

U.S. Department of Labor

Office of Inspector General—Office of Audit

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



MANAGEMENT ADVISORY COMMENTS IDENTIFIED IN AN AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

Eeliot P. Lewis

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

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Executive Summary

KPMG LLP (KPMG), under contract to the United States Department of Labor's (DOL) Office of Inspector General (OIG), audited DOL's consolidated financial statements as of and for the year ended September 30, 2015, and dated its *Independent Auditors' Report* November 19, 2015. The audit was conducted in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. The objective of the audit was to express opinions on the fair presentation of DOL's consolidated financial statements and its sustainability financial statements. Additionally, another objective was to express an opinion on DOL's compliance with requirements of Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (Public Law 104-278), based on an examination.

This report presents for DOL's consideration certain matters that KPMG noted, as of November 19, 2015, involving internal control and other operational matters. These management advisory comments are provided in addition to the material weakness and instance of non-compliance with laws and regulations presented in KPMG's *Independent Auditors' Report* and included in DOL's *FY 2015 Agency Financial Report*, and the findings included in the *Report of Division of Federal Employees' Compensation's Description of Its Integrated Compensation System and the Suitability of the Design and Operating Effectiveness of Its Controls for the period October 1, 2014 through March 31, 2015*.

These management advisory comments, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies as summarized in Exhibit I. Included in this report are 10 comments and related recommendations newly identified in fiscal year (FY) 2015, 19 prior year comments that continued to exist in FY 2015, and 10 prior year comments and related recommendations KPMG determined had been corrected and closed during FY 2015.

KPMG prepared this report to assist DOL in developing corrective actions for the management advisory comments identified in the FY 2015 audit.



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

November 19, 2015

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

Mr. Lewis, Mr. Kenyon, and Ms. Leaf:

In planning and performing our audit of the consolidated financial statements and the sustainability financial statements of the United States Department of Labor (DOL), as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered DOL's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on these financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control. We have not considered internal control since the date of our report.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management and have been communicated through issued Notifications of Findings and Recommendations and Statements of Fact, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I. These comments are in addition to the material weakness and instance of non-compliance presented in our *Independent Auditors' Report*, dated November 19, 2015, included in DOL's *FY 2015 Agency Financial Report*. We summarized prior year comments that were remediated in fiscal year (FY) 2015 in Exhibit II.



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

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

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

This communication is intended solely for the information and use of DOL's management and the DOL Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Comments and Recommendations

New Financial Comments and Recommendations Identified in Fiscal Year 2015

1. Improvements Needed in Estimating the Present Value of Excise Tax Projections

During our testing of the U.S. Department of Labor's (DOL) Statement of Social Insurance (SOSI) estimated balances, we determined certain assumptions used to estimate the excise tax projections were not properly supported. Specifically, we noted that Office of the Chief Financial Officer (OCFO) personnel made adjustments to certain projection data from the U.S. Energy Information Administration's (EIA) Annual Energy Outlook and included certain EIA data related to years outside of the projection period to derive the escalation assumption used to estimate excise taxes for fiscal years (FY) 2026 through 2040. However, no analysis or other documentation supported the adjustments to the EIA data or the use of data outside of the projection period.

DOL did not have detailed policies and procedures in place to address the minimum documentation requirements needed to sufficiently support the assumptions used to estimate the excise tax projections and to ensure reviewers of the estimate understood what should be considered sufficient supporting documentation.

As a result, errors in underlying data may not be detected and corrected, or assumptions may not be properly supported, which may ultimately lead to the SOSI estimated balances not being properly valued. Specifically, we determined that projected excise taxes were initially misstated by approximately \$229 million as of September 30, 2015. Management subsequently recorded an adjustment for \$142 million, and we reported the remaining difference on our fiscal year FY 2015 Summary of Audit Misstatements.

Statement of Federal Financial Accounting Standards Number (No.) 17, *Accounting for Social Insurance*, paragraph 25, states:

The projections and estimates should be based on the entity's reasonable estimates of demographic and economic assumptions, taking each factor individually and incorporating future changes mandated by current law.

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

Internal control should provide reasonable assurance that the objectives of the agency are being achieved relative to reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use and compliance with applicable laws and regulations.

Recommendation

1. We recommend the Principal Deputy Chief Financial Officer design and implement policies and procedures to address the minimum documentation requirements needed to sufficiently support the estimates reported in SOSI and the underlying assumptions and provide training on these requirements to reviewers of the estimates and assumptions.

Management's Response

DOL currently has detailed policies and procedures in place to address the minimum documentation requirement needed to sufficiently support the estimates reported in the SOSI and the underlying assumptions. OCFO timely provided the auditors with the PBC items which described the effects of the growth rate of the SCSIA, the SOSI and supporting calculations, and the SCSIA and supporting calculations. OCFO timely submitted additional PBCs for support of social insurance reporting. The auditors should use the PBC process to make requests for additional documentation. The auditors may also request meetings so that OCFO may provide additional details and OCFO will document the meeting proceedings in minutes. However, unless the auditors conduct more timely reviews of submitted PBC items and more timely meetings with OCFO to discuss PBC details, then additional documentation will not achieve the objectives of the audit.

DOL reviewers of the estimates and assumptions are knowledgeable and understand what should be considered sufficient documentation, however, the OCFO will include additional personnel in its internal meetings regarding social insurance (to include management, reviewers and subject matter experts), and further document the meetings

in minutes. The meeting minutes will serve as a record of meeting discussions and provide a reference for meeting participants.

Auditors' Response

Although management disagreed with the comment, management indicated that actions will be taken to address the matters identified in it. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

2. Improvements Needed in Controls over the Unemployment Trust Fund (UTF) Due and Payable Estimate

Management did not have sufficient support to validate certain underlying assumptions in its due and payable accrual. Per inquiry of the Employment and Training Administration (ETA) actuary, ETA initially developed its weekly/biweekly payment assumption based on a direct survey of the states to determine which states process payments on a weekly versus biweekly basis. Subsequent to our inquiries, in June 2015, ETA conducted an updated survey of all 53 states and territories to validate this assumption and update the estimate methodology.

During our FY 2015 audit procedures, we sent confirmation letters to a sample of 20 state workforce agencies in order to verify the reasonableness of ETA's assumptions used in the due and payable accrual. The sample of 20 states included the 5 states with the most significant unemployment benefit disbursements during the first 3 quarters of FY 2015, per the ETA-2112, *UI Financial Transaction Summary*. Based on the results of the confirmations, we determined the following:

- Two states made disbursements both on a weekly and biweekly basis. However, ETA assumed that the states disbursed all amounts either on a weekly or biweekly basis.
- ETA assumed that all benefit payments were made on Tuesdays; however, we determined that a higher percentage of states in our sample pay benefits on Mondays.

These conditions occurred because ETA had not implemented policies and procedures to periodically validate the above due and payable accrual assumptions by obtaining and accumulating updated, relevant, and reliable information from the states and territories.

On June 30, 2015, ETA provided us with a revised December 31, 2014 due and payable estimate worksheet based on the results of the updated survey. By comparing the original worksheet to the revised worksheet, we noted that the original due and payable estimate

as of December 31, 2014, was overstated by approximately \$63 million. Although the FY 2015 error was not considered material, using unvalidated assumptions to estimate the due and payable accrual may result in a material misstatement in future periods.

The GAO Standards states:

The responsibility for good internal control rests with all managers. Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control. However, all personnel in the organization play important roles in making it happen.

The GAO 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.

American Institute of Certified Public Accountants' Auditing Standards, AU-C Section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph A26, states:

Matters that the auditor may consider in obtaining an understanding of relevant controls include, for example, the experience and competence of those who make the accounting estimates and controls related to

- how management determines the completeness, relevance, and accuracy of the data used to develop accounting estimates.
- the review and approval of accounting estimates, including the assumptions or inputs used in their development, by appropriate levels of management and, when appropriate, those charged with governance.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

2. Update the *Due and Payable Accrual Methodology* to include policies and procedures that require the periodic review of the assumptions used in the estimate, and implement such policies and procedures.
3. Develop and implement a consistent methodology for classifying states that pay unemployment benefits both on a weekly basis and a biweekly basis.

Management's Response

Management concurs with this finding. An updated list of state payment periods has already been implemented into the Due and Payable report.

Auditors' Response

Management indicated that actions have been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether the corrective actions were developed and implemented.

3. Improvements Needed in Management's Review of the UTF Federal Employees Compensation Account (UTF FECA) Existing Claims Accrual

For the UTF FECA existing claims accrual, management did not explain the cause of the variance between the accrual for the quarter ended December 31, 2014, compared to the quarter ended September 30, 2014. The variance between these two quarters exceeded the acceptable threshold of 10 percent established by the ETA.

Per inquiry with the ETA actuary, variances in the UTF FECA existing claims accrual are driven by changes in federal policy and are not typically explained by economic trends or seasonal patterns. As such, the actuary elected only to document the quarter-over-quarter change in the accrual during his review, instead of the cause of the variance between quarters. Furthermore, because of the historical volatility of Federal employee and ex-military service member layoffs, the actuary considered a quarterly change of 10 percent to be an unreasonable threshold to evaluate and explain the variance.

Application of the UTF *FECA Existing Claims Accrual Methodology* without sufficient understanding of the root cause of significant variances may result in a material misstatement in the related accrued benefits and costs reported on the Consolidated Balance Sheet and Statement of Net Cost, respectively.

DOL's *FECA Existing Claims Accrual Methodology* instructs ETA management to "Compare accrual to the estimated accruals for the prior quarter – explain differences greater than 10 percent in terms of known economic trends, seasonal patterns, etc."

The GAO Standards 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.

The GAO Standards also 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.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

4. Update the *FECA Existing Claims Accrual Methodology* to include additional indicators by which to explain variances above the specified threshold, as deemed necessary by management.
5. Develop and implement monitoring controls to enforce the management review requirements per the *FECA Existing Claims Accrual Methodology* and ensure that the results of the review are sufficiently documented.

Management's Response

The recommendations offered by KPMG/OIG do not reasonably address the issue in this case. Either including more indicators or developing monitoring controls would necessitate adding layers of unnecessary work that would not add to the accuracy of this estimate or its practical use. Instead, in light of the volatility of FECA claims from quarter to quarter, the Management review document will be updated to include a higher level of claims, greater than 10 percent, that is more consistent with identifying historical outliers, and a check will be added for the reviewer to identify if the percentage change in accrued benefits is consistent with the change in the weeks compensated for existing claims over the same period.

This will be changed for the next Existing Claims report submission.

Auditors' Response

Although management disagreed with the recommendation, management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether the corrective actions have been developed and implemented.

4. Improvements Needed over the Identification of New Leases

During the FY 2015 audit, DOL disclosed that a capital lease that was signed in September 2014 was not recorded in the general ledger until the fourth quarter of FY 2015. In September 2014, DOL's service provider for the New Core Financial Management System (NCFMS) filed for bankruptcy, and DOL and the General Services Administration (GSA), through separate contracts, purchased the necessary hardware, software, interfaces, system documentation, and intellectual property rights to maintain NCFMS. GSA then entered into a lease agreement with DOL for the use of NCFMS hardware, software, interfaces, system documentation, and intellectual property rights that GSA purchased. We noted that DOL did not record this capital lease in United States Government Standard General Ledger (USSGL) account 294000 until September 2015, at an amount of \$17.7 million, including an advance of \$6.5 million.

DOL did not have detailed policies and procedures in place to ensure that an accounting review was performed at an appropriate level of precision in order to identify new leases throughout the fiscal year. As a result, capital lease liabilities and assets were understated by \$11.2 million and \$17.7 million, respectively, at September 30, 2014. Although this specific lease is not considered material, the lack of policies and procedures increases the risk that a material economic event, as it relates to leases, could compromise the overall integrity of the DOL financial statement by misstating DOL's liabilities and assets.

The GAO 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 appropriate documentation. Controls activities may be applied in a computerized information system environment or through manual processes.

The GAO Standards also states:

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

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.

Recommendation

6. We recommend that the Principal Deputy Chief Financial Officer develop and implement detailed policies and procedures to ensure agencies are performing a proper level of accounting review of contracts to ensure timely identification and reporting of new leases.

Management's Response

During Q1, FY 2016, DOL developed and implemented a quarterly data call procedure that requires all agencies to provide acknowledgement of their accounting review of all contracts to identify any new capital leases. Agencies are required to provide written notification of their review to the OCFO's office. Agencies are required to review all current year contracts as well as any active prior year contracts.

Auditors' Response

Management indicated that actions have been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions were developed and implemented.

5. Untimely Clearance of Fund Balance with Treasury (FBWT) Suspense Account Balances

We obtained and reviewed the March 9, 2015, *Daily Suspense/ F-Account CARS Transactions Report*, and noted that 15 balances during FY 2015 were not cleared within three days of their Central Accounting and Reporting System (CARS) posting date, with clearance ranging from 28 to 91 days past the posting date. The total absolute value of these 15 balances was \$314,100.

The U.S. Department of the Treasury's (Treasury) CARS reporting, including the three-day clearance requirement for suspense account balances, was a new process implemented government-wide in FY 2015. As a result of this change, agencies had to identify resources and establish procedures for the new process to timely clear the suspense account balances, but formal DOL written policies and procedures had not yet been developed and implemented. In addition, the majority of the untimely exceptions noted above resulted because the correct Agency Location Code (ALC) owners at various regional offices within DOL were not timely identified. The CARS was also offline from

March 10, 2015, through March 25, 2015, because of a transition performed at Treasury, which caused further delays in the clearing of certain suspense account balances.

Suspense account balances that are not timely cleared could compromise the reliability of the FBWT balances, other USSGL account balances contra to the USSGL 101000 account, and the Treasury's published financial reports. This, in turn, could compromise the overall integrity and status of DOL's financial position.

Treasury Financial Manual (TFM) Bulletin No. 2011-06, Volume I, Subject: *Reporting Suspense Account Activity Using F3875 and F3885 and Using Default Accounts F3500 and F3502 as a Government-wide Accounting (GWA) Reporter, June 30, 2012***, states:

[Financial Management Services] FMS has established Shared Accounting Module (SAM) default accounts F3500 and F3502 for each major agency department for payments and collections and [Intra-Government Payment and Collection] IPAC transactions. The accounts were specifically established to 1. facilitate systematic cashflows; and 2. temporarily classify or hold unidentified general, revolving, special, or trust fund transactions that have system defaulted as a result of an incomplete or invalid [Treasury Account Symbol] TAS or missing classification keys submitted by GWA reporters through payment or collection feeder systems into the GWA system. The GWA system will automatically post the transactions associated with the invalid or missing TAS to a SAM default account. Federal Program Agencies must clear the SAM default accounts within the specified timeframe. They must correctly reclassify all system defaulted transactions to a valid receipt or expenditure TAS by the third business day following the close of the accounting month...FMS will measure, based on performance, efforts by agencies to clear associated SAM default accounts F3500 and F3502 by the third business day of the month.

** Treasury's Bureau of the Fiscal Service (BFS) (formerly FMS) had not issued updated guidance as of May 19, 2015, to address the conversion to the CARS. The below criteria from BFS's *Tip of the Week* addresses the new requirement under the CARS. The BFS's *Tip of the Week* states:

It is the agencies' responsibility to monitor general ledger suspense fund balances. All suspense accounts are available to review and reconcile on the [CARS] account statement. Balances in F3500 (Payments and Collections) and F3502 (IPAC) should be cleared within three days.

The GAO Standards 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.

Recommendations

We recommend that the Principal Deputy Chief Financial Officer:

7. Develop and implement written policies and procedures to properly monitor the timely clearance of the suspense account balances; and
8. Identify all ALC owners at DOL's regional offices, and develop and implement a process to identify subsequent changes to ALC owners.

Management's Response

Procedures to properly monitor timely clearance of suspense accounts have been in place since the end of FY 2014. DCAO has reviewed and enhanced these procedures and will continue to review and update as needed per Treasury guidance changes.

In FY 2016 DCAO has developed, documented and implemented a bi-annual process to identify all ALC owners at both the agencies and DOL regional offices and as well as any subsequent changes to the ALC owners. In addition to the bi-annual review, DCAO will continue to update the POCs based on change requests from agencies/regions.

Auditors' Response

Management indicated that actions have been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions were developed and implemented.

6. Untimely ETA-9130 Cost Report Acceptance by a Federal Project Officer (FPO)

One of the two ETA 9130s (cost reports), which was submitted on August 4, 2014 by a grantee that was selected during our FY 2015 tests of design over the delinquent cost report reviews, was not reviewed, analyzed, and accepted by the FPO until approximately four months after the grantee's initial submission. Because of inappropriate oversight after a change in personnel occurred, an FPO supervisor did not properly reassign to another FPO in a timely manner the grantee's ETA 9130 cost report for review, analysis, and

correction or acceptance. Failure to timely review and accept submitted grant expenditure details may lead to grant-related expenses, advances, payables, and undelivered orders being misstated.

The GAO 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.

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

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

Recommendation

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

Management's Response

Management does not concur with the finding. ETA acknowledges that the one above-mentioned report was not sufficiently addressed by the oversight procedures established to identify delinquent reports reviewed for the quarter ending 9/30/15. However, during that period, ETA was finalizing internal control procedures (the SOP) to strengthen oversight of 9130 cost reports.

The following outlines the actions implemented throughout all ETA offices, which addresses the reviewing offices' accountability on oversight of these costs reports:

- December 30, 2014 – issued a Standard Operating Procedure (SOP) establishing internal controls for the oversight of delinquent 9130 reports.
 - The SOP was distributed to all grant managers and offices with responsibility for the review and acceptance of 9130 reports.

- The SOP established:
 - Upgrades to ETA’s E-Grants system to provide immediate notification when reports are late and to strengthen the edit checks system on the data being entered into 9130 reports.
 - Formal oversight by the Office of Financial Administration on the timely submission of 9130 reports to E-Grants as well as the judicious review and determination on the acceptance or rejection of the 9130 reports by ETA’s reviewing staff.
 - Accountability for all reviewing offices to ensure the timeliness in reviewing and accepting 9130 reports. In addition, the SOP emphasized the requirement for documenting interaction with grantees on incomplete, inaccurate or late reports.
- April, 24, 2015 – conducted training on the SOP with 9130 reviewers in the National Office.
- May 28, 2015 – conducted training on the SOP with 9130 reviewers in the regions.
- July 30, 2015 – completed draft on a technical assistance paper providing guidance on reviewing 9130 line items.
- September 2, 2015 – conducting training on 9130 form for State Financial Directors
- September 9, 2015 – conducting training on 9130 form for Discretionary Grantees

ETA also notes for the record that the total universe of 9130s is more than 5,200, depending on the quarter. KPMG selected a review population of only 2 reports from a list of approximately 50 delinquent reports, out of 5,200 that were timely. ETA believes that 50 delinquent reports out of a universe of 5,200 is well within an acceptable margin of error. ETA is always committed to continuous improvement through updating policies and procedures, when necessary and also providing routine training. This was an isolated, single incident that has been remedied and the SOP is current and working.

Auditors’ Response

Although management stated that they did not concur with the comment, management indicated that actions will be taken to address the matters identified in it. Follow-up procedures will be conducted in FY 2016 to determine whether the corrective actions have been developed and implemented.

7. Untimely Review of the Reconciliation of UTF Ending Balances to BFS Ending Balances

During our testing of the design and implementation of management’s review of the reconciliation of UTF ending balances to BFS ending balances, we noted that OCFO management did not sign the reconciliation selected for testing (January 2015) in a timely manner to evidence review of the reconciliation.

This condition was caused by the *Process Document – UTF FBWT Variance Documentation Requirements* not specifying the required timing for documenting management’s review of the reconciliation. Untimely review of differences between the UTF ending balances and BFS ending balances increases the risk that differences will not be timely resolved. Unresolved differences could accumulate and lead to material misstatements in the financial statements.

The GAO 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 GAO Standards also states:

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

Recommendation

10. We recommend that the Principal Deputy Chief Financial Officer revise the *Process Document – UTF FBWT Variance Documentation Requirements* to specify the required timing for documenting management’s review of the reconciliation.

Management’s Response

In February 2015, management reviewed the reconciliation and discussed questions that arose as a result of the initial review with the preparer. This review was not documented through signature; however, the subsequent (and final) review was documented as referenced in this NFR. We agree that the timeliness of the review is crucial and as such we concur with updating procedures to include the required timing for the documentation of management's review of the reconciliation. However, we do not agree with the effect, "Unresolved differences could accumulate and lead to material misstatements in the financial statements" because the review was performed timely, just not documented. Therefore any material misstatements would have been identified and corrected.

Auditors' Response

Although management disagreed with the effect, they concurred with the comment and indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

8. Lack of Review over Obligations Extracts for *Obligation Analysis Process*

DOL did not have controls in place to reconcile certain populations provided by the Enterprise Service Center (ESC) to the general ledger. During our testwork over obligations for FY 2015, we noted that the Division of Central Accounting Office (DCAO) within the OCFO did not review the completeness and accuracy of the obligations extracts that were generated monthly by the ESC and used as the basis for the OCFO's *Obligation Analysis Process*.

DCAO did not have policies and procedures in place to ensure that the obligations extracts generated by the ESC monthly were complete and accurate before being used in the review of outstanding obligations by individual DOL offices. This lack of review controls over the completeness and accuracy of the obligations extracts from ESC may impact the design and operating effectiveness of the review of open obligations control, which could lead to misstatements in the obligations incurred financial statement line item.

The GAO 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 GAO 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.

Recommendation

11. We recommend that the Principal Deputy Chief Financial Officer develop and implement policies and procedures to ensure that the obligations extracts generated by ESC monthly are complete and accurate before being used in the review of outstanding obligations by individual DOL offices.

Management's Response

Management concurs with the finding. In FY 2016, a procedure document has been created and a process implemented to outline the process used to reconcile the obligation extract to the general ledger before being used in the review completed by the individual offices.

Auditors' Response

Management indicated that actions have been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions were developed and implemented.

New Information Technology (IT) Comments and Recommendations Identified in FY 2015

9. Weaknesses in the Acquisition Management System (AMS) Backup Process

Management did not provide evidence that certain AMS incremental and full backups were performed during FY 2015. For 1 of 25 days selected, we were not provided with evidence (e.g., e-mail logs) documenting that daily incremental back-ups were performed over the database supporting the AMS application. Additionally, for all five weeks selected for testing, we were not provided with evidence (e.g., e-mail logs) documenting that weekly full backups were performed over the database supporting the AMS application.

DOL management did not provide a cause and we were unable to determine the cause related to why evidence for the selection of full backups could not be provided. Failure to backup system-level information on a periodic basis could compromise system availability and the end user's ability to retrieve financial information stored within the system.

The CompuSearch *Hosting Operation Policy and Procedures*, Version 1.0, dated May 2015, page 118 states:

CompuSearch must:

- a) Conduct backups of user-level information contained in incremental and weekly full backups; and

1. Maintain at least three backup copies of user-level information (at least one of which is available online) or an equivalent alternative
- b) Conduct backups of system-level information contained in daily incremental; weekly full backups;
 1. Maintain at least three backup copies of user-level information (at least one of which is available online) or an equivalent alternative

The DOL Computer Security Handbook (CSH), Volume 6, Edition 5.0, *Contingency Planning Policies, Procedures, and Standards*, dated February 2014, page 12, states:

Information system personnel shall:

1. Conduct backups of user-level information contained in the information system daily for incremental data and weekly for all data.
2. Conduct backups of system-level information (including system-state information) contained in the information system daily for incremental data and weekly for all data.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, control CP-9, Information System Back-up, states:

The organization:

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

Recommendation

12. We recommend that the Chief Information Officer document and maintain evidence of the performance of weekly full and daily incremental backups.

Management's Response

Management concurs with the OIG's finding. The OCIO documents and maintains evidence of the performance of weekly full and daily incremental backups.

Auditors' Response

Management indicated that actions have been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions were developed and implemented.

10. Weakness in the AMS Contingency Plan Testing Process

DOL management did not provide us evidence that contingency plan testing over the AMS application's supporting infrastructures occurred during FY 2015. Management informed us that the AMS contingency plan test efforts for FY 2015 were deferred because of the transition of key DOL personnel and other security-related tasks.

Without proper testing of the contingency plan, agency personnel may not be prepared to handle the implementation of contingency plan procedures in the event of a situation or crisis. As a result, the recovery time for the information systems may be delayed, and the agency may be unable to maintain the confidentiality, integrity, or availability of the information in the information system. This situation could result in financial loss and a loss of agency credibility.

The CompuSearch *Hosting Operation Policy and Procedures*, dated May 2015, Section 7.5, page 65, states:

CompuSearch must:

1. Test the contingency plan at least annually using functional exercise to determine the effectiveness of the plan and the organizational readiness to execute the plan;
2. Review the contingency plan test results; and
3. Initiate corrective actions, if needed.

The DOL CSH Edition 5.0, Volume 6, dated February 2014, *Contingency Planning Policies, Procedures, and Standards*, page 17, states:

DOL's required minimum standards on contingency plan testing are as follows:

- The contingency plan must be tested at least annually using agency-defined tests and exercises to determine the plan's effectiveness and the agency's readiness to execute the plan.

- The Agency tests and/or exercises the contingency plan for the information system at least annually for Moderate and High impact systems and at least every three years for Low impact systems. At a minimum functional exercises must be conducted for Moderate and High impact systems and classroom/tabletop exercises for Low impact systems to determine the plan's effectiveness and the agency's readiness to execute the plan.

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

The organization:

- Tests the contingency plan for the information system with the organization-defined frequency, using organization-defined tests to determine the effectiveness of the plan and the organizational readiness to execute the plan.

Recommendations

We recommend that the Chief Information Officer:

13. Enforce the DOL CSH to ensure AMS contingency plan testing is performed annually, including backup and restoration testing.
14. Document and maintain evidence of annual AMS contingency plan testing.

Management's Response

Management concurs with this finding and recommendation. The AMS Project Management Office will coordinate all required contingency plan test activities and ensure testing is completed in accordance with federal and departmental guidelines. The contingency plan test will include one (1) functional test and two (2) tabletop tests over a three-year period in accordance with policy. The first contingency plan testing will be completed in 2016. Reference POA&M # 21120.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

Prior Year Financial Comments and Recommendations Still Present in FY 2015

11. Improvements Needed in the Review of the Federal Employees' Compensation Act (FECA) Actuarial Liability

In assessing the status of prior year findings, we determined that the Office of Workers' Compensation Programs (OWCP) had not developed and implemented formal policies for periodically assessing the economic assumptions used in the actuarial liability model or assessing the completeness of the FECA actuarial liability's underlying data.

During our FY 2015 testwork, we noted deficiencies in the controls to validate the mathematical accuracy of the assumptions used in the actuarial liability model. Specifically, the calculation of the special cases totaling \$1.8 million of benefits initially used an incorrect average paid loss ratio, which resulted in an error of \$301,023. In addition, an erroneous discount rate was initially used to discount the actuarial liability as a result of the use of an inconsistent average duration of the expected cash flows compared to the one calculated based on the actuarial model. This error resulted in a difference of \$6.3 million in actuarial liability. Both errors were subsequently corrected by management.

Because OWCP dedicated significant time and resources to implement the procedures to assess the appropriateness of the assumptions, OWCP did not have adequate time to design and implement formal policies that require a periodic review of the assumptions and to validate the completeness and accuracy of the underlying data. In addition, mathematical errors were made when calculating the assumptions because of the change in the derivation methodology of the assumptions. This situation required the model to be updated several times, which did not allow time for sufficient review.

As a result, an increased risk exists that a material misstatement could occur in the actuarial liability and related expense reported on the FECA Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense.

The GAO Standards 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.

The GAO Standards also 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.

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

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:

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

Prior Year Recommendations

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

Current Year Recommendations

We have modified the open prior year recommendations to address the current year condition and cause. Specifically, we recommend that the Director of Workers' Compensation Programs:

15. Design and implement formal policies that require management to periodically assess the FECA actuarial liability assumptions to determine whether or not they continue to be appropriate based on the current circumstances and to document how the assessment should be performed, including the appropriate level of precision.
16. Design and implement formal policies to review the completeness of the data underlying the FECA actuarial liability.
17. Design and implement formal policies and procedures to validate the mathematical accuracy of the assumptions used to estimate the FECA actuarial liability.

Management's Response

While Management agrees with recommendations and plans to further document review policies and procedures, we disagree with the potential of the “material misstatement” noted in the effect.

Both conditions identified above were related to special cases manually added to the model after the formal review process. We will adjust the scope of the review process; however, the risk of material impact was always limited to no more than .02 percent given the immateriality of this specific population. Management plans for this task to be completed by September 30, 2016.

Auditors' Response

Although management disagreed with the effect, they concurred with the comment and indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

12. Untimely FPO Desk Review

During our audit procedures over grants for FY 2015, we performed test work to determine if remediation efforts were completed to address prior year recommendations. We noted that ETA had researched options to design a technology fix in the Grants Electronic Management System (GEMS) to ensure that multiple desk reviews for the same period are associated with the correct period and submission dates correspond with the appropriate quarterly review timeframe. However, as of the completion of our June 30, 2015 testing, additional monitoring procedures to verify that desk review submission dates corresponded with the appropriate quarterly review timeframes had not been established, and recommendations from the previous year had not been fully addressed.

Additionally, we selected a sample of 45 grants from the population of grant expenses recorded in the NCFMS as of June 30, 2015, to determine if FPO desk reviews were properly performed and documented in GEMS. For 3 of the 45 grants selected, we noted that the desk review was not completed timely for the quarter selected.

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

secondary FPO when an emergency occurred with the primary FPO responsible for completing a desk review; as such, desk reviews were submitted untimely.

Failure to monitor FPO desk reviews increases the risk that proper monitoring is not occurring, which increases the risk of undetected grantee reporting errors and/or violations. In addition, failure to implement proper monitoring controls to ensure compliance with existing policies and procedures increases the risk that policy deviations are not detected and corrected. Without adequate 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.

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

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

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

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

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

The GAO Standards states:

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.

The GAO Standards also states:

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. Information is needed throughout the agency to achieve all of its objectives.

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.

Prior Year Recommendation

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

- We recommend that the Assistant Secretary for Employment and Training correct the configuration of GEMS to ensure that multiple desk reviews for the same period are associated with the correct period, and in the interim, implement additional monitoring procedures to verify that desk review submission dates correspond with the appropriate quarterly review timeframe.

Current Year Recommendation

18. We recommend that the Assistant Secretary for Employment and Training develop and implement written policies and procedures to provide specific guidance on the timely reassignment of FPOs.

Management's Response

For the prior year recommendation, ETA concurs and will research options to design a technology fix in GEMS, if funds are available and it is technically feasible. Should one not be possible, ETA will seek to address this requirement in any future specifications for out grant management system. Additionally, ETA notes that the performance standards states that 90 percent of quarterly desk reviews will be completed timely and the Operating Plan data from the last four years shows that the regions have exceeded this measure by completing nearly 97 percent of their desk reviews within the required timeframe of 30 days.

Regarding recommendation 18: While we concur that these three reviews of the 45 grant desk reviews sampled were in fact not completed timely; ETA believes our policies and procedures are current, valid and working, as we continue to complete 95-100 percent of the 2300 quarterly desk reviews timely. Three out of 45 results in a 6.6 percent error rate

of 93.4 percent timely rating. We are still achieving our 90 percent timely completion target, based on this sample.

Reassigning FPOs and ensuring there are back-up FPOs is a management decision based on resources and workload and managing workload and people is the role and responsibility of the Senior Executive(s), manager(s) and/or supervisor(s), in both the national and regional offices. Language reflecting these types of duties and responsibilities is already embedded in the position descriptions and standards of these positions and therefore this level of specificity is not needed. These were isolated incidents, not systemic in nature, and the isolated incident has been addressed.

ETA managers typically address these instances in the performance management process whether in person or in writing, but ETA managers also plan to ensure there are back-up FPOs due to unexpected circumstances and/or employee separations.

Auditors' Response

While management disagreed with one recommendation, management indicated that actions will be taken to address the matters identified in this comment. We will conduct follow-up procedures in FY 2016 to determine whether corrective actions have been developed and implemented.

13. Untimely Filing and Inadequate Documentation of On-Site Monitoring Review Reports

As noted above, during our audit procedures over grants for FY 2015, we performed testwork to determine if remediation efforts were completed to address prior year recommendations. We noted that ETA was still in the process of updating written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring and the completeness of documentation included in GEMS related to review reports. ETA indicated in its corrective action plan that management had previously developed monitoring controls to ensure the timely reporting of on-site monitoring review reports as issued in Employment and Training Order No. 1-14 (ETO 1-14). However, per review of ETA's training order, we noted no explicit or implicit monitoring controls in place or documentation regarding how they were implemented. Therefore, as of the completion of our March 31, 2015 testing, our prior year recommendations had not been fully addressed.

During our FY 2015 internal control testing over on-site visit monitoring, we obtained a population of on-site visit monitoring plans from ETA's six regions on May 1, 2015. We selected a sample of eight on-site monitoring dates noted as completed as of March 31, 2015, from the plans provided by each of the six regions and requested the related on-

site visit monitoring reports. Of the eight on-site visits tested, we identified two reports with discrepancies. Specifically, we noted the following:

- For both reports, we noted that the on-site monitoring review report was not uploaded in GEMS until after we notified ETA they were missing during the completion of our testwork; the reports were uploaded 56 and 69 days after issuance of the reports.
- For one report, we noted 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 report was issued 7 days past the due date.
- For one report, we noted that the grant number was not included within the original population of on-site visit monitoring plans.

ETA had not completed the development and implementation of policies and procedures to address the recommendations we made in FY 2014 because ETA believes that its Regional Administrative standards incorporated into the *[Senior Executive Service] SES Performance Management System Executive Performance Agreement [October 1 – September 30]* are sufficient monitoring procedures. Because of the lack of sufficient monitoring procedures, we noted similar exceptions in the current fiscal year to those noted in the prior year.

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 violation. In addition, failure to implement proper monitoring controls to ensure compliance with existing policies and procedures increases the risk that policy deviations are not detected and corrected. Specifically, failing to ensure on-site monitoring review reports are completed timely increases the risk that issues identified with grantees are not resolved timely.

If proper documentation is not retained and readily accessible in GEMS, possible findings may not be 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 GAO 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 GAO Standards also states:

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. Information is needed throughout the agency to achieve all of its objectives.

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

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

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

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

Prior Year Recommendations

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

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

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

Management's Response

In May 2015, the Regional Administrators Standards were updated to reflect the development and maintenance of their regional monitoring plan. The 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. **Prior to submission to Office of Financial Administration (OFA) and KPMG, the Regional Office will review the plan and ensure that the monitoring plans are accurate and up to date, at that point in time.** The final monitoring plan is reported annually to Office of Regional Management (ORM) along with final travel expenditures, the number of monitoring reports issued, the number of grants monitored, and the number of findings issued from each report. **The third bulleted finding is** not a finding, since it is not a policy or procedural requirement. The monitoring plan may be populated with additional data for tracking operating plan metrics, including the grant numbers once the monitoring report is completed. Additional grants may be monitored while on-site than were planned and thus the plan is updated after the review takes place and the report is issued. In addition, the policies and procedures related to monitoring have been updated and are in place.

ETA's Office of Financial Administration's (OFA) Internal Control Unit developed a monitoring control as part of their internal controls (A-123) audit and implemented it at the start of fiscal year 2014. In the spirit of continuous improvement, ORM and OFA's Internal Control Unit will work together in the coming year to improve the monitoring control process to ensure adherence to written guidelines.

Auditors' Response

Although management did not agree with part of the comment, management indicated that actions will be taken to address the matters identified in it. We will conduct follow-up procedures in FY 2016 to determine whether corrective actions have been developed and implemented.

14. Untimely Grant Closeouts

During our audit procedures over grants for 2015, we performed procedures to determine if remediation efforts were completed to address prior year recommendations. We inquired of the Veterans' Employment and Training Service (VETS) management about the controls in place to ensure backlogged grants and recently expired grants were appropriately closed in accordance with Department of Labor Manual Series (DLMS) policies and procedures. VETS management indicated that progress had been made in closing backlogged grants, but certain backlogged grants remained open.

In addition, during March 2015, we selected a sample of 30 grants that expired between October 1, 2013, and March 31, 2014, of which 15 were identified as being closed between October 1, 2014, and March 31, 2015; and the additional 15 remained open as of March 31, 2015. Of the 15 grants selected that were closed between October 1, 2014, and March 31, 2015, we noted that for 1 grant, supporting documentation was not provided to evidence that a Grant Officer with a valid warrant and an ETA accountant appropriately authorized the grant's closure.

Of the 15 grants selected that remained open as of March 31, 2015, we noted the following 13 exceptions:

- For 7 of 15 grants, documentation was not provided to support that the grant closeout process had been initiated.
- For 6 of 15 grants, documentation was not provided to evidence that recent communication internally or with the grantee was ongoing to indicate it was reasonable for these grants to remain open. Based on supporting documentation provided, the most recent communication ranged from 3 to 15 months prior to March 31, 2015.

Accounting records were not maintained appropriately to indicate that proper authorization of the grant closeout had occurred. Also, because of resource constraints over a period of several years, VETS developed a backlog of expired grants to be closed. While additional resources were added in prior years to assist with addressing the backlog of expired grants, VETS had not implemented current DLMS policies and procedures to ensure backlogged and recently expired grants were closed timely because it needed to

allocate resources to implement DOL's new procurement system, which prevented VETS from allocating sufficient resources to address the backlog of expired grants.

In addition, ETA did not adhere to written policies and procedures documented in the *ETA Closeout Handbook* to ensure the grant closeout process was timely initiated and completed within DLMS-prescribed timeframes. Furthermore, for ETA and the Bureau of International Labor Affairs (ILAB), written policies and procedures had not been developed and implemented requiring periodic follow-up procedures during the grant closeout process when the grants closeout deadline has elapsed to ensure grants that have not been closed after 356 days of expiration are appropriately monitored. Without adequate processes and controls to timely closeout expired grants and deobligate any remaining funds, undelivered orders may be overstated.

The GAO 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.

The GAO Standards also states:

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

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.

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

E. The contracting or grant officer is responsible for closing the contract out, or seeing to it that the contract, grant, or agreement is closed out by

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

- F. The official responsible for closeout, whether the contracting or grant officer as specified in (e) above, or the closeout unit, as specified in (d) above, is responsible for:
1. Overseeing the timely closeout of the contract, grant, or agreement;
 2. Coordinating activities at closeout...; and
 3. Scheduling and monitoring closeout activities to avoid or eliminate backlogs and to complete the closeout process within time frames established in paragraph 877, below.

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

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

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

Prior Year Recommendation

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

- We recommend that the Principal Deputy Chief Financial Officer coordinate with VETS to implement the DLMS policies and procedures designed to close backlogged and recently expired grants in a timely manner.

Current Year Recommendations

We recommend that:

19. The Assistant Secretary for Veterans' Employment and Training Service adhere to DOL retention policies to ensure adequate supporting documentation is maintained to support daily grant activities.
20. The Assistant Secretary for Employment and Training periodically remind responsible parties about the policies and procedures regarding the timely closeout of grants that have expired.
21. The Assistant Secretary for Employment and Training and the Deputy Undersecretary for International Labor Affairs develop and implement policies and procedures to monitor the closeout process for grants that have expired and have not been closed within 365 days of expiration.

Management's Response

VETS has transitioned its grant administration to ETA's Office of Grants Management. As of February 8, 2016, 164 grants have been closed, with 475 remaining. There are currently 77 in various stages of the closeout process. Of those, an individual grant may be in one or multiple stages of the closeout process.

ETA concurs with the recommendation and will make every effort to close as many grants as possible that are overdue before the end of the fiscal year.

ILAB also concurs with the recommendation. ILAB has internal controls in place to close out its grants in a timely manner and works with its grantees to periodically check on the status of outstanding closeout deliverables. ILAB will amend its current procedures to include guidance to address monitoring of grants that have not been closed within one year of the end date of the award.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

15. Ineffective Controls over Single Audit Report and Desk Review Tracking

During FY 2015 testwork over DOL's compliance with the *Single Audit Act Amendments of 1996*, we noted that ETA did not have a formal process established to follow-up with

the OIG to ensure that all grantees who were required to have a Single Audit were properly and timely tracked. From a population of all ETA grantees having expenditures greater than \$500,000 as of September 30, 2014, which is used in ETA's annual review of grantees' compliance in filing related Single Audit reports and tracking audit resolution for those grantees' with findings, we selected 25 grantees and determined that 19 of them were not included on the OIG Single Audit Tracking spreadsheet. In addition, from the OIG's tracking spreadsheet as of August 4, 2015, we randomly selected 25 ETA grantees with expenditures greater than \$500,000 as of June 30, 2014, and could not locate 13 of the 25 grantees in ETA's population.

In a sample of 58 grantees who were identified during ETA's review as having filed a Single Audit report relating to FY 2014 expenditures, we identified the following:

- For 21 grantees, the OIG had not performed a desk review.
- For 19 grantees, the OIG had performed a desk review, but did not accurately track the desk review or final determination information. For 4 of these grantees, the OIG noted findings but did not issue a memorandum of findings report to ETA.
- For 2 grantees, a final determination was not received from ETA within 180 days of the OIG's completion of the memorandum of findings report, ranging from 231 to 358 days outstanding.

Although ETA conducted reviews to determine whether grantees who were subject to the Single Audit Act requirements had submitted Single Audit reports, ETA and OIG did not sufficiently communicate with each other to compare Single Audit tracking data to verify that all grantee audit findings had been tracked and communicated to ETA timely for resolution.

Furthermore, the OIG's supervisory review procedures in place were not sufficient to ensure desk reviews were performed for all Single Audit reports in a timely manner or to ensure Single Audit findings requiring follow-up actions were properly identified, communicated, and tracked.

Not performing desk reviews over Single Audit reports may result in applicable audit findings and questioned costs not being identified and communicated to and resolved by the applicable agencies. Additionally, not maintaining reliable data within the OIG's Single Audit Tracking spreadsheet can limit management's ability to generate accurate and timely information for decision-making purposes. Finally, not resolving identified findings in a timely manner can result in DOL funds not being used as intended.

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

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

OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D, Section 400(c), requires federal awarding agency to perform the following for the Federal awards it makes:

- Ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of this part.
- Issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action.

The GAO Standards states:

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

The GAO Standards also 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.

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

5. Maintaining the official DOL system for tracking OIG audits from issuance through resolution and implementation of corrective action, including debt collection.

15. In cooperation with cognizant audit agency, conducting quality control review of single audits of DOL recipients to assess the extent and quality of audit coverage of DOL funds.

Prior Year Recommendations

The following prior year recommendations remain open:

- We recommend that the Principal Deputy Chief Financial Officer coordinate with the OIG's Assistant Inspector General for Audit to enhance the supervisory review process to ensure all applicable reports from the Federal Audit Clearinghouse (FAC) are identified, reviewed, accurately tracked, and reported to the applicable agency.
- We recommend that the Assistant Secretary for Employment and Training develop and implement monitoring policies and procedures to ensure submission of final determination reports to the OIG within the required timeframe.

Current Year Recommendation

22. We recommend that the Assistant Secretary for Employment and Training and the Assistant Inspector General for Audit periodically compare Single Audit report tracking data to verify that all grantee audit findings are being tracked and communicated timely upon receipt of the Single Audit reports.

Management's Response

The OIG will update its policies to implement stricter standards and increase supervisory oversight to ensure all applicable reports from the FAC are identified, reviewed, accurately tracked, and reported to the applicable agency, and resolved. OIG will work with ETA to ensure that all single audit reports submitted to the FAC are properly tracked and completed for all grantees. Also, OIG will work with ETA to ensure that final determinations are accurately tracked for all grantees for which the OIG had performed a desk review. On each single audit report obtained from the FAC that had findings, recommendations, and questioned cost, OIG has performed a desk review.

ETA requests that the OIG provide accounting codes and grant numbers on completed desk reviews. ETA will work with the OIG to ensure that all single audit reports identified during its annual review of the Single Audit Clearinghouse are being monitored and tracked.

ETA disagrees with the condition that for 2 grantees, a final determination was not received within 180 days of the OIG's completion of the memorandum of findings report. For one grantee, the audit was returned to the OIG as it should have been sent to another

agency instead of ETA. However, the OIG Single Audit tracking data was not updated to reflect this. For the other grantee, an audit number for tracking purposes was re-used from one given earlier for a different audit, which had an earlier date. ETA completed the final determination timely when utilizing the newly issued audit.

ETA and the OIG will do a quarterly comparison report to ensure that each has pulled the same reports. ETA will update its policies to implement standards to verify what the OIG is pulling from FAC. ETA will address the tracking of Final Determination on questioned cost.

Auditors' Response

Although management indicated they do not agree with a portion of the comment, management indicated that actions will be taken to address the matters identified in it. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

16. Improvements Needed in Accounting for the Black Lung Disability Trust Fund's (BLDTF) Capitalized Interest

Upon inquiry related to our prior year finding, OWCP management indicated that DOL was involved in ongoing negotiations with the BFS and OMB regarding the accounting for the BLDTF zero coupon bond. Although DOL proposed a revised methodology to BFS in March 2015, the proposal remained in draft form and under internal review by BFS. As a result, OWCP had not implemented any changes to its posting methodology to record the BLDTF capitalized interest.

On October 2, 2015, OWCP made the following entry to record zero coupon bond payment (Part C) for FY 2015:

Budgetary Entry

Debit 462000 Unobligated Funds Exempt From Apportionment
Credit 414600 Actual Repayments of Debt, Current-Year Authority
Credit 490200 Delivered Orders – Obligations, Paid

Proprietary Entry

Debit 251000 Principal Payable to the Bureau of Fiscal Service
Debit 251100 Capitalized Loan Interest Payable – Non-Credit Reform
Credit 101000 Fund Balance with Treasury

We continued to note this posting methodology was not in compliance with an approved USSGL scenario for FY 2015. OWCP management expects final approval of the revised accounting methodology to occur in FY 2016.

The condition above resulted in an overstatement of delivered orders – obligations, paid and an understatement of actual repayments of debt, current year authority in the amount of approximately \$94 million; we included this uncorrected error in the Summary of Audit Misstatements. In addition, DOL was not fully compliant with the USSGL at the transaction level.

Public Law 104-208, Section 803(a), *Implementation of Federal Financial Management Improvements*, states:

Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

Appendix D to OMB Circular No. A-123, *Compliance with the Federal Financial Management Improvement Act of 1996*, Section 7.iii, states:

Financial events shall be recorded applying the requirements of the USSGL guidance in the Treasury Financial Manual (TFM). Application of the USSGL at the transaction level means that each time an approved transaction is recorded in the financial management system, it will generate appropriate general ledger accounts for posting the transaction according to the rules defined in the USSGL guidance.

USSGL, Section III, Account Transactions, transaction code B121, dated June 2015, states:

To record principal repayments at par value to the Bureau of the Fiscal Service and the Federal Financing Bank that were not previously anticipated. For example, this transaction includes repayments of principal, repayments due to modifications of credit reform loans, and repayments of capitalized loan interest from non-credit reform loans.

Budgetary Entry

Debit 462000 Unobligated Funds Exempt from Apportionment
Credit 414600 Actual Repayments of Debt, Current-Year Authority

Proprietary Entry

Debit 251000 Principal Payable to the Bureau of the Fiscal Service
Debit 251100 Capitalized Loan Interest Payable - Non-Credit Reform
Credit 101000 Fund Balance with Treasury

Prior Year Recommendation

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

- We recommend that the Principal Deputy Chief Financial Officer coordinate with OWCP and Treasury to obtain an approved scenario for the recording of BLDTF capitalized interest.

Management's Response

Although OWCP feels that the accounting treatment is in compliance with the way Treasury intended, OWCP agrees that a final approved scenario is required which will illustrate the accounting treatment required for the Black Lung Trust Fund. Per our last correspondence with Treasury, no completion date was provided, but we will continue to stress the importance and work towards a resolution.

Auditors' Response

Although management stated that they do not agree with the comment, management indicated that actions will be taken to address the matters identified in it. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

17. Improvements Needed over 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. We continued to identify certain deficiencies during our testing of a sample of 272 journal entries recorded in NCFMS for the period October 1, 2014, through September 30, 2015, and 13 journal entries tested during the pre-closing period. In summary, we determined that 23 of the 285 journal entries contained one or more deficiencies. Specifically, we noted the following:

- 1 instance where the journal voucher (JV) preparer and the JV approver were the same individual;
- 7 instances where the entry was not recorded in accordance with the USSGL and/or applicable Federal accounting standards;
- 3 instances where the entry did not reflect the underlying events and transactions;
- 15 instances where the JV was not properly and/or timely reviewed by the reviewer; and
- 5 instances where the entry was not recorded in the correct accounting period.

We noted that certain of these errors were caused by insufficient review of journal entries by authorized DOL supervisors to ensure the journal entries were properly prepared and supported before posting them to the general ledger, and other errors were caused by cost/benefit decisions made to not perform related research and analysis. In addition, we noted that for the one journal entry in which the preparer and reviewer were the same individual for certain lines within the journal entry, management was unable to ascertain a cause for this situation. 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. In addition, DOL was not in full compliance with the USSGL.

The GAO Standards 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.

Prior Year Recommendation

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

- We recommend that the Principal Deputy Chief Financial Officer continue to monitor journal entries and provide training to applicable supervisors to ensure they are performing sufficient reviews of journal entries and related documentation before the entries are posted.

Current Year Recommendation

23. We recommend that the Principal Deputy Chief Financial Officer research and resolve system issues which allowed the journal entry preparer and reviewer to be the same individual.

Management's Response

Corrective action will be taken and completed in FY 2016.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

18. Improvements Needed in Certain Financial Reporting Matters

During our testwork over the financial reporting process for the FY 2015 financial statement audit, we determined that:

- The OCFO continued to be unable to provide sufficient supporting documentation for certain program data reported in the Program Performance Overview section of the Management’s Discussion and Analysis (MD&A).
- The OCFO did not accurately determine the amount of the future workers’ compensation benefits liability not covered by budgetary resources, as presented in Note 12, *Liabilities not Covered by Budgetary Resources*, to the FY 2015 financial statements.

The OCFO did not provide sufficient supporting documentation for certain MD&A items because it had difficulty obtaining detailed information from the applicable agencies. The future workers’ compensation benefits amount in Note 12 was misstated because DOL had performed an analysis that did not take into account the difference between the non-billable portion of the liability, which is funded by available budgetary resources, and the portion that is attributable to DOL employees and Job Corps enrollees, which requires future appropriation.

The lack of sufficient supporting documentation for the information presented in the MD&A may lead to inaccurate performance reporting and inconsistencies in the presentation of the MD&A in relation to the financial statements as a whole. In addition, the future workers’ compensation benefits amount in Note 12 was understated by \$67 million; this uncorrected misstatement was included in the FY 2015 Summary of Audit Misstatements.

The GAO 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.

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

Documentation should be appropriately detailed and organized and contain sufficient information to support management’s assertion. Documentation should also include appropriate representations from officials and personnel responsible for monitoring, improving and assessing internal controls.

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

Liabilities Covered by Budgetary Resources. Liabilities incurred which are covered by realized budgetary resources as of the Balance Sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, (3) spending authority from offsetting collections (credited to an appropriation or fund account), and (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are considered covered by budgetary resources if they are to be funded by permanent indefinite appropriations, which have been enacted and signed into law and are available for use as of the Balance Sheet date, provided that the resources may be apportioned by OMB without further action by the Congress and without a contingency having to be met first.

Liabilities Not Covered by Budgetary Resources. This category is for liabilities, which are not considered to be covered by budgetary resources, as provided in the previous paragraph.

Prior Year Recommendation

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

- We recommend that the Principal Deputy Chief Financial Officer communicate to the agencies upfront the need to provide detailed supporting documentation for the Program Performance Overview section of the MD&A and coordinate to obtain proper documentation.

Current Year Recommendation

24. We recommend that the Principal Deputy Chief Financial Officer amend the analysis related to Note 12, *Liabilities not Covered by Budgetary Resources*, to properly consider the different funding sources used to pay DOL's liability for future workers' compensation benefits.

Management's Response

DOL will communicate with the agencies the need to provide detailed supporting documentation for the Program Overview Section of the MD&A. However, DOL recommends this request be added to the initial PBC list with an estimated due date in order for DOL to coordinate and obtain proper documentation.

DOL will amend its analysis related to Note 12, *Liabilities Not Covered by Budgetary Resources*, to record DOL's liability for future workers' compensation benefits. DOL plans to amend its analysis by June 30, 2016.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

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

Per inquiry of the Office of the Assistant Secretary for Administration and Management (OASAM) Security Center regarding our prior year background investigations finding, we noted that the Division of Personnel Security (DPS) had distributed preliminary guidance related to the background investigations timeliness requirement to the Human Resources Offices (HRO) in April 2015. However, the updated policies and procedures in the *DOL Personnel Security and Suitability Handbook (PSSH)* were not communicated at this time because they had not been finalized. In addition, as of October 1, 2015, DPS was in the process of developing a WebEx training session for HROs and Contracting Officer Representatives (COR) to ensure full understanding of their roles and responsibilities in accordance with the updated PSSH. The DPS anticipates this training will be completed by the end of the first quarter of FY 2016.

The updated PSSH was not finalized and issued until July 2015 because of the lack of appropriate resources and the time required to develop and implement department-wide policies and procedures and to receive departmental clearances; certain prior year recommendations could not be addressed until the PSSH was finalized.

Without sufficient policies and procedures to enforce and to monitor the timeliness of the initiation of background investigations for DOL employees and contractors for the entire fiscal year, DOL may not have been in compliance with Code of Federal Regulations, Title 5 (5 CFR), Chapter I, Subchapter B, Part 731.106. Furthermore, DOL may have placed individuals in positions without initiating a timely background investigation, putting DOL's information and financial systems at risk.

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

- (1) Persons receiving an appointment made subject to investigation under this part must undergo a background investigation. Office of Personnel

Management (OPM) is authorized to establish minimum investigative requirements correlating to risk levels. Investigations should be initiated before appointment but no later than 14 calendar days after placement in the positions.

The DOL PSSH, Chapter 2, Section 1, Part D, dated September 2004 (which was in place until replaced by the July 2015 version), states, “DOL requires an investigation to be initiated before an individual first enters on duty with the Department, or at the most, within 14 calendar days of placement (5 CFR 731.106) in the positions[...].”

Additionally, DOL PSSH, Chapter 4, Section 2, states:

The personnel suitability and security program requirements that apply to DOL employees also apply to contractor employees, as well as to other persons who have such access by virtue of an agreement between a DOL Agency and another party.

Furthermore, DOL PSSH, Chapter 4, Section 3, Part C, states:

The DOL Agency Heads, or their designees, are responsible for the operation of the Personnel Suitability and Security Program as it relates to contractor employees engaged in work for their respective organizations, including the following:

- Ensure that a contractor employee is not allowed to work, unless he or she has completed all required documentation to initiate the investigation.
- Ensure that the appropriate level of investigation for each contractor applicant or employee is initiated before or shortly after he or she begins work.

Prior Year Recommendations

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

We recommend that the Principal Deputy Chief Financial Officer coordinate with OASAM to:

- Communicate new policies and procedures, including timeliness requirements, to each Human Resource Officer responsible for initiating and tracking background investigations within his/her agency.

- Train Human Resource Officers and CORs to ensure a full understanding of their roles and responsibilities in accordance with the updated PSSH.

Management's Response

Management partially agrees with this finding and recommendations. We agree with the determination that the first and second recommendations from NFR 14-10 have been addressed by the OASAM Security Center. However, management asserts the third recommendation was addressed with the August 28, 2015 email to all HROs from the OASAM Security Center, which outlined the policy, procedure, and timeliness requirements.

During the 1st quarter of FY 2016 conference calls were conducted with HROs and CORs to explain the 14-day OPM requirement to comply with 5 CFR 731 and the new INAR (Initial Network Access Request) process. Prior to each teleconference detailed, step-by-step instructions were emailed to all participants. In addition, DPS partnered with OPM to conduct WebEx training on the roles, responsibilities, and use of CVS (Central Verification System) and USAccess. These systems support reciprocity of investigations and adjudications, as well as HSPD-12 initiatives. Most recently, on February 9, 2016, DPS conducted another training session via teleconference with HROs and their staff on roles and responsibilities with CVS, USAccess, and eQIP.

Auditors' Response

Although management partially disagreed with the finding and recommendation, management indicated that actions were taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions were developed and implemented.

20. Untimely Resolution of Differences Identified in the Reconciliation of FBWT

During March 2015, we conducted walkthroughs with the preparers and reviewers of the FBWT reconciliations from the Occupational Safety and Health Administration (OSHA) and ETA. We noted these individuals were responsible for a total of 107 Treasury Appropriation Fund Symbols (TAFS), of which we selected 15 TAFS for our testwork. During our walkthroughs with OSHA and ETA, we identified 136 differences in the January 2015 FBWT reconciliations that had not been resolved within three months.

In addition, during our walkthrough with ETA, we identified 111 differences in the January 2015 FBWT reconciliations which did not have an explanation describing the nature of the difference, the action plan for solving the difference, and expected date of resolution within three months. Specifically, TAFS 16-14-0172, 16-15-0172, 16-10-0174, 16-10/11-0174, and 16-15-0179 included these differences.

Many of the differences in excess of three months were attributable to the conversion to CARS. OSHA and ETA were early converters to CARS, as they converted on September 1, 2014 (i.e., prior to FY 2015), while the required date for conversion was October 1, 2014. As a result of the CARS conversion, agencies had to create and implement new procedures to record and to resolve FBWT differences. Several differences were created by transactions recorded by the regional offices within DOL, which required additional time and coordinated efforts to resolve. In addition, ETA has approximately 99 TAFS for which the preparer and reviewer are responsible. Because of the large number of TAFS, ETA decided to only provide a corrective action plan for the differences expected to take longer than three months to resolve, as many differences are caused by the timing of the reporting of transactions. Because of the implementation of CARS and the difficulties in coordinating with various agencies, OCFO did not adequately monitor the timely resolution of the differences. Differences that are not properly researched and timely resolved could compromise the reliability of FBWT balances, other USSGL account balances contra to the USSGL 101000 account, and the Treasury's published financial reports. This, in turn, could compromise the overall integrity and status of DOL's financial position.

TFM, March 2012, Volume 1, Part 2, Chapter 5100, states:

Monthly, they [agencies] must reconcile the USSGL account 1010 balances for each fund symbol with FMS's records ... Agencies should document their reconciliations and make them available to auditors and Treasury if requested. Agencies also should ensure that all adjustments are researched and traceable to supporting documents.

Further, the *TFM* states:

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

The GAO Standards states:

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

The GAO Standards also states:

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

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

Federal agencies must...resolve all differences between the balances reported on their G/L FBWT accounts and balances reported on the GWA Account Statement [now the Central Accounting Reporting System (CARS)]...The Cash Analysis Branch (CAB) sends agencies' CFOs a scorecard letter that provides a certain rating (scoring) on the accuracy and timeliness of an agency's reconciling efforts should an agency have differences older than 3 months.

The DOL *DCAO Fund Balance with Treasury Procedures, Version 4, March 19, 2014*, states that "Items identified on the reconciliation will have to be cleared within 3 months of being placed on the reconciliation as an issue."

Prior Year Recommendation

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

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

Management's Response

Management does not agree with the current Condition Cause, Effect, and Recommendation.

In FY 2016, DCAO continues to monitor the monthly reconciliations to ensure current corrective action plans are included. We will also continue to monitor the DOL agencies' efforts to properly resolve prior year differences in accordance with DCAO's established timeline. We are providing continuous support and assistance to the agencies for reconciling and clearing differences as well.

Auditors' Response

Although management did not agree with the comment, management indicated that actions will be taken to address the matters identified in it. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

21. Insufficient Management Review over Undelivered Orders (UDOs) and Abnormal Accounts Payable

During May 2015, we inspected the *Obligation Certification* and *Obligation Analysis Process* issued by the OCFO on LaborNet during May 2014. These documents detail DOL agencies' responsibilities regarding the review process over obligations, including UDOs and abnormal accounts payable balances. These procedures and responsibilities include:

- *Obligation Analysis* – OCFO distributes a list of obligations from NCFMS to each regional and program office on a monthly basis. The offices are instructed to investigate the balances at their discretion. OCFO performs a quarterly analysis over a sample of obligations to determine whether they are properly validated and supported.
- *Obligation Certification* – At three times during the year, the regional and program offices are required to review and certify whether obligations are valid or invalid.
- *Budget Execution Review* – Agencies review and submit SF-133s on a monthly basis.

However, the OCFO is currently working on a DOL-wide policy to formalize the obligation review process for all agencies at the department level. The OCFO expects to issue the new policy in FY 2016, and it will supplement the existing policy detailed in DLMS 6, Chapter 400, *Administrative Control of Funds*, dated March 24, 2008, which provides for the agencies' responsibility of ensuring that current obligations are valid.

Because the OCFO has developed procedures for DOL agencies over the UDO and abnormal accounts payable review process but has not completed the development of the related formal policy, we consider the first prior year recommendation to be partially addressed.

Furthermore, we determined through review of the OCFO's March 31, 2015, corrective action plan and inquiries with OCFO management that the corrective actions to address the remaining prior year recommendations were ongoing.

The DOL-wide policy will not be finalized until FY 2016 based on the expected timing of obtaining departmental clearance for new policies. Furthermore, agencies were not required to submit corrective actions related to their obligation analyses, which limited the effectiveness of OCFO's review over obligations.

The absence of formally documented policies and procedures increases the risk that the control will not be sufficiently performed. Insufficiently monitoring, reviewing, and addressing UDOs that are inactive or accounts payables that have abnormal balances increases the risk that the underlying issues will not be timely addressed. Unresolved UDOs and accounts payable with abnormal balances could accumulate and lead to misstatements in the financial statements.

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

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

The GAO 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.

Prior Year Recommendations

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

Current Year Recommendations

We have modified the open prior year recommendations to address the current year condition and cause. Specifically, we recommend that the Principal Deputy Chief Financial Officer:

25. Complete the development and implementation of a DOL-wide policy to formalize the obligation review process for all agencies at the Department level.

26. Enhance the *Obligation Certification* procedures to require agencies to submit corrective action plans related to their obligation analyses on a recurring basis.

27. Monitor whether agencies are reviewing their obligations and tracking related corrective actions on a timely basis.

Management's Response

OCFO concurs with the recommendations provided within the finding issued. DOL expects to implement these recommendations within FY 2016.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

22. Improvements Needed in the Cost Allocation Policies and Procedures

During our FY 2015 audit procedures over cost allocations, we noted that the OCFO did not update the definitions of each crosscutting program in its *Memo: Instructional Letter to Agencies for Cost Allocation of Crosscutting Programs*. The OCFO did not allocate resources to update its policies and procedures related to the definitions of crosscutting programs during FY 2015. As such, the inaccurate definitions distributed to various agencies within DOL may lead to the allocation of costs to incorrect crosscutting program lines in the Statement of Net Cost.

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

The term “major program” may describe an agency’s mission, strategic goals, functions, activities, services, projects, processes, or other meaningful grouping. In order to be meaningful, the grouping must be an organized set of activities, directed toward a common purpose or goal, which an entity undertakes, or proposes to undertake, to carry out its responsibilities. Program structure definition is at the entity’s discretion.

The GAO Standards states:

...management is responsible for developing the detailed policies, procedures, and practices to fit their agency’s operations and to ensure that they are built into and an integral part of operations.

Prior Year Recommendation

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

- We recommend that the Principal Deputy Chief Financial Officer update policies and procedures to include appropriate definitions of each crosscutting program and to ensure that the definitions match those included in the *Agency Financial Report*.

Management's Response

Management does not concur with the finding and recommendation. The "Memo: Instructional Letter to Agencies for Cost Allocation of Crosscutting Programs" was not updated, but this had no impact to the financial statements since it was not distributed to the agencies in FY 2015. As previously expressed, the memo is only distributed to the agencies every three years. In FY 2016, OCFO will ensure that the definitions are aligned when distributing the memo to agencies.

Auditors' Response

Although management stated that they did not concur with the finding and recommendation, management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

23. Insufficient Supporting Documentation for Contracts

During FY 2015 test work over Federal Acquisition Regulation (FAR) compliance, we selected a sample of 47 contracts from NCFMS for the period October 1, 2014, through June 30, 2015. We identified one ETA contract with insufficient documentation to determine whether the agency solicited offers from multiple contract sources or the contract was justified as a sole source action.

ETA personnel had not maintained adequate documentation to support that the contract complied with FAR solicitation requirements. In addition, the ETA contracting officer lacked sufficient oversight to ensure contracts were in compliance with the FAR. As such, DOL was not in full compliance with FAR Subparts 6.1 and 13.

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

FAR, 6.101 – Policy

- (a) 10 [United States Code] U.S.C. § 2304, and 41 U.S.C. § 3301, require, with certain limited exceptions (see Subpart 6.2 and 6.3), that contracting officers shall promote and provide for full and open competition in soliciting offers and awarding Government contracts. (b) Contracting officers shall provide for full and open competition through use of the competitive procedure(s) contained in this subpart that are best suited to the circumstances of the contract action and consistent with the need to fulfill the Government's requirements efficiently (10 U.S.C. § 2304, and 41 U.S.C. § 3301).

FAR, Subpart 13 – Simplified Acquisition Procedures, states:

FAR, 13.106-3 – Award and documentation

(b) File documentation and retention. Keep documentation to a minimum. Purchasing offices shall retain data supporting purchases (paper or electronic) to the minimum extent and duration necessary for management review purposes (see subpart 4.8). The following illustrate the extent to which quotation or offer information should be recorded:

(1) Oral solicitations. The contracting office should establish and maintain records of oral price quotations in order to reflect clearly the propriety of placing the order at the price paid with the supplier concerned. In most cases, this will consist merely of showing the names of the suppliers contacted and the prices and other terms and conditions quoted by each.

(2) Written solicitations (see 2.101). For acquisitions not exceeding the simplified acquisition threshold, limit written records of solicitation or offers to notes or abstracts to show prices, delivery, references to printed price lists used, the supplier or suppliers contacted, and other pertinent data.

(3) Special Situations. Include additional statements-

- (i) Explaining the absence of competition (see 13.106-1 for brand name purchases) if only one source is solicited and the acquisition does not exceed the simplified acquisition

threshold (does not apply to an acquisition of utility services available from only one source); or

- (ii) Supporting the award decision if other than price-related factors were considered in selecting the supplier.

The GAO Standards 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.

Prior Year Recommendations

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

We recommend that the Assistant Secretary for Employment and Training:

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

Management's Response

To ensure FAR requirements are met, ETA's OCM updated its Contract Review Board policy to require Contracting Officers (CO) and Contract Specialist (CS) to provide a copy of the procurement file at each phase of the acquisition prior to review and approval. Further, contract file audits are routinely conducted in accordance with our procurement file checklists to ensure FAR 4.8 requirements are met. Finally, OCM added the following language to the 2016 performance standards for its managers, supervisors and contracting staff:

Performance Standard Performance is acceptable when,

- Manage the staff and resources to ensure that contract file documentation is present in hardcopy files and in electronic records to ensure that the Division can satisfy all FAR 4.8 documentation requests as well as compliance with Office Policy, Standard Operating Procedures and Departmental policy.

- Ensure that documentation is readily available for audits and inspections by the Office, Agency, Department or Governmentwide organization within one full business day of any such request.
- Provides timely and accurate reports for reasonable requests for information concerning contracts pertaining to the Division of Job Corps Procurement. The basis for categorizing a request as “unreasonable” can be documented.

Auditors’ Response

Management indicated that actions have been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions were developed and implemented.

24. Lack of Advisory Council on Unemployment Compensation

DOL was not in compliance with Section 908 of the Social Security Act (SSA), which requires the Advisory Council on Unemployment Compensation (ACUC) to meet every four years. The last meeting of the ACUC was in 1997. ETA has proposed an amendment to the SSA multiple times since 2005, most recently in April 2014, that would permit the Secretary of DOL to convene a Council and define its scope than having a mandatory meeting every four years. Congress has not yet approved this amendment.

According to ETA personnel, ETA understands the value of the ACUC but is challenged to meet the requirement because of the lack of dedicated resources to support the ACUC. ETA revisited the feasibility of convening an ACUC and included a proposal to fund another ACUC in the FY 2017 budget request, which was submitted in September 2015.

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

Not later than February 1, 1992, and every 4th year thereafter, the Secretary of Labor shall establish an advisory council to be known as the Advisory Council on Unemployment Compensation (referred to in this section as the “Council”). It shall be the function of each Council to evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and any other aspects of the program and to make recommendations for improvement.

Prior Year Recommendation

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

- We recommend that the Assistant Secretary for Employment and Training comply with Section 908 of the SSA.

Management's Response

Previous attempts to revise the Social Security Act to make convening the Council at the Secretary's discretion have failed, which was ETA's rationale for seeking funding to actually convene the Council. The other alternative is to convene a Council. Unfortunately, the current statutory provisions for the ACUC require a very formal process for nominating 11 members that then must be paid for their time at the pay rate of level 5 of the Executive Schedule under section 5316 of title 5, USC for each day the member is engaged in ACUC activities (including travel time) and travel expenses. In addition, the Secretary of Labor is to staff the Council and provide office facilities and provide other assistance and any data the Council requires, which can involve the DOL paying for actual studies of different topics. The one ACUC convened in the 1990s was staffed by several full time equivalents and met over the course of several years. The costs for meeting the statutory requirement for an ACUC are significant and ETA currently has no funding source from which to pay for these costs. ETA did take steps this year to obtain funding, but was unsuccessful. Without funding, ETA has no capacity to convene a UCAC.

Auditors' Response

Management indicated corrective actions were attempted, but without funding, they are unable to complete those actions in FY 2016. We will conduct procedures in FY 2016 to assess if conditions have changed.

Prior Year IT Comments and Recommendations Still Present in FY 2015

Although the comments included in this section were initially identified in prior years, no specific prior year recommendations were provided for individual IT findings. As such, all recommendations are included as current year recommendations.

25. Weakness in the Reviews of Plans of Actions and Milestones (POA&M)

During our FY 2015 audit procedures, we determined that the review and monitoring of POA&Ms was not performed timely for nine financially relevant systems used by DOL. Specifically:

- Quarter 1 POA&M report cards were not submitted to the CyberScope Assessment Management (CSAM) system timely by the OCFO, OWCP, OASAM, ETA, or Treasury Enterprise Business Solutions (EBS), ranging from 90 to 119 days after the end of Q1;

- No Quarter 3 or Quarter 4 report cards were submitted to CSAM by OCFO, OWCP, OASAM, ETA, or Treasury EBS as of October 1, 2015; and
- No HR Connect POA&M report cards were submitted to CSAM for the entire FY 2015 as of October 1, 2015.

OCIO management did not provide a cause nor were we able to otherwise determine the cause related to why POA&M report cards were not submitted to CSAM timely. Failure to timely inform agencies of the results of the POA&M review and failure to ensure completeness and accuracy of agencies' POA&Ms and remediation actions unnecessarily places DOL systems at risk that agencies may not be taking steps to remediate identified weaknesses, which could affect the confidentiality, integrity, and availability of information system data.

The DOL CSH, Edition 5.0, Volume 4, dated February 2014, *Security Assessment and Authorization Policies, Procedures, and Standards*, pages 20-21, state:

1. The agency must review and update as appropriate existing POA&M information frequently, but no less than quarterly to ensure POA&M information is current and addresses findings identified from security assessments, security impact analyses, and continuous monitoring activities.

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

The organization:

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

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

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

Current Year Recommendations

We recommend that the Chief Information Officer:

28. Enforce the DOL CSH to review, update, and submit POA&M report cards quarterly;
and
29. Document and maintain POA&M quarterly report cards timely.

Management's Response

Management partially concurs with this finding and recommendation. The OCIO does comply with Departmental policy to perform oversight review of DOL major information system POA&Ms on a bi-annual basis. At the conclusion of these reviews, DOL agencies receive scorecards outlining the results of the reviews, including specific recommendations and corrective actions to strengthen their POA&M management processes. This information was provided to the OIG during the audit. Management recognizes that there are opportunities to strengthen current POA&M oversight reviews to ensure the accuracy and adequacy of Agency documented corrective actions. Among various procedural and tactical enhancements to the process, such as updating the POA&M Scorecard to include additional assessment measures and hosting one-on-meetings with agency ISOs in Q4 FY16 to review their POA&M management process.

There is also a key strategic change that OCIO is in the process of implementing. Specifically OCIO will be increasing the visibility and accountability associated with Agency POA&M reporting. This will be accomplished by the new FY 2016 Priority Cybersecurity Action Dashboard (PCAD). The PCAD includes OCIO's reporting on Agencies' highest priority required security actions. This escalated visibility will encourage significantly increased leadership awareness and action, resulting in dramatic progress in POA&M resolution.

Auditors' Response

Although management partially disagreed with the finding and recommendation, management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

26. ETA Data Center Physical Access Weaknesses

During our FY 2014 procedures, we noted that the removal of individuals identified during the annual review of data center access personnel was not completed timely. During our FY 2015 audit procedures, we inspected POA&M No. 20565, created to address the conditions identified in the prior year, and determined that the POA&M had been closed as of October 20, 2014. However, evidence for the January 2015 data center physical access review was not provided to us. As a result, we were not able to determine if access was removed timely for the one ETA individual identified for removal in December 2014.

ETA management did not provide a cause and we were unable to determine the cause related to why the January 2015 data center physical access review was not provided. Failure to remove data center access for those individuals identified as no longer needing access increases the likelihood of unauthorized access to the ETA data center, which increases the risk that the confidentiality and integrity of DOL financial data and other sensitive information could be compromised.

The ETA Operational Procedure Handbook, *Data Center Security*, Version 3.1, dated February 2013, Section 3.2, states:

1. All changes to the Data Center Access List are provided to the IT Security Specialist, who will immediately disable access when authorized card holders are terminated or transferred.
2. The Director, Technology Operations, the IT Security Manager (ITSM), and specified supervisors review the Data Center Access List monthly. See section 3.9 Auditing for the complete list.
3. The ITSM maintains the Access List in the official files for review by auditors.

The DOL CSH, Volume 11, Edition 5.0, *Physical and Environmental Protection Policies, Procedures and Standards*, dated February 2014, page 4, states:

1. The agency shall develop, approve, and maintain a list of individuals with authorized access to the facility spaces containing information system
2. Issues authorization credentials for facility access
3. Reviews the access list detailing authorized facility access by individuals at least annually; and
4. Removes individuals from the facility access list when access is no longer required.

NIST SP 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, Control PE-02, states:

The organization:

- a. Develops, approves, and maintains a list of individuals with authorized access to the facility where the information system resides;
- b. Issues authorization credentials for facility access;
- c. Reviews the access list detailing authorized facility access by individuals [Assignment: organization-defined frequency]; and
- d. Removes individuals from the facility access list when access is no longer required.

Current Year Recommendation

30. We recommend that the Chief Information Officer coordinate with the Assistant Secretary for Employment and Training to document and maintain evidence of the monthly data center physical access review.

Management's Response

OASAM management concurs that the physical access files were not provided during the audit. However, management can affirm that physical access to the Data Center is logged and the access lists are maintained in electronic form for users who have a PIV card, and in a physical log file for users who do not have a PIV card. Upon request, OASAM will provide the evidence to support that the access logs are maintained.

Auditors' Response

Management has indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

27. Weaknesses in ETA's General Support System Backup Procedures

During FY 2014, we noted that backup schedule configurations for two of seven application servers related to the Unemployment Insurance Database Management System (UIDBMS) and E-Grants were not configured to run backups as required by DOL and ETA policies. Further, for the five application servers that were configured to run backups, certain weekly full backups were not successful and were not reinitiated.

During our FY 2015 audit procedures, we obtained POA&M No. 20587, which was created to address the conditions identified in the prior year. As of March 23, 2015, we noted that POA&M No. 20587 was closed by ensuring that the ETA servers were properly backed up through the operations team. However, we determined that evidence was not provided for the following:

- All 5 E-Grants weekly full backups selected for testing;
- 14 of the 15 E-Grants daily incremental backups selected for testing;
- 2 of the 5 UIDBMS weekly full backups selected for testing; and
- 14 of the 15 UIDBMS daily incremental backups selected for testing.

ETA management did not provide a cause and we were unable to determine the cause related to why backup evidence was not provided. In addition, failure to backup system level information on a periodic basis could compromise system availability and the end user's ability to retrieve financial information stored within the system.

The ETA Operational Procedures Handbook, Version 3.2, dated February 2014, *Backup and Restore Policy*, page 7, Section 2.4, states:

Backup schedules are the same for the National and the Regional offices. Monday through Thursday incremental backups run, though not all jobs run incremental backups every night. On Friday night full backups start and run through the weekend.

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

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

The DOL CSH, Volume 6, Edition 5.0, dated February 2014, *Contingency Planning Policies, Procedures and Standards*, Version 1.0, page 14, states:

1. Secure information system recovery and reconstitution to the system's last known functional state means that:
 - f. Information from the most recent backups is available

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

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

Current Year Recommendations

We recommend that the Chief Information Officer coordinate with the Assistant Secretary of Employment and Training to:

31. Configure weekly full and daily incremental backup schedule configurations in accordance with the DOL CSH;
32. Perform a periodic review of the weekly full and daily incremental backup schedule configurations to ensure they remain in accordance with the DOL CSH;
33. Enforce the DOL CSH to ensure failed backups are monitored and re-initiated; and
34. Document and maintain evidence of the performance of weekly full and daily incremental backups.

Management's Response

Management concurs and by April 15, 2016, OASAM will review and update its backup schedule to ensure all required UIDBMS and E-Grants backups are conducted in accordance with ETA Operational Procedures Handbook, version 3.2, DOL CSH, Volume 6, Edition 5.0, and NIST SP 800-53, Rev 4. Additionally, OASAM will ensure that effective procedures are implemented to ensure that unsuccessful backups are re-initiated.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

28. Employee Computer Network (ECN)/Departmental Computer Network (DCN) Contingency Plan Testing Weakness

During our FY 2015 audit procedures, we noted that OASAM personnel took certain actions to remediate prior year ECN/DCN contingency plan testing deficiencies within POA&M No. 20567. Specifically, OASAM notified ECN/DCN system owners on the process for leveraging the ECN/DCN's backup validation procedures and on the process for requesting specific backup tests for their systems. However, we determined that the POA&M had not been closed as of August 5, 2015.

Additionally, we determined the ECN/DCN contingency plan was not tested during FY 2015, which includes backup and restoration testing over the Automated Support Package, Energy Compensation System, and Integrated Federal Employees' Compensation System.

OASAM did not provide a cause and we were unable to determine the cause related to the lack of ECN/DCN contingency plan testing during FY 2015. Consequently, without proper testing of the contingency plan, agency personnel may not be prepared to handle the implementation of contingency plan procedures in the event of a situation or crisis. As a result, the recovery time for the information systems may be delayed, and the agency may be unable to maintain the confidentiality, integrity, or availability of the information on the information system. This situation could result in financial loss and a loss of agency credibility.

The DOL CSH Edition 5.0, Volume 6, dated February 2014, *Contingency Planning Policies, Procedures, and Standards*, pages 13 and 17, state:

DOL's additional required minimum standard on information system backups for Moderate and High information systems is as follows:

1. Information system personnel shall test backup information at least annually to ensure media reliability and information integrity.

DOL's required minimum standards on contingency plan testing are as follows:

- The contingency plan must be tested at least annually using agency-defined tests and exercises to determine the plan's effectiveness and the agency's readiness to execute the plan.
- The Agency tests and/or exercises the contingency plan for the information system at least annually for Moderate and High impact systems and at least every three years for Low impact systems. At a minimum, functional exercises must be conducted for Moderate and

High impact systems and classroom/tabletop exercises for Low impact systems to determine the plan's effectiveness and the agency's readiness to execute the plan.

NIST SP 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, Control CP-4, Contingency Plan Testing, and CP-10, Information System Recovery and Reconstitution, state:

The organization:

- CP-4: Tests the contingency plan for the information system [*Assignment: organization-defined frequency*] using [*Assignment: organization-defined tests*] to determine the effectiveness of the plan and the organizational readiness to execute the plan.

Current Year Recommendations

We recommend that the Chief Information Officer:

35. Enforce the DOL CSH to ensure that contingency plan testing is performed annually, including backup and restoration testing over all major and minor applications; and
36. Document and maintain evidence of annual contingency plan testing.

Management's Response

Management concurs with this finding. Actions have been taken to complete one milestone, which involved notifying ECN/DCN customers (system owners) about the process for leveraging the ECN/DCN's backup validation procedures for their systems should they want and/or require that level of service.

However; another milestone has been added to conduct tests/exercises of the contingency plan using organization-defined tests/exercises in accordance with organization-defined frequency. Hence, POA&M number 20567 remains open. An exercise to test the ECN/DCN Contingency Plan is scheduled to take place by November 15, 2016. This exercise will include backup and restoration tests of the Automated Support Package, Energy Compensation System and Integrated Federal Employees' Compensation System. POA&M 20567 will be closed upon completion of this exercise.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

29. Lack of Executed Memorandum of Understanding (MOU) and Interagency Security Agreement (ISA) between AMS and the GSA System for Award

During our FY 2015 audit procedures, we obtained POA&M No. 20595, which was created to address the conditions identified in the prior year related to the lack of executed MOU and ISA between AMS and GSA's System for Award. As of May 13, 2015, we noted that POA&M No. 20595 had a planned completion date of October 30, 2015. To complete the POA&M, OASAM needed to develop and sign an MOU and ISA between AMS and GSA's System for Award.

In FY 2014, OASAM indicated that GSA sent a draft agreement to be used for the connection between GSA and DOL using the new GSA format. OASAM and the Office of the Solicitor acknowledged the agreement was not an MOU/ISA, but did not have any objections to the format and use if certain information was incorporated. DOL forwarded this information to GSA for incorporation into the agreement. However, OASAM did not receive feedback from GSA as of May 21, 2015. The purpose of a MOU is to have an agreement of cooperation between two parties defining the roles and responsibilities of each party; the purpose of an ISA is to provide the technical framework for agreed security controls and to outline responsibilities for data shared between the two systems. Without having final documented agreements reviewed and approved by both parties, the risk exists that the terms of the agreements may not be understood or appropriately implemented to address all security requirements, which may lead to unauthorized access to AMS data.

The DOL CSH, Volume 4, Edition 5.0, *Security Assessment and Authorization Policy, Procedures and Standards*, dated February 2014, page 8, states:

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

Additionally, page 9, states:

DOL policy requires an MOU be executed, using the DOL template provided in this volume whenever two authorized systems not under the same management authority are connected, to ensure that both systems have the appropriate security controls in place. The MOU is intended as a managerial agreement that must be authorized and executed by each [Authorizing Official] AO.

Once the MOU is completed, the parties must draft an ISA using the DOL template provided in this volume. It may be drafted as a separate document, or as an attachment to the MOU. An ISA is the technical component of the MOU and should be signed by the AO only after consultation with the appropriate technical experts supporting the connected systems. The ISA is a necessary complement to the MOU when establishing an interconnection. The ISA provides a technical framework for agreed security controls, and outlines responsibility for data shared between the two systems. Additionally, the ISA should specifically outline the technical and security requirements for establishing, operating, and maintaining the connection. The ISA supports the MOU by providing a basic template for establishing clear lines of responsibility and coordination when two systems connect.

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

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

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

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

interconnection. Those details should be addressed separately in the Interconnection Security Agreement (ISA).

Current Year Recommendation

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

Management's Response

Management concurs with this finding and will complete GSA's required General User Agreement as outlined in POA&M 20595, which replaces POA&M 14058. POA&M 14058 was developed to establish a MOU/ISA for FPDS under the Electronic Procurement System (EPS). EPS was retired in January 2015 and was replaced with AMS. The planned date to complete the General User Agreement is June 30, 2016.

Auditors' Response

Management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

Prior Year Comments and Related Recommendations Closed in FY 2015

The following comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2014*, dated March 26, 2015, were closed in fiscal year (FY) 2015.

| Prior Year Comment Number | Fiscal Year Comment Originated | Title of Comment Reported in FY 2014 MAC | Recommendation(s) Reported in the FY 2014 MAC |
|---------------------------|--------------------------------|---|--|
| 2014-01 | 2014 | Improvements Needed in Implementation of Review Procedures for the Due and Payable Estimate | We recommend that Employment and Training Administration (ETA) management revise the Due and Payable Accrual Methodology to: <ol style="list-style-type: none"> 1. Specify the minimum requirements needed to document the Actuarial Team Leader’s review, and 2. Provide sufficient detail as to how the Actuarial Team Leader’s review of key inputs should be performed. |
| 2014-02 | 2014 | Insufficient Policies and Procedures to Timely Record Property, Plant, and Equipment (PP&E) Disposals | We recommend that the Office of Chief Financial Officer (OCFO) coordinate with ETA to: <ol style="list-style-type: none"> 1. Integrate procedures regarding the timely notification and recording of asset disposals into the Fixed Asset Management Policies and Procedures. 2. Develop and implement management review procedures to ensure that asset disposals are timely identified and recorded in New Core Financial Management System (NCFMS). |

| | | | |
|---------|------|---|---|
| 2014-03 | 2014 | Inadequate Documentation of Procedures over Payroll Expense and Payroll Accrual Reconciliations | <p>We recommend that the OCFO modify the Division of Central Accounting Office (DCAO) Payroll Reconciliation Procedures to included:</p> <ol style="list-style-type: none"> 1. Current dollar thresholds above which differences must be investigated when performing the reconciliations of payroll expense and payroll accrual; and 2. Periodic review of the dollar thresholds against the OCFO's materiality levels. |
| 2014-05 | 2014 | Improvements Needed in the Unemployment Trust Fund Reimbursing Employers Accounts Receivable Retrospective Review | <p>We recommend that ETA:</p> <ol style="list-style-type: none"> 1. Revise the Unemployment Trust Fund (UTF) – Accounts Receivable (AR) from the Public Standard Operating Procedures (SOP) to include the minimum requirements for documenting the results of the retrospective review, and 2. Develop monitoring procedures to ensure that the procedures included within the UTF - AR from the Public SOP are performed as intended. |
| 2014-06 | 2014 | Failure to Resolve Differences in Office of Job Corps (OJC) Synch Reconciliation between U.S. Department of Health and Human Services – Payment Management System (HHS-PMS) and the NCFMS | <p>We recommend that the Acting Chief Financial Officer (CFO) coordinate with ETA's OJC to develop and implement policies and procedures to document management's methodology for timely researching and resolving differences in the OJC HHS-PMS to NCFMS Synch reconciliation.</p> |

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|---------|------|---|--|
| 2014-08 | 2014 | Improvements Needed in the Review of the UTF Accounts Receivable Estimate for Reimbursing Employers | <p>We recommend that ETA revise the UTF - AR from the Public SOP to include:</p> <ol style="list-style-type: none"> 1. Requirements for comparing the estimate, by state, to the prior period balance to identify variances above a specified threshold; and 2. An appropriate timeline to investigate and resolve variances above the specified threshold prior to recording the estimate in the general ledger. |
| 2014-10 | 2014 | Improvements Needed Over the Review of the Statement of Social Insurance (SOSI) Assumptions and Model | <p>We recommend the Acting CFO coordinate with Office of Workers' Compensation Programs to:</p> <ol style="list-style-type: none"> 1. Develop and implement policies and procedures to investigate and address differences greater than an appropriate threshold established by management in the look back analysis for all SOSI line items. 2. Develop and implement policies and procedures to review the estimated excise tax revenue data provided by Treasury Office of Tax Analysis for reasonableness. |
| 2014-11 | 2012 | Insufficient Supporting Documentation for Certain Undelivered Orders | <p>We continue to recommend that the OCFO work with other Department of Labor (DOL) agencies to provide training to address:</p> <ol style="list-style-type: none"> 1. The minimum procedures that should be performed to complete an adequate supervisory review of transactions prior to entry in the general ledger; 2. The minimum procedures that should be performed to monitor obligation balances for validity; and 3. The minimum documentation requirements needed to sufficiently support recorded transactions. |

| | | | |
|---------|------|---|---|
| 2014-14 | 2013 | Improvements Needed over the Monthly Statement of Differences [Financial Management Services (FMS) 6652] Reconciliation Process | We recommend that the Office of the Assistant Secretary for Administration and Management (OASAM) and OCFO management follow department-wide policies and procedures over the FMS 6652 reconciliation process to perform, document, and review timely the monthly FMS 6652 reconciliations to demonstrate that the differences identified on the Statement of Differences reports have been sufficiently investigated and timely resolved. |
| 2014-20 | 2012 | Unsupported and/or Incorrect Expenses | <p>We continue to recommend that the OCFO:</p> <ol style="list-style-type: none"> 1. Develop and implement monitoring controls to ensure that individuals are performing sufficient reviews of expenses and related documentation before and after the transactions are posted to ensure they are adequately supported and that the correct amounts and attributes are recorded. <p>Additionally, we recommend that OCFO:</p> <ol style="list-style-type: none"> 2. Update the Departmental Management NCFMS Accounting Classification Booklet to include all object classes used in the daily operations of DOL, including those for manual adjustments and journal entries. |

The following comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2014*, dated March 26, 2015, were partially re-issued during FY 2015 but included recommendations that were closed during the year.

| Prior Year Comment Number | Fiscal Year Comment Originated | Title of Comment Reported in FY 2014 MAC | Recommendation(s) Reported in the FY 2014 MAC |
|---------------------------|--------------------------------|--|---|
| 2014-13 | 2009 | Improvements Needed in the Reconciliation of Fund Balance with Treasury | We recommend that the Acting CFO enhance the <i>DCAO Fund Balance with Treasury Procedures</i> to specify that all differences identified in the reconciliation process must have an explanation describing the nature of the difference, the action plan for solving the difference, and expected date of resolution within the three-month time period. |
| 2014-16 | 2008 | Lack of Policies and Procedures and Untimely Initiation of Background Investigations | We recommend that the Acting CFO coordinate with OASAM to: <ol style="list-style-type: none"> 1. Dedicate appropriate resources to update current policies and procedures to (a) reflect current roles and responsibilities; (b) specify the appropriate time period for completing and reviewing the Previous Investigation Check form; and (c) implement monitoring procedures over the bi-weekly report of all recent Federal hires and the status of each new employee's background investigation. 2. Develop and implement department-wide policies and procedures to monitor the initiation of background investigations for DOL employees and contractors. Specifically, these policies and procedures should address (a) the development and maintenance of a tracking mechanism for all employees and contractors placed into position that captures their start dates and dates of background investigation initiation, and (b) monitoring activities to be performed by the OASAM to ensure compliance with Code of Federal Regulations Title 5 Part 731.106 and DOL policies for employees and contractors. |

Appendix A

Acronyms and Abbreviations

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|---------------|--|
| ACUC | Advisory Council on Unemployment Compensation |
| ALC | Agency Location Code |
| AMS | Acquisition Management System |
| AO | Authorizing Official |
| AR | Accounts Receivable |
| BFS | Bureau of the Fiscal Service |
| BLDTF | Black Lung Disability Trust Fund |
| CAB | Cash Analysis Branch |
| CARS | Central Accounting and Reporting System |
| CFO | Chief Financial Officer |
| CFR | Code of Federal Regulations |
| COR | Contracting Officer's Representative |
| CSAM | CyberScope Assessment Management |
| CO | Contracting Officer |
| CS | Contracting Specialist |
| CSH | Computer Security Handbook |
| DCAO | Division of Central Accounting Office |
| DCN | Departmental Computer Network |
| DLMS | Department of Labor Manual Series |
| DOL | U.S. Department of Labor |
| DPS | Division of Personnel Security |
| EBS | Enterprise Business Solutions |
| ECN | Employee Computer Network |
| EIA | Energy Information Administration |
| ESC | Enterprise Service Center |
| ETA | Employment and Training Administration |
| ETO | Employment and Training Order |
| FAC | Federal Audit Clearinghouse |
| FAR | Federal Acquisition Regulation |
| FBWT | Fund Balance with Treasury |
| FECA | Federal Employees' Compensation Act |
| FISMA | Federal Information Security Management Act |
| FMS | Financial Management Services |
| FMS 6652 | Statement of Differences |
| FPDS | Federal Procurement Data System |
| FPO | Federal Project Officer |
| FY | Fiscal Year |
| GAO | Government Accountability Office |
| GAO Standards | Government Accountability Office's <i>Standards for Internal Control in the Federal Government</i> |

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| GEMS | Grants Electronic Management System |
| GSA | General Services Administration |
| GWA | Government-wide Accounting |
| HHS-PMS | U.S. Department of Health and Human Services – Payment Management System |
| HRO | Human Resources Office |
| ILAB | Bureau of International Labor Affairs |
| Internal Control | Internal Control over Financial Reporting |
| IPAC | Intra-Government Payment and Collection |
| ISA | Interagency Security Agreement |
| ISO | Information Security Officer |
| IT | Information Technology |
| ITSM | IT Security Manager |
| JV | Journal Voucher |
| KPMG | KPMG LLP |
| MD&A | Management’s Discussion and Analysis |
| MIS | Major Information System |
| MOU | Memorandum of Understanding |
| NCFMS | New Core Financial Management System |
| NFR | Notification of Findings and Recommendations |
| NIST | National Institute of Standards and Technology |
| No. | Number |
| OASAM | Office of the Assistant Secretary for Administration and Management |
| OCFO | Office of the Chief Financial Officer |
| OCIO | Office of the Chief Information Officer |
| OCM | Office of Contract Management |
| OFA | Office of Financial Administration |
| OIG | Office of Inspector General |
| OJC | Office of Job Corps |
| OMB | Office of Management and Budget |
| OPM | Office of Personnel Management |
| ORM | Office of Regional Management |
| OSHA | Occupational Safety and Health Administration |
| OWCP | Office of Workers’ Compensation Programs |
| PBC | Provided by Client |
| PIV | Personal Identification Verification |
| POA&M | Plan of Action and Milestones |
| POC | Point of Contact |
| PP&E | Property, Plant, and Equipment |
| PSSH | Personnel Security and Suitability Handbook |
| SCIP | System Communication Implementation Plan |
| SCSIA | Statement of Changes in Social Insurance Amounts |
| SES | Senior Executive Service |
| SOP | Standard Operating Procedures |

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| SOSI | Statement of Social Insurance |
| SP | Special Publication |
| SSA | Social Security Act |
| SSP | Shared Service Provider |
| SAM | Shared Accounting Module |
| TAFS | Treasury Appropriation Fund Symbol |
| TAS | Treasury Account Symbol |
| TFM | Treasury Financial Manual |
| Treasury | U.S. Department of the Treasury |
| U.S. | United States |
| UDO | Undelivered Order |
| UIDBMS | Unemployment Insurance Database Management System |
| U.S.C. | United States Code |
| USSGL | United States Standard General Ledger |
| UTF | Unemployment Trust Fund |
| UTF FECA | UTF Federal Employees Compensation Account |
| VETS | Veterans' Employment and Training Service |

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