews, report acceptance, etc.) and managers monitor the completion. The Regions report their performance under the RA standards each quarter. Additionally, ETA notes that the performance standard in question states that 90 percent of quarterly desk reviews will be completed timely; ETA Operating Plan data from the last three years show that the Regions have exceeded this measure by completing nearly 97 percent of their desk reviews within the required timeframe of 30 days.

- f) *Complete the process of creating an SOP manual for all regions that will address documentation requirements for FPO follow-up communications with delinquent grantees;*

ETA is in the final stage of reviewing and approving the SOP on the monitoring of ETA – 9130 Quarterly Financial Reports. This SOP addresses the following oversight actions: (1) upgrading the system's automated review of the grantee entering of data on the 9130 report (e.g. improved edit checks, on screen response to triggered edit checks, providing grantee with a report of soft edit checks triggered prior to the final certification, automatic notification to grantee and FPO when report has not been submitted timely, etc.); (2) addressing National Office's oversight through the development and dissemination of a standardized report identifying all 9130 reports which are late or not submitted; and (3) identifying FPO's responsibility in responding to the delinquent 9130 report within 10 work days of receipt.

- g) *Upon completion and dissemination of the SOP manual, provide appropriate training to FPOs to ensure consistency in documentation of delinquent grantee communications across regions;*

When ETA completes the SOP, webinar training will be provided to all FPOs and financial reviewers in the National Office and all Regional Offices.

- h) *Provide notification to all regions that all communication with grantees should be properly documented and retained in the interim until the SOP manual is complete.*

Interim guidance is being prepared for immediate dissemination to all ETA offices responsible for reviewing the 9130 quarterly reports, ensuring that appropriate documentation on communication with grantees regarding their 9130 reports is being retained in GEMS or other established recording system.

**Auditors' Response:** We will conduct follow-up procedures in FY 2015 to determine whether corrective actions have been developed and implemented.